EFAMA's comments on ESMA's Consultation Paper on draft guidelines on MiFID II product governance requirements [ESMA/2016/1436]

General comments

EFAMA[1] welcomes ESMA's Consultation Paper on product governance requirements and specifically on the target market assessment and supports that the details of these requirements are laid out in the form of guidelines rather than Q&A. We agree with ESMA that drafting target market guidelines is an important aspect "for ensuring the common, uniform and consistent application" of the MIFID II product governance requirements, in particular since these rules have the potential to significantly alter the European distribution landscape.

We are broadly supportive of ESMA's proposals and consider them to be well–balanced in many aspects. In particular, given the degree of intermediation in the funds market, and given that very many UCITS and retail AIF are designed with a particular investment strategy that should be available to first-time investors or would sit well within very many investors' portfolios, we support ESMA stressing that manufacturers can define a target market only on an abstract basis.

However, in many instances the proposed Guidelines focus too much on more complicated investment products and do not provide guidance for non-complex products designed for the mass retail market. For the latter, ESMA should ensure that the wording appropriately covers these products, specifically on how proportionality can be applied.

We believe that a number of specific improvements need to be made throughout the proposed guidelines in order to ensure a clearer division between the responsibilities and capabilities of the product manufacturer and distributor, as well as a clear distinction between a product's target market and, where relevant, the product's suitability and/or appropriateness for a particular client. Judgement on the latter sits firmly with the distributor, allowing a focus on the individual features of the client, and should thus be clearly separated from a manufacturer's target market assessment for a product [see our response to Question 4].

Also, the guidelines do not adequately recognise the difference between different types of distributors. In particular, they appear to presume that all distributors actively sell particular products

[1] **EFAMA** is the representative association for the European investment management industry. EFAMA represents through its 26 member associations and 61 corporate members EUR 21 trillion in assets under management of which EUR 12.6 trillion managed by 56,000 investment funds at end 2015. Just over 30,000 of these funds were UCITS (Undertakings for Collective Investments in Transferable Securities) funds, with the remaining 25,900 funds composed of AIFs (Alternative Investment Funds). For more information about EFAMA, please visit www.efama.org

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to clients. This may be the business model of some, but certain distributors are no more than facilitators for investors to access products on an execution-only basis.

In particular, we strongly oppose the application of the target market provisions to the service of discretionary portfolio management as if it were a form of product distribution. The target market concept for investment services is inherently different to a product's target market, as discussed in the Consultation Paper. Discretionary portfolio management is a MiFID service, not product manufacture, and must be treated as such. Applying the product governance requirements to discretionary portfolio management, would render the service meaningless, as it would ignore that its essential purpose is to outsource investment decisions through a predefined mandate from retail or professional clients to qualified investment experts. It would be a wrong reading of Article 10 of the Delegated Directive. In particular, it would be inappropriate and grossly disproportionate to require the portfolio manager itself to construct or access a target market for each possible, individual underlying asset [see our response to Question 4].

We also disagree that sales outside the target market should be only of limited occurrence, as this could severely inhibit an investor's portfolio diversification[2]. Especially when a product is acquired as part of a well-diversified investment portfolio, such deviations (from the target market) could be highly desirable and sensible for the client, and should be permissible. We also fear that it may lead to quantitative assessments being applied to the offering of products, potentially distracting advisers from ensuring that the right product is bought by the right investors. While ESMA correctly mentions the importance of diversification in the Consultation Paper, mention is missing from the proposed Guidelines. With this in mind, we urge ESMA to reconsider its stance on sales outside the target market and to make an appropriate link to portfolio diversification and suitability in the final Guidelines.

We welcome ESMA's use of examples, but the current examples deal only with more complex products [see our answer to Question 9]. It is important to ensure that the wording appropriately reflects what the target market assessment for simple products, such as a (non-structured) UCITS or retail AIF, would look like. We therefore suggest the inclusion in the Guidelines of a case study for a non-complex UCITS (a European equity fund) to showcase the application of the target market requirement. Given that UCITS are the one truly cross-border financial services product, it is particularly important in this part of the market to ensure that standards are consistent and that practical operational considerations are taken into account.

Finally, we strongly encourage ESMA to work closely with EIOPA and the Commission on the IDD's target market requirement, which is currently being articulated as part of IDD Level-2 measures. We would underline the need for conformity of the MiFID II target market and its interactions with not only IDD but also the PRIIP KID target market disclosure requirement. Fund managers can produce only one target market for their fund that is, in turn, used by all forms of distribution channels, including insurance companies to comply with the IDD target market for their products. It would be impossible and to the detriment of the end-investors if different target market regimes for PRIIPs existed within Europe.

[2] We note that para. 42 uses the phrase "a rare occurrence" whereas the guidelines themselves refer to "should not occur on a regular basis", but either wording is inappropriately restrictive.

Questions

Q1: Do you agree on the list of categories that manufactures should use as a basis for defining the target market for their products? If not, please explain what changes should be made to the list and why.

We generally agree with the list of categories that manufacturers could use as a basis for defining the target market for their products. Nevertheless, we note that ESMA is proposing the same six categories for both manufacturers and distributors, the latter being required to define the former's categories in more detail. In some areas, this approach presumes information that can be known only to the distributor, such as the exact "amount of losses" a client is willing to afford, or requires the manufacturer to define a product's investment objective from the perspective of the needs of an unknown end client.

The list of categories should be definite and no further categories should be added on a case-by-case basis by individual manufacturers. Such an approach would jeopardise the target market concept, as its standardisation will become impossible, and exchange of information between manufacturers and distributors even more complex. Any additional features may simply be added as a sub-category to the existing categories.

We agree that manufacturers should base their assessment not only on quantitative but also on qualitative criteria. Nevertheless, ESMA should clarify that while qualitative criteria can influence the manufacturer's assessment of the target market, these qualitative criteria will not be part of the information shared with the distributors on the outcome of the manufacturer's assessment (i.e. the product manufacturer's target market assessment). This is important, as this transmission of information to a multitude of different distributors can happen only through standardised IT solutions that cannot accommodate qualitative information that differentiate from product to product.

Draft Guidelines para. 16(a): the type of clients to whom the product is targeted

We agree that "the type of clients to whom the product is targeted" should be aligned with the MiFID II client categorisations of "retail client", "professional client" and "eligible counterparty". Beyond these three classifications, we strongly believe that ESMA should not advocate additional client sub-categories. Since the manufacturer does not know the final client, further classification may be possible only by the distributor. The additional descriptions proposed, while used in common parlance, do not have standardised definitions in market practice or EU legislation[3]. They are highly subjective and mean slightly different things from one investment firm to another, and from one market or sector to another, thus acting counter to the effort to standardise the target market concept. Moreover, the additional descriptions are already accommodated through the other target market criteria proposed by ESMA: a "private wealth client" will need further reflections under "financial situation with a focus on the ability to bear losses", and a "sophisticated client" may need additional considerations under the "knowledge and experience".

[3] For example, even the definition of "semi-professional investor" is not consistent among EU rules, as slightly diverging definitions exist within the ELTIF, EuVECA and EuSEF Regulations. Furthermore, there are also different definitions among Member States.

In the same vein, ESMA makes a distinction between "per se" and "elective" professional clients in paras. 72 and 73 of the draft Guidelines, stating that the latter "should not be presumed to have the knowledge and experience comparable" to the former. This is not in line with MiFID II Delegated Regulation's Art. 54(3) which clearly underlines that any classified professional client is assumed to have "the necessary level of experience and knowledge". The rules distinguish between "elective" and "per se" professionals only in the case of investment advice, regarding their ability to bear investment risks. The guidelines should therefore respect the approach taken at Level 2 and make the same distinction. In addition, from a practical perspective, it is impossible for a product manufacturer to know whether a professional client has been opted up or down. Thus, most manufacturers can consider the client classifications only at face value.

Draft Guidelines para. 16(b): knowledge and experience

The language used in para. 16(b) accommodates only complex products. We are concerned that this category, as currently worded, does not explicitly allow for e.g. non-structured UCITS and non-complex retail AIF to be distributed to "first time" investors. Such investors can acquire a basic knowledge of the product via the UCITS KIID or PRIIP KID, but necessarily will have no prior experience of investment (as opposed to savings). ESMA alludes to such a scenario in the last sentence of para. 16(d), but fails to allow that such investors should be regarded as having no more than "basic" knowledge.

Furthermore, we appreciate ESMA's intention to allow additional information, but consider this at odds with creating standardised IT solutions to provide target market information. For such an approach to work, it will be necessary to define three subcategories such as "basic", "informed" and "specific knowledge/experience" (e.g. in the case of additional payment obligations). Where relevant, a product's specificities as suggested by ESMA could be taken into account when assessing the products against each sub-category which would be in line with the proposed Guidelines.

Draft Guidelines para. 16(c): financial situation with a focus on the ability to bear losses

We agree with the general notion of ESMA's proposal on the "financial situation with a focus on the ability to bear losses", but only some types of distributor (e.g. financial advisers) can know the "financial situation" of the investor. Manufacturers cannot specify "the amount of losses the target client should be willing and able to afford" or "a maximum proportion of net investible assets that should be invested". Indeed, to specify concrete percentages could give the illusion to investors that losses can be predetermined and capped in advance for all products.

Moreover, these wordings suggest that all products are designed with specific loss thresholds or that a manufacturer has detailed knowledge of the client (e.g. his/her "willingness" to risk losses), similar to a distributor that has undertaken appropriateness and suitability tests. For many manufacturers and products, the guidelines should speak only about the ability to bear losses beyond the initial investment, or can bear losses, or wishes to preserve capital/can bear only minimal losses. This would reflect the risk inherent in the product, which must be described by the manufacturer and needs to be understood and accepted by the investor. Specific thresholds or amounts should be reserved only for those structured products with complicated return profiles that are designed in such a way.

Such changes should also be reflected in the illustrative case studies, some of which currently contain specific percentages for losses.

Draft Guidelines para. 16(d): Risk tolerance and compatibility of the risk/reward profile of the product with the target market

The proposed subjective categories (such as "balanced" and "conservative") can be interpreted widely and will hinder any sort of common understanding of the target market (e.g. a balanced portfolio differs between a risk averse investor and one with a much higher appetite for risk). We believe that standardisation of such language is simply impossible and should not be attempted by ESMA.

Furthermore, ESMA's proposed guidelines refer only to the PRIIP KID risk indicator. The final guidelines should refer also to the UCITS risk indicator, since the SRRI is required for UCITS and certain non-UCITS at least until 2020. These indicators should be referred to at the beginning of para. 16(d), as they are designed to express market risk of an investment product most likely to be understood by retail investors. When neither a KIID nor a KID is available, the main risk indicated in the prospectus should be used.

Draft Guidelines para. 16(e): Clients' Objectives

Again, we stress that product manufacturers are generally too far removed from the end-investor to provide a correct assessment of the "clients' objectives" (also true for "clients' needs" – see below) and that manufacturers are able to provide only abstract information, which will largely describe a product's investment objective.

Having said this, we agree in principle with ESMA's suggestion on the possible sub-categories of clients' objectives. Ultimately, these references will be translated into the form of standardised (hard) data points that the manufacturer will need to transmit to distributors, so that they can match the data against a particular client's objectives. Sub-categories might include information, such as a product's investment objective and expected investment horizon (in line with the recommended holding period in the PRIIP KID). Such an approach will ensure that any of the proposed clients' objectives can be easily translated into sub-categories, providing the distributor with further information on the product.

Draft Guidelines para. 16(f): Clients' Needs

Regarding clients' needs, it must be clarified that not all products will have specific features or seek to address particular clients' needs (such as green, ethical investment, etc.). In particular, the wording of para. 14 of the draft Guidelines (stating that "manufacturers should not leave out one of the six below mentioned categories") is especially unclear in this regard. This statement should be amended to acknowledge that, while the product manufacturer should perform the assessment against each category, its outcome may result in an "empty" entry for this category (i.e. "nothing to report"). Such a clarification is important as an "empty" outcome should not be confused with a non-assessment on the part of the product manufacturer.

Q2: Do you agree with the approach proposed in paragraphs 18-20 of the draft guidelines on how to take the products' nature into account? If not, please explain what changes should be made and why.

It is our understanding that paragraphs 18-20 of the draft Guidelines are to be read as an articulation of how proportionality is applied in the context of paragraph 16. This proportionality should apply

especially to investment products, such as UCITS (excluding structured UCITS), which are designed for the mass retail market. We would appreciate ESMA's confirmation of our reading.

In the context of the manufacturer's responsibilities, we also wish to comment on the "articulation between the distribution strategy of the manufacturer and its definition of the target market" (paras. 21-22 of the draft guidelines), which is not addressed explicitly by ESMA's questions.

We agree that manufacturers should be able to propose the types of investment service through which the client could acquire the product. However, given that many investment products can legitimately be distributed through a wide range of channels, the manufacturer should not in all cases be required further to specify the choice of distribution method or to go into details about specific acquisition channels. This would create a grey area in terms of the division of responsibilities between manufacturers and distributors. As the distributor is the party with the knowledge of the end-investors, it would seem natural and proportionate that it is the distributor which makes the call on the acquisition channel.

This is true in particular for paragraph 22, which in most cases cannot be fulfilled from a manufacturer's perspective, as the paragraph assumes there is only one distributor in order to provide guidance on "the specific design of the acquisition channel". ESMA should align this paragraph with its own statement in para. 12 (p. 6) and para. 21 (p. 8) of the background of the draft guidelines as well as para. 49 of the draft guidelines, stating that a (stand-alone) "manufacturer usually does not have a direct client contact, thus has no detailed, specific and individual information about the client base" and cannot define an outright distribution strategy. Therefore, we suggest paragraph 22 of the draft Guidelines be rephrased in order to talk only more generally about the "preferred acquisition channel" and not about the "design of the acquisition channel".

This point is of major practical importance, as the current wording does not accommodate investment products designed for the mass retail market (such as UCITS), which are distributed via all types of channels and via thousands of intermediaries. We are confident that it is not ESMA's intention to restrict access to such products to investors throughout the European Union.

Furthermore, we very much appreciate ESMA's approach for tailor-made products as described in paragraph 20. It is important that tailor-made products are not subject to a target market definition which has its focus on products distributed more widely.

Lastly, we also question the notion set out in para. 22 that face-to-face, via telephone and online should each constitute their own acquisition channels. The regulatory form of distribution (advised vs execution-only) should be agnostic of the means of delivery.

Q3: Do you agree with the proposed method for the identification of the target market by the distributor?

We have some general concerns about the proposed method for the identification of the target market by the distributor. It is of utmost importance that the principle of proportionality should apply not only

to manufacturers but also to distributors. As a result, distributors should be allowed to rely on the manufacturer's target market assessment, in particular in the case of investment products deemed compatible with a mass retail target market, which is in line with ESMA's argumentation in paragraph 41 of the draft Guidelines stating that "simple products" can be distributed through execution-only.

The requirement for distributors to define a target market themselves for an individual product should be clearly limited to situations in which the manufacturer does not provide a target market of its own. The target market requirements will already increase investor protection, as manufacturers will have to ensure that they consider the typical investor when designing their products and distributors will have to consider this when deciding which of their clients fall within this target market (if any). Consequently, the distributor will decide (i) if at all, (ii) through which service and (iii) to which part of its client base it will distribute the product. An additional definition of the distributor's target market is neither necessary nor helpful, as it would result in an inappropriate administrative burden without any additional benefits for investors.

Q4: Do you agree with the suggested approach on hedging and portfolio diversification aspects? If not, please explain what changes should be made and why.

We appreciate that ESMA acknowledges in the Consultation Paper that hedging, portfolio diversification and client-specific features can lead to permissible deviations from the (positive) target market. Nevertheless, this discussion features only in the Consultation Paper and is not mentioned in the Guidelines. We consider it essential that hedging and portfolio diversification also feature in the final Guidelines themselves.

Hedging and portfolio diversification is hindered by ESMA's current suggestions that portfolio management service requires a product-level target market assessment

We strongly oppose the proposal to apply the product target market requirement to the service of discretionary portfolio management as if it were a form of product distribution. Requiring a target market assessment for each individual underlying investment (instead of at the level of the portfolio) will also hinder proper asset allocation and diversification of a client's portfolio and thus lead to negative outcomes.

When using (the service of) portfolio management, an investor delegates the decision to purchase and sell individual assets on his/her behalf to an investment professional. Within the scope of this delegation, it allows the build-up of a diversified portfolio with the intention of reducing market and counterparty risk in a way the investor is unable to achieve himself. We understand that ESMA's current approach is based on the concern that a portfolio manager may invest into products unsuitable for the client if the target market was set at the level of the individual instrument rather than the portfolio. We strongly disagree with such an assessment, as such action would fundamentally violate the portfolio manager's fiduciary duty and consider a "look through" approach on a product level not to be the proper way to address ESMA's concerns. Most importantly, MiFID II already counteracts against such violations by adding additional and robust safeguards to limit a portfolio manager's incentives by banning the receipt of inducements. In addition, the investor also specifies in the investment management agreement detailed investment guidelines, i.e. the framework in which the discretionary portfolio manager must operate. When setting the investment guidelines, the portfolio

manager must act in the client's best interest while ensuring that the portfolio as a whole is suitable for the client at all times.

In general, ESMA's interpretation seems to be the result of a wrong reading of Article 10 of the Delegated Directive. While Article 10 indeed talks about financial instruments and investment services, the consideration for the latter's target market assessment are inherently different. For example, when making available portfolio management services, an investment firm should take into consideration if there is a minimum amount of assets under management, taking into consideration the service's overall costs. This assessment may lead to a target market of clients with (for example) an investible portfolio of a minimum of EUR 250,000, thus precluding clients with less money to invest.

Hedging and portfolio diversification is hindered by ESMA's current opinions about sales outside the (positive) target market being

We also strongly disagree that sales outside the target market can be only a limited occurrence. The ***target market is focused on individual products and their characteristics and not on a client's overall portfolio***. This is irrespective of whether the distributor makes use of a range of pre-defined portfolios, customises more individualised portfolios together with the client or offers execution-only services. Especially when a product is acquired as part of a well-diversified investment portfolio, such deviations (from the target market) could be highly desirable for the client and should be permissible. While ESMA correctly mentions the importance of diversification in the Consultation Paper, mention is missing from the proposed Guidelines themselves. With this in mind, we urge ESMA to reconsider its stance on sales outside the target market and to make an appropriate link to portfolio diversification in the final Guidelines.

While some distributors will be able to identify any deviations from the (positive) target market, this might not be practicable when investors are dealing with platforms and, importantly, will be unlikely when those customers are accessing the product via a platform on an execution-only basis. If a customer manages their own portfolio on a platform, it will be almost impossible for the platform to identify whether it still fits within their overall risk tolerance and ability to bear losses. Also, the platform may not know if the customer's needs have changed and therefore the product (or overall portfolio) no longer meets their needs and objectives. It is therefore unlikely that the manufacturer will receive robust information from distributors that will provide it with sufficient information to satisfy itself that the products are being held by its identified target market.

Stating that sales outside the target market should be only a limited occurrence opens the door for different supervisory approaches throughout Europe, as it is a highly subjective criterion. The focus should rather be on ensuring proper documentation of why a diversification has been made and, consequently, why a sale outside the positive target market has occurred. Moreover, if sales outside the (positive) target market must be rare, this would make the concept of a negative target market redundant [see also our response to Question 6].

Very importantly, the proposal could severely inhibit portfolio diversification. It is too simplistic to think that a client with a low-risk appetite should have only low risk products in their portfolio or that a more risk-prone client should invest only in highly risk products. Diversification is key and is an

integral part of an investor's portfolio, which should be strongly supported by ESMA through these guidelines.

It is therefore essential for ESMA to underline that, where it is required, the suitability/appropriateness test sits firmly with the distributor, focusing on individual features of the client, which should clearly be separated from a manufacturer's target market assessment.

Q5: Do you believe further guidance is needed on how distributors should apply product governance requirements for products manufactured by entities falling outside the scope of MiFID II?

We foresee that distributors will request information from non-MiFID firms (such as UCITS management companies and AIFMs) in order to adhere to their target market responsibilities under the MiFID II product governance requirements. We believe that paragraphs 51 and 52 are sufficient in explaining that a non-MiFID firm, which therefore does not have to operate in compliance with the MiFID II product governance obligations, should not have to enter into agreements with their distributors that impose on them the product governance obligations. This understanding is of utmost importance in practice since a large range of products are distributed without any agreement in place between manufacturer and distributor.

Having said this, we consider it important that ESMA confirms in para. 31 that MiFID distributors are under no obligation to provide market intelligence to non-MiFID manufacturers. Such a clarification is important, as non-MiFID manufacturers are not required to use this information in their own product governance processes.

Besides these clarifications, we believe that no further guidance is required.

Q6: Do you agree with the proposed approach for the identification of the 'negative' target market?

We question ESMA's thinking that the target market process will necessarily lead (or should lead) for every product to the identification of a positive target market, a negative target market and a grey area between the two.

In particular, investment products designed for the mass retail market (such as a broad range of investment funds) and with no special features will often not have a negative target market. For example, a non-structured, non-leveraged European equity fund, which is considered as non-complex under MiFID II and can be distributed via execution-only channels, is compatible with any type of investor wishing exposure to European equities. The additional case study we propose in our response to Question 8 highlights this point.

In order to make a clearer distinction between sales outside the positive target market and sales within the negative target market, the reference to selling within the negative target market not occurring "on a regular basis" must be removed from the Guidelines.

As discussed in our comments to Question 4, ESMA's focus should rather be on identifying instances where an investor is advised to purchase a product that is palpably inappropriate for their objectives and needs, in contrast to those instances where an investor is advised as part of a diversified and balanced portfolio to purchase a product for which, on a stand-alone basis, they would fall into the negative target market. Diversification is the primary tool for protection of investors against excessive market risk and should not be undermined.

Q7: Do you agree with this treatment of professional clients and eligible counterparties in the wholesale market?

We have some general concerns whether the proposed treatment of professional clients and eligible counterparties in the wholesale market is compatible with the general notion of the proposed Guidelines. While we completely agree on a reasonable and proportionate approach towards professional clients and eligible counterparties, we notice that the current proposals are drafted very much with the notion of retail investors in mind.

ESMA should also consider in this context our answer to Question 4 above on the application of the target market requirement to investment management services. In this regard we must stress that discretionary portfolio management is provided on a large scale in the form of segregated mandates for both professional clients and eligible counterparties. Furthermore, the rules apply to the relationship between a fund management company and an external portfolio manager. Requiring the portfolio manager formally to construct the target market for each and every possible underlying investment decision as if it were a product distributor would render such a mandate, and thus the service itself, meaningless. Furthermore, we argue that in such cases professional clients and eligible counterparties should not be considered as "end clients", as highlighted by ESMA in para. 67 of the proposed Guidelines.

At the very least, ESMA should clarify that in such cases the approach for tailor-made products could be used and that all products within the investment guidelines agreed with the client are considered to be within the target market. Otherwise, this concept would produce a huge administrative burden and cost, but without any benefits to clients, especially in relation to products covered by other European and national frameworks.

In particular, ESMA makes a distinction between "per se" and "elective" professional clients in paras. 72 and 73 of the draft Guidelines, stating that the latter "should not be presumed to have the knowledge and experience comparable" to the former. First, this is not in line with MiFID II Delegated Regulation's Art. 54(3) (please see our answer to Q1). Second, it is generally impossible for a product manufacturer to know whether a professional client has been opted up or down, and it is not appropriate effectively to require a manufacturer to second guess such a decision. Thus, manufacturers can generally consider these client classifications only at face value.

Q8: Do you have any further comment or input on the draft guidelines?

Case studies in Annex IV

We encourage ESMA to include further case studies in the final Guidelines which should highlight the following aspects in line with our previous comments:

- The MiFID distributor, in particular in the case of investment products deemed compatible with a mass retail target market, should be allowed to rely on the manufacturer's target market assessment.
- The MiFID distributor takes into consideration publicly available information (KIDs, Prospectus, etc.).
- The MiFID distributor is under no legal obligation to provide the non-MIFID manufacturer with sales information but may do so out of commercial considerations.
- The non-MiFID manufacturer is under no obligation to obtain such information but if it did receive any, it would likely be irrelevant such as the fact that sales have been made to professional clients (see paragraph 14 on page 6 and paragraph 74 of the guidelines on page 35).

With the above in mind and with a view to ESMA's comments that mass-retail products should benefit from a proportionate approach, we have prepared such a case study for a non-complex UCITS to be included in the final Guidelines.

Case study – UCITS

Product

Europe Equity Fund (with no structuring of return and no leverage)

Manufacturer's Target market

1. Type of client: retail clients (and above)
2. Investor knowledge and experience: basic knowledge of how the product works, or greater
3. Investor's financial situation: ability to bear losses
4. Risk tolerance and compatibility of the risk/reward profile of the product with the target market: UCITS KIID SRRI 5
5. Clients' objectives:
   - Investment objective: Growth
   - Investment Horizon: 5 Years (see recommended holding period in the UCITS KIID)
6. Clients' needs: No specific features
7. Clients who should not invest (the "negative target market"): no negative target market
8. Preferred distribution channel: all types of distribution channels

Target market conformity with IDD and PRIIPs

Finally and importantly, we strongly encourage ESMA to work closely with EIOPA and the Commission on the IDD's target market requirement, which is currently being articulated as part of the IDD Level-2 measures. Overall, we would underline the need for conformity of the MiFID II target market and its

interactions with not only IDD but also the PRIIP KID disclosure. Fund managers can sensibly produce only one target market for a fund that is, in turn, used by all forms of distribution channel, including insurance companies in developing the IDD target market for their products. It would be impossible and to the detriment of the end investors if different target market regimes for PRIIPs existed within Europe.

Q9: What level of resources (financial and other) would be required to implement and comply with the Guidelines (market researches, organisational, IT costs, training costs, staff costs, etc., differentiated between one off and ongoing costs)? If possible please specify the respective costs/resources separately for the assessment of suitability and related policies and procedures, the implementation of a diversity policy and the guidelines regarding induction and training. When answering this question, please also provide information about the size, internal organisation and the nature, scale and complexity of the activities of your institution, where relevant.

While we cannot give precise figures on the level or resources needed, we stress that timing is of the essence. We urge ESMA to publish the final Guidelines as soon as possible, as implementation of the product governance and target market requirements will require major changes/amendments to existing IT infrastructure. Even a period of less than nine months will prove extremely challenging for market participants and will again jeopardise an effective and standardized implementation of the target market regime.

This also ties in with some of the aforementioned complexity in the concept and ESMA's understanding of the distributor's requirements to redefine the target market. Both manufactures and distributors will have to implement IT systems in order to align their set-ups to the new requirement. In addition, the manufacturers will have to define the target market for all their products (which in the case of a fund management company is not a European regulatory requirement) and distributors will have to assess how the target market of the products they intend to offer will be compatible with the circumstances of their clients.

For any one distributor, the number of products on offer will commonly be thousands or more. If they are not given sufficient time to implement the requirements, investors will suffer from restricted access to the full range of products that should be available to them.

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