



Consultation Paper

Draft guidelines for the assessment of knowledge and competence

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Comments by the European Federation of Financial Analysts Societies (EFFAS) Training and Qualification Commission (TQC)

EFFAS, the European Federation of Financial Analysts Societies, is the European umbrella organization of national analysts' societies. It comprises 26 members, representing more than 16,000 investment professionals in the areas of equity and bond research, asset management as well as investment advice. As representatives of EFFAS, we are pleased to give you our comments prepared by EFFAS TQC, it's Training and Qualification Commission.

In general, EFFAS welcomes the guidelines drafted by ESMA as it is deeply convinced that clients have the right to meet the best-educated advisers. EFFAS is not only supportive of the required knowledge and competencies, but also of the requirement of ethical behaviour. However, this obligation for ethical behaviour should be worded more strongly.

Please find below EFFAS' comments on the draft guidelines.

Q1: Do you think that not less than five consecutive years of appropriate experience of providing the same relevant services at the date of application of these guidelines would be sufficient to meet the requirement under knowledge and competence, provided that the firm has assessed their knowledge and competence? If yes, please explain what factors should be taken into account and what assessment should be performed by the investment firm. Please also specify whether five consecutive years of experience should be made in the same firm or whether documented experience in more than one firm could be considered.

EFFAS believes that five consecutive years of appropriate experience is satisfactory as proof of "knowledge and competence". However, it should be made clear that "the same relevant services" must be: "giving investment advice or providing information on financial instruments".

EFFAS strongly believes that five consecutive years must not to be performed within the same investment firm, it could be different firms. But, in any case it should not be less than one year in one investment firm.

The assessment of this knowledge and qualification is best to be performed by a test (exam) conducted by a third party independent from the investment firm.

In this regard we believe that professional certifications granted by independent professional associations should be considered as a prerequisite for validating the necessary knowledge. In



addition EFFAS stresses the fact that CEFA¹ Diploma holders are for sure fulfilling all the requirements of knowledge and qualification laid out in these draft guidelines. The CEFA Diploma, granted by EFFAS since 1990, is a well-known Diploma for financial analysts and investment professionals, recognized by regulators in different European countries.

Q2:ESMA proposes that the level and intensity of the knowledge and competence requirements should be differentiated between investment advisors and other staff giving information on financial instruments, structured deposits and services to clients, taking into account their specific role and responsibilities. In particular, the level of knowledge and competence expected for those providing advice should be of a higher standard than that those providing information. Do you agree with the proposed approach?

EFFAS struggles with the differentiation between ‘providing information’ and ‘giving advice’. Recognising that this differentiation has its roots in Art 25 para 1 MiFID II, EFFAS would like to clearly state that in practice the borderline is very thin. There is a tiny step from providing information on financial instruments to giving investment advice. It might thus be preferable to keep the difference in knowledge and competencies as small as possible.

However, it seems reasonable to require more knowledge and competence in the case of complex products than in the case of non-complex products.

In any case, EFFAS believes it is necessary to consider the requirement of a minimum number of hours of continuing education to ensure that new financial trends and new products are known. Of course, ideally, this training is to be provided by independent centres duly recognized by regulators in each country.

Q3: What is your view on the knowledge and competence requirements proposed in the draft guidelines set out in Annex IV?

EFFAS is pleased with the requirements set out in these draft guidelines.

Q4: Are there, in your opinion, other knowledge or competence requirements that need to be covered in the draft guidelines set out in Annex IV?

As already stated, the duty for ethical behaviour should be much more emphasised. It is not more than reasonable to propose that all professionals assume a code of professional conduct and sign it. A solution could be the necessary registration of practitioners in a professional association, thereby avoiding the potential conflict of interest between the professional and the institution where he works to provide its services.

Today EFFAS counts 26 national members’ associations of analysts and investment professionals, representing more than 16.000 financial analysts, asset managers, investment bankers and corporate, financial advisors and financial planners and other financial managers.

¹ CEFA = Certified European Financial Analyst



Q5: What additional one-off costs would firms encounter as a result of the proposed guidelines?

EFFAS as a trade body cannot give numbers on costs related to the implementation of these guidelines.

But there will be some additional cost:

- 1- One-off costs caused by verifying the knowledge and competencies of 'grandfathered' people by an independent firm or association on behalf of the regulators.
- 2- Educational costs, for training and assessing those not having enough 'appropriate work experience', and for integrating the monitoring into the compliance system.
- 3- Exams fees, for those professionals who need to obtain their appropriate qualification.
- 4- Annual fee, if needed, to grant the participation in independent professional associations.

Q6: What additional ongoing costs will firms face as a result of these proposed guidelines?

Additional costs will arise from the continuous training and assessing the training outcome.

Yours sincerely,

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