

Response to ESMA consultation

Guidelines on certain aspects of the MiFID II suitability requirements

Paris, October 12 2017

Dear Sir or Madam,

Mirova is delighted to have the opportunity to provide input on the ESMA's consultation regarding *guidelines on certain aspects of the mifid ii suitability requirements*.

As an asset manager fully dedicated to responsible investment, the response from the HLEG focuses on the consideration of clients' *non-financial* investment objectives in the suitability assessments, including expectations related to the social and environmental impacts associated with the management of investment products as well as the use of shareholder rights to support social and environmental outcomes.

The answer presented below is in line with Mirova's willingness to encourage the mobilisation of retail investors to support the EU's sustainability goals.

This response also builds on the package of proposals adopted by the European Commission in September 2017 regarding the role of ESAs ([ESA Package](#)):

- *"It is therefore crucial that the financial system plays its full part in meeting critical sustainability challenges. This will require a deep re-engineering of the financial system to which the ESAs should make an active contribution starting with reforms to create the right regulatory and supervisory framework to mobilise and orient private capital flows towards sustainable investments."* (Recital 8)
- *"The ESAs should provide guidance on how sustainability considerations can be effectively embodied in relevant EU financial legislation, and promote coherent implementation of these provisions upon adoption."* (Recital 9)

We remain at your disposal

Yours sincerely,

Philippe Zaouati
Mirova CEO

Question 2:

Do you agree with the suggested approach on the arrangements necessary to understand clients and specifically with how the guideline has been updated to take into account behavioural finance and the development of robo-advice models?

[SAME ANSWER AS 2° INVESTING] Arrangements necessary to understand clients are missing an important aspect when it comes to understanding the clients' investment goals.

A survey among over 7000 respondents in 22 countries by Natixis Global Asset Management published in 2017 ([link](#)) points out that for around 70% of retail investors, non-financial aspects (environment, social, ethical) are important factors for their investment decision making.

An analysis (see [2dii, 2017](#)) of current profiling practices and questionnaires used in Europe, shows that these non-financial investment objectives of clients are rarely discussed by financial advisers and the questionnaires used by investment advisers do not include questions regarding non-financial investment objectives. The analysis has further proven that while the formulation in MiFID II (see extracts in the annex) does allow for an interpretation that includes also non-financial investment objectives, the transposition of these articles in national law has not been used to clarify this point and thus the implementation of MiFID II is under the current conditions unlikely to change the client profiling practices in this regard.

However, if an estimated 70% of clients has investment objectives that are not systematically discussed, this seems to be an issue that needs to be addressed in order to ensure that the clients' investment objectives are fully understood and that suitable products can be recommended.

We therefore recommend to clarify this point in the guidelines in section V.II (Know your client and know your product) and to specifically amend the supporting guidelines which are in paragraph 26 as well as the inclusion of a new paragraph 27. The proposed additions are marked in blue (see next page).

As suggested in the proposed new paragraph 27, a key success factor of taking into account non-financial investment objectives in suitability assessments will be the clarifications of related key concepts and definitions to be used, given the absence of standardised definitions as was already pointed out in the interim report of the High Level Expert Group on Sustainable Finance ([link](#)).

The recent communication of the European Commission on the possible evolution of the mandate of European Supervisory Authorities ([ESA Package](#)) supports the view that such a clarification is in line with current interpretation of the role of ESAs and may become formally part of their mandate if the proposed regulations are adopted.

Arrangements necessary to understand clients (...)

Supporting guidelines (...)

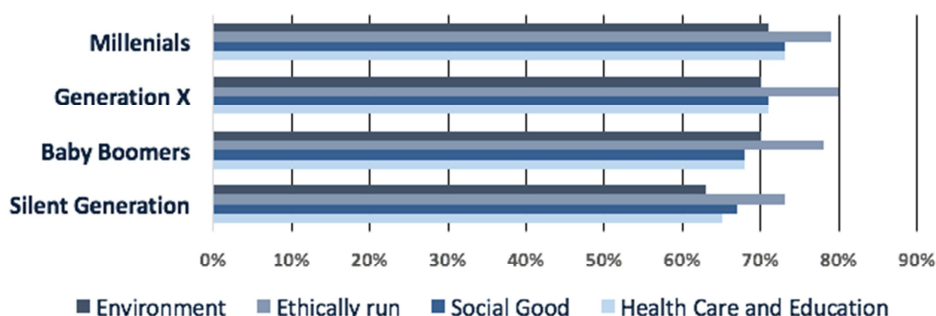
26. Information necessary to conduct a suitability assessment includes different elements that may affect, for example, the analysis of the client's financial situation (including his/her ability to bear losses) or investment objectives (financial objectives including his/her risk tolerance, as well as non-financial objectives). Examples of such elements are the client's:
- a) Marital status (...);
 - b) family situation (...);
 - c) age (...);
 - d) employment situation (the fact that the client might lose his/her job or is close to retirement may impact his/her financial situation or its financial investment objectives);
 - e) the need for liquidity in certain relevant investments;
 - f) Personal preferences related to the environmental and/or social impacts of investments, including for instance the willingness to invest in way not consistent with climate policy goals.
27. The assessment of preferences regarding environmental or social impacts should include questions about the willingness to invest in entities that run strategies inconstant with the client's objectives, the use of shareholder rights to support or/and influence the management of these entities, and the trade-off that the investor is willing to make to prioritize social or environmental outcomes. The assessment will at least confirm the intention of the client vis-à-vis the support to the implementation of the Paris agreement. New ESMA Q&A on investor protection will be issued to provide further guidance and include definitions of relevant concepts.

Annex:

Extracts of research results, for more details please visit:

http://2degrees-investing.org/IMG/pdf/retail_savings_final.pdf

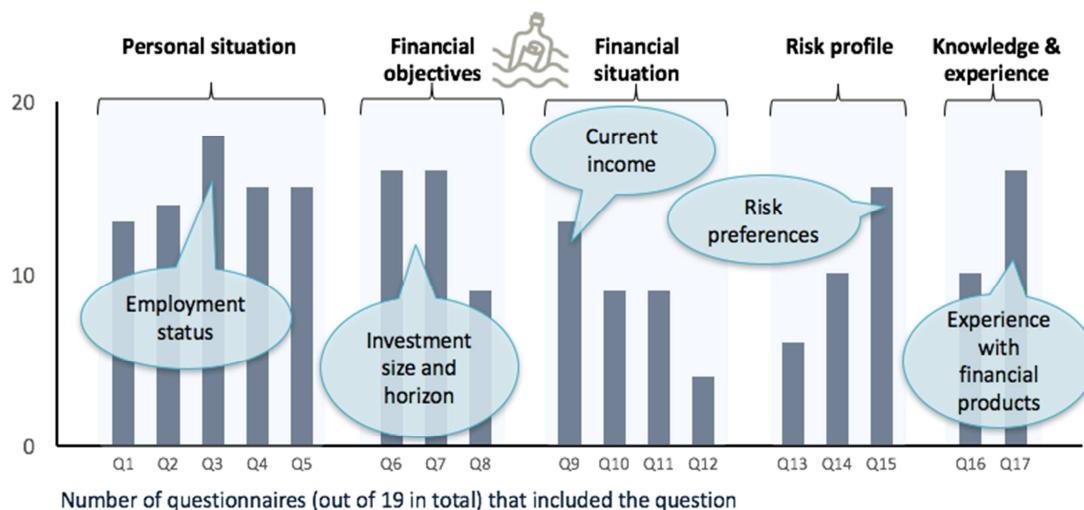
Over 2/3 of retail investors in 22 countries consider non-financial factors in their investment decisions to be “important”



Q: Do you consider that one, or several, of the following factors is important to your investment decision-making?

Source: Natixis; 7100 respondents in 22 countries

Common questions featured in investment client profiling questionnaires: non-financial investment objectives are missing



Survey based on 19 questionnaires from mainstream retailers in five EU countries (UK, France, Germany, Italy, Spain).

MiFID II does not specify if non-financial investment objectives should be discussed

Level 1 Legislation	MiFID II Directive 2014/65/EU	Article 25-2 on Assessment of suitability and appropriateness: When providing investment advice (...) the investment firm shall obtain the necessary information regarding the client's (...) knowledge and experience in the investment field relevant to the specific type of product (...), that person's financial situation including his/her ability to bear losses, and his/her investment objectives including his/her risk tolerance so as to enable the investment firm to recommend to the client (...) the investment services and financial instruments that are suitable for him and, in particular, are in accordance with his/her risk tolerance and ability to bear losses.
Level 2 Regulation	Delegated Regulation (EU) 2017/565	Article 54-2 on Assessment of suitability and suitability reports: Investment firms shall obtain from clients or potential clients such information as is necessary for the firm to understand the essential facts about the client and to have a reasonable basis for determining (...) that the specific transaction to be recommended (...) satisfies the following criteria: a) it meets the investment objectives of the client in question, including client's risk tolerance ; b) it is such that the client is able financially to bear any related investment risks consistent with his/her investment objectives ; c) it is such that the client has the necessary experience and knowledge in order to understand the risks involved in the transaction (...)

Member states do not mention non-financial objectives in their transposition

		France	Germany	Austria	UK	Sweden
Objectives	Financial objectives	+	+	+	+	+
	Non-financial objectives	0	0	0	0	0
	Risk tolerance	++	++	++	++	++
	Financial situation	++	+	+	++	++
	Knowledge and experience	+	++	+	++	++

Clarification of "Investment objectives" includes most frequently:
Investment horizon, risk profile, and risk preferences, purpose of investment.