

MIROVA response to

ESMA's Consultation Paper Guidelines on certain aspects of the MiFID II suitability requirements

Introduction to Mirova:

Mirova is a conviction-based, B Corp^{™1} certified management company that offers its clients investment solutions combining the search for financial performance with environmental and social impact. As 'mission-led²' organisation, thanks to multidisciplinary teams united around the same vision, the variety of our areas of expertise, and our ability to innovate and create partnerships with the best experts, we seek to direct capital towards the needs of investment in a real, sustainable and value-creating economy. Mirova manages EUR 28.6 billion of assets as of December 31, 2021, and is an affiliate of Natixis Investment Managers.

Since 2017 and the contribution of Mirova's CEO to the High-Level Expert Group (HLEG) on sustainable finance, Mirova has been actively supporting the ambition of EU policymakers to develop a more sustainable and transparent sustainable investment market, through instruments such as the EU Taxonomy Regulation (TR), the Sustainable Finance Disclosure Regulation (SFDR), the upcoming Corporate Sustainability Reporting Directive (CSRD), among others.

Key messages:

Over the last years, Mirova has been advocating particularly in favor of the consultation of retail investors' sustainability preferences. While EU retail investors increasingly express their willingness to invest their savings in a sustainable manner, enabling them to do so through the suitability assessment is key for investor protection. We have therefore warmly welcomed the initiative to adopt a dedicated MiFID II Delegated Regulation (DR) to make this consultation mandatory at the EU level.

However, we acknowledge that the provisions adopted in the DR, especially the three product categories (article 2(7) of MiFID DR categories a)b)c), pose some significant operational challenges and may even in some cases foster the risk of greenwashing on the market.

Category (a) – financial instrument for which the client determines a minimum proportion invested in the EU environmental taxonomy- and category (b) – financial instrument for which the client determines a minimum proposition invested in sustainable investments as defined in SFDR article 2(17) – can prove complex to explain and to understand for retail investors. The EU taxonomy is still under construction while the level of ambition associated with the definition of sustainable investments (2(17)SFDR) remains unclear. Combining this with the very specific challenges associated with each asset class (a listed equity fund will not be able to reach as high a percentage of taxonomy alignment as a green bond fund for instance), the implementation will require both EU Sustainable finance action plan literacy and financial literacy from part of retail investors.

¹ Since 2006, the B Corp movement has been promoting strong values of change throughout the world to make businesses "a force for good" and to distinguish those which reconcile profit (for profit) and collective interest (for purpose). B Corp's goal is to certify companies that integrate social, societal and environmental objectives into their business model and operations. More details here. References to a ranking, prize or label do not anticipate the future results of the latter, or of the fund, or of the manager.

² Introduced in France in 2018 under the Pacte Law, a 'société à mission' company must define its "raison d'être" and one or more social, societal or environmental objectives beyond profit. The purpose, and objectives aligned with this purpose, must be set out in its Articles of Association. The Articles specify the means by which the execution of the Mission will be monitored by a Mission Committee (a corporate body distinct from the board of directors which is responsible for monitoring the implementation of the mission with at least one employee.) An independent third party then verifies the execution of the Mission, via a written opinion which is annexed to the report of the Mission Committee to shareholders and made available on the website of the company for a period of five years.

Even more preoccupying, category (c)- financial instrument that considers principal adverse impacts on sustainability factors where qualitative or quantitative elements demonstrating that consideration are determined by client – is so wide and weakly defined that a lot of financial instruments with very weak ESG features could actually match this too wide product category. This poses a major risk of greenwashing on the market.

While we fully acknowledge that ESMA is not in a position to alter either Level 1 or Level 2 provisions of MiFID regulations, we strongly encourage ESMA to convey the message to the EU Commission that these provisions should be updated rapidly in order to prevent greenwashing and fulfil their objectives for European retail investors / citizens. We encourage the alignment of financial instruments categories that could be offered under MiFID II DR with financial product categories as defined by SFDR (articles 8 and 9): these SFDR categories are useful and interesting because they enable to differentiate two levels of sustainability ambition and two types of sustainable financial products, but they need to be better defined, simplified and better controlled, in order to be usable as products labels or standards. While we are aware that this was not the initial intention of regulators, this is the way market players have used them, not with the aim to greenwash their products but with the aim to qualify and differentiate them: strong definitions and simple categorisations are today absolutely needed to enable sustainable finance market organisation. We support the idea to capitalise on the positive market organisations of SFDR and to finalise the work at level 1 of the SFDR text to strengthen these articles 6, 8 and 9 categories. We would also strongly support an improvement and a simplification of the related document provided to retail investors, that is excessively complicated.

In the short term, we highly appreciate ESMA's efforts to provide adequate guidelines to facilitate the implementation of the MiFID II DR requirements. In our view, ESMA's guidelines should help to achieve the following milestones:

- Client sustainability preferences should be defined first at a non-technical level, that is broader than MiFID II, through a limited number of sustainability preferences categories that should reflect different levels of sustainability ambition / expectations; we suggest to define 3 categories of sustainability preferences: no sustainability expectation; doing no harm expectation; investing in solutions / positive impact expectations.
- These sustainability preference categories would encompass the article 2(7) MiFID II DR a), b) and c) categories; such sustainability preferences categories would facilitate retail investors and financial advisors understanding. They could help to update MiFID II DR in the coming years to adapt a) b) c) categories and to make clearer connections to the SFDR product categories (articles 8, 9), which should in Mirova's views evolve in the coming years so as to become stronger product definitions ;
- Client sustainability preferences should be evaluated through several steps that enable understanding the actual level of sustainability ambition of clients:

1. Identifying the type of sustainability preference

- 1.1 Is there any interest to take sustainability into account
- 1.2 if so, what to do (doing no harm, financing solutions or both) = sustainability preference profile
- 1.3 are there at client level specific preferences regarding investment thematic, exclusions or practices

These first questions, combined with the financial suitability test, should enable the financial adviser to provide a short-listing of suitable products.

2. Identifying the intensity of the client's sustainability preference

- 2.1 among suitable products, on the basis of the observed proportion of product / portfolio alignment with client sustainability preference, does client want it to be applied at a minimum / average or maximum proportion?

2.2 if no product or portfolio would prove suitable for client's sustainability preference, would the client accept to adapt the alignment proportion of the product? If this does not prove sufficient, would the client preference be to adjust the financial preference or the sustainability preference, taking into account the potential adverse impact on financial returns;

- ESMA should facilitate the implementation of the regulation also in defining the meaning of article 2(7) MiFID II DR A), b), c) categories at product level and their potential cumulation, especially through the meaning of article 2(17) SFDR and of "consider principal adverse impact": detailing their meaning at product level would help to prevent greenwashing and market fragmentation;
- Where no financial product is suitable to meet clients sustainability preferences, financial advisors should first propose to adapt the minimum proportion of alignment with the sustainability preference. If this does not prove sufficient to find suitable products, financial advisors should ask clients whether they prefer to adapt their financial or sustainability preferences, informing them of the potential consequences of endorsing a more risky financial profile.

GUIDELINE 1 – INFORMATION TO CLIENTS ABOUT THE PURPOSE OF THE SUITABILITY ASSESSMENT AND ITS SCOPE

Mirova general comment

We support the idea to have a rapid general introduction on what sustainability preference means when introducing the suitability test to clients. It can be quickly recalled and exemplified what sustainability, E, S and G mean. Once this has been extremely briefly explained, the key aspect in our view to make this introduction useful and protective for retail investors is to explain the concrete translation of what is a sustainability preference when considering a financial instrument.

In our experience, this can and should be explained in a simple and concrete manner, not starting with technical and regulatory vocabulary -that the vast majority of clients is totally unfamiliar with- but presenting 3 types of retail investors sustainability expectations and preference types that could be associated with corresponding levels of *sustainability ambition* at financial product level, differentiating :

- 1) **“No sustainability expectation” from part of client : would corresponds to financial instruments that do not integrate sustainability factors or only at a very minimum legal / ethical level that does not influence the overall sustainability profile of the product;**
 - Concrete example : a financial product with no other ESG characteristic other than very minimum ESG exclusions (such as controversial weapons)
 - [it could be noted for financial advisers that SFDR article 6 products fall into this category]
- 2) **« Doing no harm expectation » from part of client : would correspond to financial instruments that factor in sustainability through the objective of investing in companies and projects that are doing no harm to society, through the monitoring of sustainability / ESG risks;**
 - Concrete example : a financial product investing in companies / projects after a verification that the assets are not associated with adverse impacts on social, governance or environmental issues such as human rights abuses, corruption or money laundering, control of pollution;
 - This category would match with a preference for a MiFID II DR art. 2(7) c) financial instrument category [a financial instrument that considers principal adverse impacts on sustainability factors] that could be associated with some specific features (specific exclusions for instance)
 - [it could be noted for financial advisers that the definition of SFDR article 8 products is close to this category]
- 3) **« Investing in solutions expectation » from part of client : would correspond to financial instruments that factor in sustainability through the objective of investing in *solutions* for sustainability, i.e in companies and projects that not only are doing no harm to society/ monitor ESG risks, but that also contribute to sustainability through their products, services and practices.**
 - Concrete example : a financial product investing in companies that develop renewable sources of energy or companies which business models contribute to the UN Sustainability Development Goals
 - Retail investor sustainability preference : this category would match with a preference for MIFID II DR article 2(7) categories :
 - b) a financial instrument invested at a minimum proportion in sustainable investments as defined in article 2(17) of the SFDR regulation
 - a) a financial instrument invested at a minimum proportion in the EU taxonomy –
 - c) + b) or c)+ a) : most financial instruments having the objective to invest in sustainable investments and / or in the EU taxonomy also take into account ESG risks and PAI, therefore in or understanding in most cases categories a) and b)

would be cumulative with category c) (category a) being understood at our level as a sub-category of b).

- [it could be noted for financial advisers that the definition of SFDR article 9 products is close to this category]

Q1. Do you agree with the suggested approach on the information to clients about the purpose of the suitability assessment and its scope? Please also state the reasons for your answer.

The guidance is overall fine in its orientation (help clients understand the concept of sustainability preferences », avoiding technical language) but implementation will prove extremely challenging – not to say contradictory- for financial advisors if such explanation has to start with the definition of sustainability preferences under MiFID II article 2(7) categories a) to c). These are regulatory extremely technical categories that cannot be self-sufficient for retail clients to understand the overall rationale. The presentation of MiFID II DR categories a) to c) should be used only as examples or as conclusions to explain the different levels of sustainability ambition that can be associated with financial instruments in order to match clients expectations.

While we are aware that ESMA is not in a position to alter the provisions introduced at Level 2, we believe that a more practical framework can be put in place for consideration of clients sustainability preferences. ESMA's guideline in this regard could and should therefore be more specific and more concrete, starting not from MiFID II categories but from retail investors as such, in order to make the framework as clear and protective as possible. See our general comments and suggestions #1 and #2.

We are convinced that providing such concrete explanation would also contribute to make sustainable investment products more attractive for retail investors and therefore help to fulfil the EU sustainable finance action plan objectives.

Q2. Do you agree with the new supporting guideline in relation to the information to clients on the concept of sustainability preference or do you believe that the information requirement should be expanded further? Please also state the reasons for your answer.

We agree with the concept of informing clients on the concept of sustainability preferences, but we see a high risk of confusing clients if sustainability preferences are directly associated with the regulatory and technical categories a) to c) as defined in MiFID II DR article 2(7). We believe that financial advisors should first and foremost explain / describe the potential level of sustainability ambition that can be associated with retail clients sustainability expectations in simple, non-technical language. If categories a) to c) under MiFID II DR have to be introduced, this should come only after having described 1) a level of sustainability ambition at financial instrument level 2) a concrete and rapid example of the features of such product 3) if relevant, the corresponding MiFID II DR categories.

GUIDELINE 2: ARRANGEMENTS NECESSARY TO UNDERSTAND CLIENTS

Mirova general comment #2

The questions that should be asked to retail clients should be the consequence of the overall explanation on the different categories of sustainability preferences described in our first general comment.

We find it both challenging and potentially misleading to focus the information to be collected on the sustainability preferences of the client on the MiFID II DR categories and EU regulation concepts, because of

their complexity and technicity. These concepts and categories are too technical and therefore not fit for embarking client's sustainability preferences. For example, requiring a retail investor to describe « what principal adverse impacts should be considered including quantitative and qualitative criteria demonstrating that consideration » might prove extremely difficult to implement in practice if no further guidance is provided. In the absence of more guidelines from ESMA, firms might implement such guidance with different interpretations, leading potentially to market fragmentation and greenwashing. Also, leaving the determination of the alignment thresholds to the client with no further guidance could lead clients to set arbitrary minimum proportions that are unrealistic or not adapted to the asset class considered.

We therefore suggest to make the suitability test more simple and more progressive, using categories that remain understandable and adapted for retail investors. If not, the suitability test might itself create so much confusion as regards to the real expectations of the client that it could strengthen the greenwashing / sustainability-washing risks it is aimed at combating.

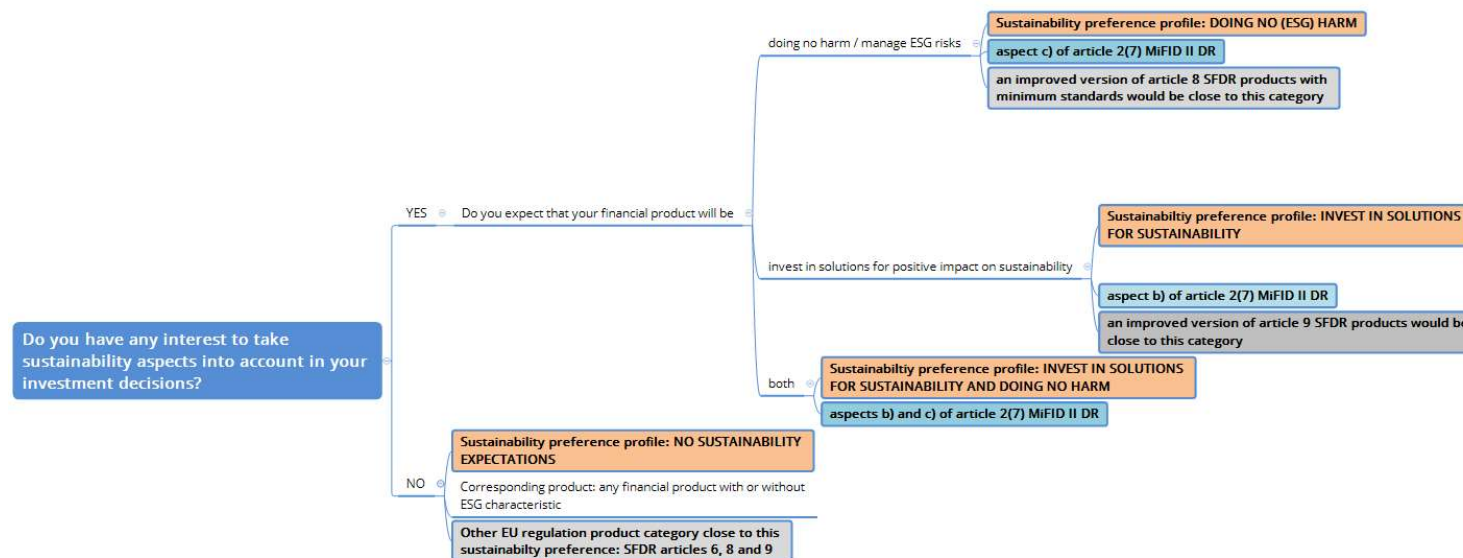
Establishing lists of pre-defined choices should also help both clients and advisers to define the sustainability preference and the potential correspondent financial products. In our view, firms should collect the following information from clients :

1st step : identifying the type of sustainability preference

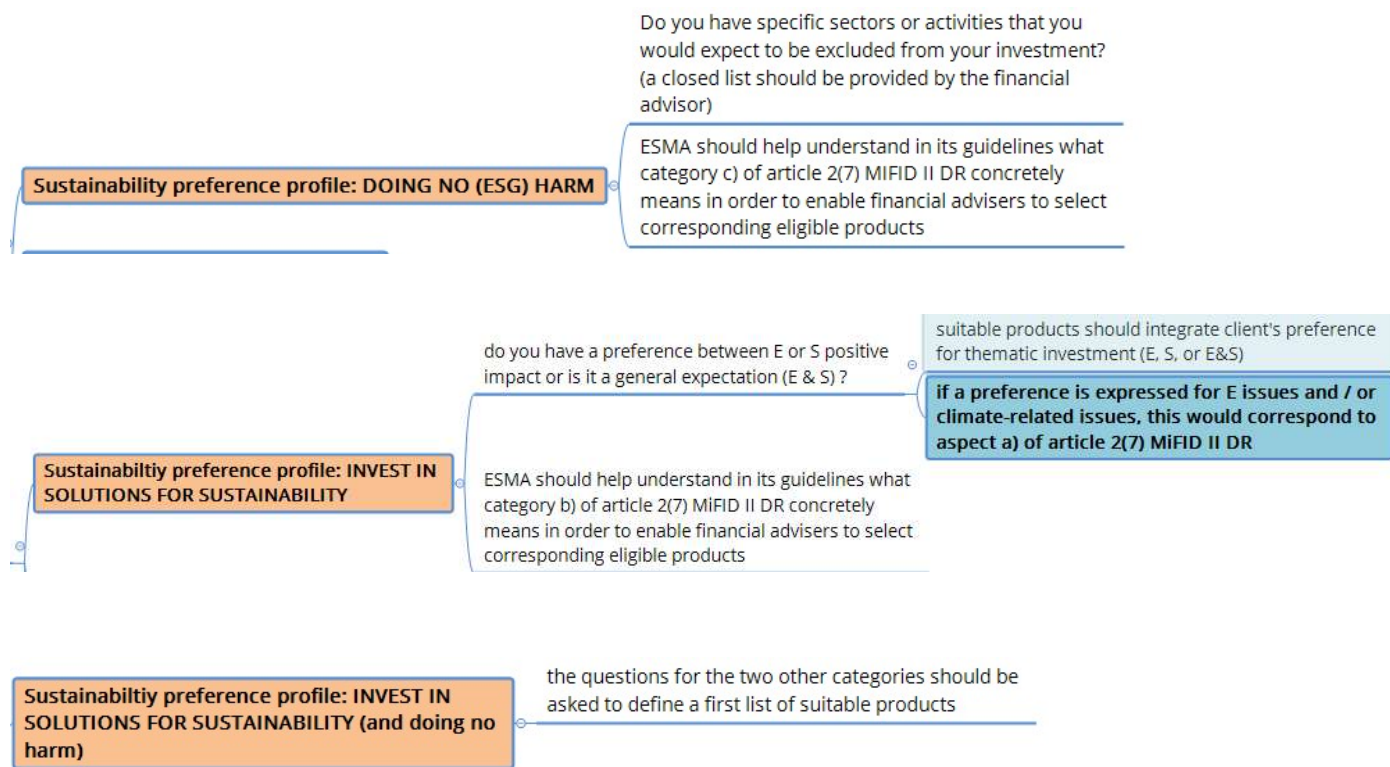
- 1) whether the client has any interest to take sustainability aspects into account in its investment decisions (yes / no)
- 2) if yes, whether this sustainability preference is an expectation to :
 - i. doing no harm / manage the risks associated with the investee companies and projects from an ESG perspective [corresponding to aspect c) of article 2(7) MiFID II DR]
 - if so do they have a preference between social issues, environmental issues or governance issues or is a general expectation on these 3 aspects ?
 - do they have a specific sector on which they would expect the financial instrument to have an exclusion policy among the most usual controversial activities : tobacco, coal, nuclear, fossil fuels, etc (a limited list could be described)
 - ii. invest in solutions through companies and projects that bring a positive impact to sustainability issues [corresponding to aspect b) of the article 2(7) MiFID II DR]
 - if so, do they have a preference between environmental and social issues (human rights, gender equality, education, etc) or is it a general expectation ? [which can help identify appropriate products]
 - if they have a preference for environmental issues, do they have a preference to focus on climate-related issues [corresponding to aspect a) of the article 2(7) MiFID II DR, in the current state of the EU taxonomy] or is it a more general preference?
 - iii. both (with the same sub-questions on preferences) [corresponding to aspect b) of the article 2(7) MiFID II DR]

Proposed client questions sequencing to define sustainability preferences
Illustration through a decision tree

1. 1st step: defining the sustainability preference profile:



1.2 Zoom on the sustainability preference profiles



2nd step : identifying the intensity of the client's sustainability preference :

Once the overall sustainability expectations of the client have been listed, a sustainability preference can be established enabling the financial advisor to screen a first list of suitable products among financially suitable products. On this basis, a few additional questions could be asked to ensure that all MiFID II DR provisions and the overall client investment preferences are respected :

Once defined client's sustainability preference, does client want it to be applied at product level :

- a. At least at the minimum existing proportion (among suitable products)
- b. At an average proportion (among suitable products)
- c. At the highest existing proportion (among suitable products)

The financial advisor should provide a benchmark of the minimum, average and maximum alignment proportion among pre-identified suitable products, so as to enable clients to make an informed choice.

3rd step : if no product matches both the financial and sustainability preferences

Financial advisors should first test with clients if an adjustment in the minimum proportion of alignment of the product with the sustainability preference can be sufficient to find a suitable product in the first established list of financially and sustainably suitable products.

If an adjustment in the minimum proportion of alignment does not prove sufficient, and that no product can be found unless the sustainability preference or the financial preference are adjusted, financial advisors should ask clients whether their preference is to adjust one or the other, informing them that the adjustment of the financial preference may, in some cases, lead to a choice for more risky financial products.

Q3. 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 of the clients' sustainability preferences? Please also state the reasons for your answer. Are there other alternative approaches, beyond the one suggested in guideline 2, that you consider compliant with the MiFID II requirements and that ESMA should consider? Please provide examples and details.

While Mirova understands the rationale behind the suggested approach, we fear that its rapid focus on the technical categories of article 2(7) MiFID II DR may lead to a great risk of confusing clients and therefore lead to arbitrary outcomes and situations where the real sustainability preference of clients may not be respected. We suggest the approach described in our general comment above. We deem it much more practicable and aligned with the original intention of the suitability assessment to design a sustainability assessment based on strong and simple categories that enable to sort out and select suitable products, and to make the guidance the responsibility of the advisor, with the help of strong and concrete guidelines from part of ESMA.

The question on minimum proportions / percentages is particularly sensitive issue, that is intertwined with the questions of financial educations and the misunderstandings around some sustainable finance concepts such as the EU taxonomy (which remain a long-time horizon). For this reason, we suggest to ask for this proportion to be defined by the client only once a list of suitable products has been identified, on the basis of the minimum, average and maximum existing proportions for the selected products.

Q4. Do you believe that further guidance is needed to clarify how firms should assess clients' sustainability preferences?

Yes we see benefit in further guidance that would enable to encapsulate the categories under art. 2(7) MiFID II DR into a broader and more operational process, more understandable by financial advisers and retail

clients, more able to define sustainability preferences of clients in connexion level of knowledge. The ESMA guidelines should enable to get a general understanding on the types of sustainability preferences that can encompass the Article 2(7) MiFID II DR categories, keeping 3 broad categories (no preference, preference to doing no harm, preference to finance a positive impact / solutions for sustainability) and they also should help to identify the corresponding suitable products.

Also, in order to ensure that is clear for firms how to assess client's sustainability preferences, ESMA should clarify the following concepts and concrete meaning in terms of products features :

- what does an instrument investing a minimum proportion in sustainable investments [2(17) SFDR] actually correspond to ? In our understanding :
 - o this corresponds to financial instruments that have the *objective* to invest in solutions for sustainability (and not to instruments that *randomly* ends up having a very limited proportion invested in sustainable investments / assets) ;
 - o this correspond to a financial instrument invested mainly (although not only, for diversification purpose) in sustainable investments ;
 - o sustainable investments [2(17) SFDR] are investemnts in assets that seek to provide solutions for sustainability, including through investments in the EU taxonomy (but not limited to the EU taxonomy, that is not yet exhaustive for environmental issues and that does not take social issues into account). Taking into account PAI should not be sufficient to be considered a sustainable investment
 - o in our understanding, the SFDR article 9 category is close to this definition ;
- what does an instrument that considers PAI correspond to ? what qualitative or quantitative elements to demonstrate eligibility could be considered ? How could this element be asked at retail client level without confusing clients given the high level of technicity and of detail of PAI considerations ? For instance if considering PAI strategies corresponds to some responsible investment techniques (as seems to be suggested in ESMA's guidelines) such as exclusion strategies, controversies policies, voting and engagement strategies, this should be more firmly stated and clarified.

Q5. Where clients have expressed preference for more than one of the three categories of products referred to in letters a), b) or c) of the definition of Article 2(7) of the MiFID II Delegated Regulation, do you think that the Guidelines should provide additional guidance about what is precisely expected from advisors when investigating and prioritizing these simultaneous / overlapping preferences?

Mirova agrees that further guidance is needed by ESMA to understand the articulation of the different categories of products and how they match also with other product categories enshrined in the other EU sustainable finance regulation such as SFDR.

However, what precisely is expected from advisors should be clarified not only when more than one of the three categories of products referred to in letters a, b or c of article 2(7) MiFID II DR, but also in each of these cases. See our answer above : the concrete meaning of these categories and the corresponding suitable products should be further clarified.

Providing more concrete guidance to financial advisers on the sequencing of questions to be asked to clients, on the definitions of simple categories of sustainability preference, on the corresponding products, would facilitate implementation and would also prevent greenwashing and better protect retail investors.

Q6. Do you agree with the proposed approach with regard to the assessment of ESG preferences in the case of portfolio approach? Are there alternative approaches that ESMA should consider? Please provide possible examples

In the case of a portfolio approach, Mirova sees no need to alter the approach as outlined throughout previous replies. We agree with ESMA's approach that if a client prefers to consider sustainability characteristics, the advisor should check which part of the portfolio the client wants to be invested in products meeting their sustainability preference.

GUIDELINE 5: UPDATING CLIENT INFORMATION

Q7. Do you agree with the suggested approach on the topic of 'updating client information'? Please also state the reasons for your answer.

Mirova agrees with ESMA's proposal on updating client information when a client has expressed preferences for financial products that possess specific sustainability features.

GUIDELINE 7 – ARRANGEMENTS NECESSARY TO UNDERSTAND INVESTMENT PRODUCTS

Q8: Do you agree with the suggested approach with regards to the arrangements necessary to understand investment products? Please also state the reasons for your answer.

As many financial advisers can be expected to lack an understanding of the regulatory terminology in which the sustainability features of products will be described, Mirova fully agrees with the need for firms to ensure that different potential sustainability features of investment products are sufficiently understood. While we support ESMA's proposal for firms to adopt robust and objective procedures, methodologies, and tools necessary to understand the products, assuming they are not already in place, we also strongly recommend ESMA to clarify the concrete meaning of each category (a), b), c) at product level. In our understanding, a) is a sub-category of b). b) and c) should be better and more precisely and concretely defined by ESMA, before having to define the proposition of each financial instrument invested in those categories.

Q9. Do you believe that further guidance is needed to clarify how firms should take into consideration the investment products' sustainability factors as part of their policies and procedures? Please also state the reason for your answer.

While each firm will have the freedom to implement the MiFID II DR with its own procedures, we believe that further guidance by ESMA is needed to help them to do so, in providing a clearer understanding of the different product categories of MiFID II. In particular, a focus on category c is needed to prevent and avoid the risks of greenwashing.

GUIDELINE 8: ARRANGEMENTS NECESSARY TO ENSURE THE SUITABILITY OF AN INVESTMENT

Q10. Do you agree with the additional guidance provided regarding the arrangements necessary to ensure the suitability of an investment concerning the client's sustainability preferences? Please also state the reasons for your answer.

Mirova understands ESMA's approach to clients adapting their sustainability preferences, as meaning clients must lower their ambition in terms of sustainability preferences because products available do not meet their initial expectations. An adaption of preferences in the meaning of substituting highly ambitious preferences with less ambitious sustainability preferences, would allow products, which are from a sustainability perspective initially unsuitable, to become suitable products, then matching the client's adapted sustainability preferences. This consequently allows for an incorrect assessment of product suitability and may not only mislead clients but also send wrong signals to firms. Firms may be incentivised to simply ask clients to adapt their sustainability preferences so that they can match them with an already available product, rather than being incentivised to develop suitable financial products reflecting more ambitious sustainability preferences. This consequently goes against the aim of the EU's sustainable finance action plan.

Mirova fully endorses ESMA's proposal that a suitability assessment with respect to clients' sustainability preferences should follow the carrying out of a financial suitability assessment. However, in the case where no product would match client's sustainability expectations, the question should be asked to the client whether he / she prioritises the financial or sustainability features of a product, and whether he / she would adapt the financial or the sustainability preferences he/ she has expressed, in order to help the financial advisor to adjust the list of products that can be offered. This is important to ensure that the financial preference does not always automatically prevail over the sustainability preference if the client does not wish so.

Example : if a client has a prudent investor profile, the financial advisor should confirm with him / her whether he / she would favor a prudent investment profile over the sustainability features of the financial product, and document this preference to justify the offer of the product.

If no product was available to meet both the financial and sustainability preferences, the financial advisor should ask the client whether he would rather change the financial or the sustainability preference and document the change to justify the selection of products that can be offered.

This would require that the financial advisor presents clearly the risks associated with a change in financial preferences expressed in the suitability assessment.

In case clients would have to adapt / lower their sustainability preferences, this should be documented by the firm.

Q11. Do you agree with the approach outlined with regards to the situation where the firm can recommend a product that does not meet the client's preferences once the client has adapted such preferences? Do you believe that the guideline should be more detailed? Please also state the reasons for your answer.

We believe that more granular guidelines to define sustainability preferences would help to avoid an important share of situations where no product meets both the financial and sustainability preferences of clients. Ensuring that there is a collection of sustainability preferences at two levels, as recommended above, would facilitate the respect of client's choices.

Defining first a type of sustainability preference (doing no harm/ investing in solutions [potentially with a green focus] / both) should enable to have a first short-listing of suitable products that match client's financial and sustainability preferences.

Then, on the basis of the features of this selection of products, the client should be asked to express preference on the proportion of alignment with categories c), b) or b)c) or c)b)a).

In case no product matches the sustainability preference, the firm should prioritise the respect of the sustainability preference profile and ask the client to adapt only the alignment proportion. In case no product even matches the sustainability preference profile, then the firm could ask the client whether he / she wishes to change his / her financial preference or his / her sustainability preference to find suitable financial products.

In case clients would have to adapt / lower their sustainability preferences, this should be documented by the firm.

Q12. Do you agree with the approach outlined with regards to the situation where the client makes use of the possibility to adapt the sustainability preferences? Please also state the reasons for your answer.

Again, choice should be given to the client to choose whether to adapt financial or sustainability preferences in case to product would match both preferences only where merely adapting the proportion of alignment would not prove sufficient to find suitable products.

The reason for this rationale is that the odds are high that adapting sustainability preferences would be a way to limit clients sustainability ambition.

In case clients would have to adapt / lower their sustainability preferences, this should be documented by the firm.

Q13. Could you share views on operational approaches a firm could use when it does not have any financial instruments included in its product range that would meet the client's sustainability preferences (i.e. for the adaptation of client's preferences with respect to the suitability assessment in question/to the particular transaction and to inform the client of such situation in the suitability report)?

No answer

Q14. Do you agree with the proposed approach for firms to be adopted in the case where a client does not express sustainability preferences, or do you believe that the supporting guideline should be more prescriptive? Please also state the reasons for your answer.

Given the likelihood that some clients may not express any sustainability preferences, Mirova fully agrees with ESMA's proposed approach where a client does not indicate that they want sustainability preferences to be integrated in the investment choice. Mirova does not see a need to make the respective supporting guideline any more prescriptive.

Q15. Do you agree with the proposed approach with regard to the possibility for clients to adapt their sustainability preferences in the case of portfolio approach? Do you envisage any other feasible alternative approaches? Please provide some possible examples.

As for product-level questions, adapting the share of alignment while respecting the sustainability preference profile of clients should also prevail at portfolio level.

Q16. What measures do you believe that firms should implement to monitor situations where there is a significant occurrence of clients adapting their sustainability preferences? What type of initiatives do you envisage could be undertaken to address any issues detected as a result of this monitoring activity?

Where clients have to « adapt », i.e lower their sustainability preferences, such situations should be documented. The information recorded in such cases should act as a way to inform distributors and manufacturers of investment products of a demand for more sustainable products.

We agree with Eurosif's suggestions that to address potential gaps between available products and clients' expressed preferences, firms could engage with product manufacturers to develop products which better reflect the initial (higher) sustainability-related expectations of clients in the future, while reflecting the financial characteristics to become a financially suitable product for the client. Additionally, firms should demonstrate to regulators how they are acting on ensuring that more clients are able to be matched with products of their initial sustainability preferences.

GUIDELINE 10: COSTS AND BENEFITS OF SWITCHING INVESTMENTS

Q17. Do you agree with the proposed amendment to supporting guideline 10? Please also state the reasons for your answer.

No answer

GUIDELINE 11: QUALIFICATIONS OF FIRM STAFF

Q18. Do you agree with the additional guidance regarding to the qualification of firms' staff or do you believe that further guidance on this aspect should be needed? Please also state the reasons for your answer.

Mirova strongly supports ESMA's proposal as concerns the need for appropriate trainings for staff. As is evident, understanding and explaining the different terms used in the EU's sustainable finance rulebooks, and particularly explaining the definitions under Art. 2(7) MiFID II DR requires extensive knowledge and competence on the part of the advisor. This is particularly true in cases where advisors are required to explain these terms in simple, non-technical language.

GUIDELINE 12: RECORD-KEEPING

Q19. Do you agree on the guidance provided on record keeping? Please also state the reasons for your answer.

No answer

QUESTIONS NOT RELATED TO SPECIFIC REVISIONS
Q20. Do you agree on the alignment of the two sets of guidelines (where common provisions exist for the assessment of suitability and appropriateness)? Please also state the reasons for your answer.
No answer
Q21. Do you have any further comment or input on the draft guidelines?
See our preliminary comments and general comments throughout this document
Q22. Do you have any comment on the list of good and poor practices annexed to the guidelines?
No answer
Q23. What level of resources (financial and other) would be required to implement and comply with the guidelines (organisational, IT costs, training costs, staff costs, etc., differentiated between one off and ongoing costs)? 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.
No answer

This document is a non-contractual document for information purposes only. The information contained in this document is the property of Mirova. The distribution, possession or delivery of this document in some jurisdictions may be limited or prohibited by law. Persons receiving this document are asked to learn about the existence of such limitations or prohibitions and to comply with them.

The information contained in this document is based on present circumstances, intentions, and guidelines, and may require subsequent modifications. Mirova bears no responsibility for the descriptions and summaries contained in this document. No reliance may be placed for any purpose whatsoever on the validity, accuracy, durability or completeness of the information or opinion contained in this document, or any other information provided in relation to this document. Therefore, Mirova assumes no responsibility for any information, in any form, contained, mentioned, or induced, in this document or in case of possible omissions. Mirova reserves the right to change or withdraw this information at any time without notice. More generally, Mirova, its parent companies, its subsidiaries, its reference shareholders, the funds it manages as well as their respective directors, directors, associates, agents, representatives, employees or boards, disclaim any responsibility to the readers of this document or their advice regarding the characteristics of this information. Moreover, the handing over of this document does not in any way imply an implicit obligation on anyone to update the information contained in it.

Mirova voting and engagement policy as well as transparency code are available on its website: www.mirova.com.

Non-contractual document issued in April 2022.

*Mirova
Portfolio management company - French Public Limited liability company
Regulated by AMF under n°GP 02-014
RCS Paris n°394 648 216
Registered Office: 59, Avenue Pierre Mendes France – 75013 – Paris
Mirova is an affiliate of Natixis Investment Managers.*