<u>ESMA Call for Evidence</u> – Answers

Q1: What actions did firms implement within their organisation to take into account the new requirements related to sustainability preferences? Please elaborate especially on the following:

- What proportion of firms' employees (differentiating between client facing staff and the other staff) have received training on sustainability topics? What these trainings consisted of? Was any test or exam put in place?

- Which conflicts of interest relating to the integration of clients' sustainability preferences did firms identify and which measures did firms take to ensure that these conflicts of interest do not damage the interest of clients?

Since we have specialized in sustainable investments from the beginning of our company and have been following the ongoing discussion and regulatory procedures for a long time there was not much need for extra training or adaption – we do not see a conflict of interests here. We have always tried to find the best available solution to our clients preferences many of whom pay us on an honorary basis.

Q2: Are there specific aspects of sustainable finance that retail investors struggle to understand? For example:

- Understanding of general aspects such as why it is important to consider sustainability risks and factors when investing?
- Understanding differences between sustainable products and products without sustainability features?
- Understanding that sustainability characteristics and (expected) return are two separate issues?
- Understanding the new legal definition of "sustainability preferences" and its components (e.g., categories a), b) and c), minimum proportion, principal adverse impact indicators (PAIs), etc)?

95% of our clients are mainly concerned about avoiding most destructive economic activities (by defining more or less strict exclusion criteria). Most of them want to ensure that basic sustainable investment criteria are applied to <u>ALL</u> investments.

Some investmentfund informations contain information that state e.g.: „the fund aims at ecological goals (i.e. investing in renewable energy projects or in sustainable forestry) without being recognized as sustainable investments" – our customers do not understand the point of this kind of information and they actually do not care, as long as these investments are not directly seriously harmful.

Our clients are very well aware of the complexity of sustainability matters and limits to measurability. Many do not believe that sustainability matters can or should be defined and/or prioritized by any single authority. Rather clients themselves want to set their own priorities and preferences. In the summary of collective expression of individual priorities and preferences we have realized over the years that sustainability is not a static feature but rather a dynamic process with shifting impulses and sometimes dramatically changing priorities. <u>Over the last 1½ years, climate related preferences have almost disappeared, while weapons and armaments have gained TOP priority as exclusion criteria.</u>

Q3: Are there specific financial education initiatives on sustainable finance developed by consumer associations, trade associations or other organisations and that are used by investment firms that you can bring to ESMA's attention? Please accompany your reply with any relevant background information on the initiative and/or with details on its effectiveness/usefulness.

https://www.ecoreporter.de/ecoanlageberater-fernlehrgang/ has a long standing in educating financial consultants in sustainability matters. FNG also has offered financial education. To our knowledge consumer protection associations financial education initiatives focussing on and promoting cheap index-oriented products are rather detrimental to sustainable investment efforts. Besides general financial education we need more reliable data bases on the company level (including value chain).

Q4: What is the main way firms currently provide information to retail clients about sustainable finance? For example:

- Orally during the meetings with clients
- Through educational brochures or other (paper) documents
- Through dedicated website and apps
- A combination of the above
- Other

In your opinion, are these approaches effective? Please provide details. Are retail clients satisfied with the quality of information provided?

A combination of the above plus bimonthly newsletters. Multi channel approaches have proven to be most effective. Although we receive only little feedback on quality directly, we do receive positive recommendations of clients to other people which seems to be a valid quality indicator.

Q5: What are clients' experiences/reactions to the new questionnaires including questions on "sustainability preferences"? (e.g. do they require guidance to be able to answer to the questions? Do they show interest in the topic?)

We have introduced sustainability preferences in our questionaires more than 10 years ago. This is nothing new to our clients. Our clients are realistic in assuming that many problems in our world cannot be solved directly by investments, but need to be addressed politically. They are also aware that a lot of important things are not exactly measurable like „wellbeing". Quite a few clients feel manipulated by being asked to set specific targets to criteria the details of which somebody else has designed.

Being confronted with the perspective that it takes some time to understand specific EU-born categories and technical definitions, they usually refuse to go into details outside of PAI statements. Quotes: "don't waste my time with this!" "I don't want to appear being greedy, but I'm not interested in sustainable impact bonds if they give me negative returns"

Q6: Are there practical examples of questions used to collect information from clients on their sustainability preferences that you can share with ESMA? (as for other parts of this CfE, respondents can opt for their input to ESMA not to be made public)

Our core questions over the last 10 years have been the following:

What kind of sustainability aspects do you want to be taken into account (positive or negative)

Ecological aspects: (e.g. sustainable use of natural resources, environmental pollution, biodiversity…)

___

Social/ethical aspects (e.g.: human rights, labor conditions, armament…)

___

Governance aspects (e.g.: corruption, fraud, aggressive tax evasion...)

___

Do you want to exclude specific adverse impacts, business areas or investment instruments?

☐☐ no exclusions ☐ yes, the following: ___

___

Please make quantitative or additional specifications in the following open space if you want:

Please prioritize your preferences

	very important	important	less important	not important
sustainability aspects	☐	☐	☐	☐
returns on assets	☐	☐	☐	☐
security / limitation of losses	☐	☐	☐	☐
liquidity / availability	☐	☐	☐	☐
tax related aspects	☐	☐	☐	☐

Q7: Which of the sustainable investment definitions do clients most often opt for? (EU Taxonomy alignment? Sustainable investment within the meaning of SFDR? Consideration of PAI? All of them?) Please provide any statistics, where available.

Taxonomy 0 SFDR: 5% PAI/Exclusions: 95%

Q8: How are firms collecting information from clients on their preferences concerning the minimum proportion? With regards to the use of standardised minimum proportions, which standardised minimum proportions are presented to clients?

So far none of our clients have made any statements on minimum proportions

Q9: What is approximately the average minimum proportion of sustainable investments requested by clients? Please provide details, where available.

Doesn't apply

Q10: Are firms currently able to satisfy the sustainability preferences expressed by clients (in particular in relation to the three categories (Taxonomy, SFDR, PAI)? If so, for which categories and/or types of financial instruments do firms find it most difficult to satisfy clients' preferences?

Taxonomy play no and SFDR no significant role to 95% of our customers. And even those, who aim at positive impact usually do so just in a general way without setting specific targets (e.g.: specific minimum portions of investments) Therefore we have usually no problem to satisfy our client's preferences.

Q11: How often has the adaptation of clients' sustainability preferences been necessary during these first months of application of the rules (e.g. in terms of percentage considering new clients and existing clients whose profiles have already been updated to include information on sustainability preferences)?

No adaptations necessary so far

Q12: What kind of operational arrangements have firms put in place to allow clients to adapt their sustainability preferences?

Adaptations can be made at any point during consultation process – no automatic procedure – if inconsistencies are detected

Q13: How were clients informed about the possibility to adapt their preferences?

Personal information at beginning of consulting process – we do proactively ask for updates every three years or earlier whenever circumstances suggest

Q14: Have firms imposed limits on how frequently a client can adapt its sustainability preferences during the investment advice?

No – has never been asked for

Q15: If available: what percentage of those who adapted decided to (1) lower the level of ambition within an option (i.e. reducing the "minimum proportion" or lowering the threshold of sustainable investments in a portfolio), (2) change between the three options (i.e. categories a, b and c) (3) opt for a combination/ for a different combination between the three options (i.e. categories a, b and c) (4) express no sustainability preferences anymore.

Doesn't apply

Q16: How often did clients refrain from adapting their sustainability preferences, accepting that the firm could not recommend any financial instruments or invest on their behalf?

Doesn't apply

Q17: In relation to the update of clients' profiles:

- Which percentage/average proportion of clients have updated their (MiFID) profiles following the entry into application of the new regime on 2 August 2022?
- On average, taking into account the number of clients whose profile has already been updated, what is the proportion of clients who express sustainability preferences in your firm/jurisdiction?
- On average, taking into account the number of clients who express sustainability preferences, what is the proportion of clients that have expressed a specific preference for one or more of the three categories (Taxonomy, SFDR, PAI) in your firm/jurisdiction? (How many clients are only expressing whether or not they have sustainability preferences i.e. yes, no?).

Less than 5% have updated their investment profiles. No updates have taken place as far as sustainable investment criteria are concerned. We only include products in our recommendations that do aplly positive or negative sustainable investment criteria. There have been very little adaptations since application of the new regime. (see: Q7)

Q18: Do you have any comment on the above practical examples?

Minimum proportion has never been asked for. Clients know that we only include products in our recommendations that do apply positive or negative sustainable investment criteria.

Q19: Have firms implemented an approach similar to the one described in examples 1 and 2? If yes, which of the two approaches have firms implemented? If firms have implemented a different approach, please provide further details.

Minimum proportion has never been asked for. Clients know that we only include products in our recommendations that do apply positive or negative sustainable investment criteria.

Q20: What are the issues that firms encountered in the application of the requirements at portfolio level?

No specific issues

Q21: How are clients' sustainability preferences gathered on the consideration of PAIs? Do firms refer to the PAI indicators listed in Annex I of the SFDR Delegation Regulation exclusively, or may clients express their preferences based on other PAIs? If clients may express their preferences based on other PAIs: what are those PAIs and how were they identified?

We only give examples, but generally ask open questions to focus on those things that are on investors minds. It is not our task to educate clients on all kind of sustainability matters. This would overload the consultation process and actually materialize in a competitive disadvantage against conventional investment consultancy. We focus on what are clients' self formulated preferences and match with our already strictly selective product recommendations

Q22: May clients determine qualitative elements in order to demonstrate the consideration of PAIs?

- If so, what are these qualitative elements and how were they identified, how is the information on qualitative elements gathered?

- If not, what are the challenges preventing you from offering such possibility to clients? How could these challenges be overcome?

See Q6

Q23: What are the issues that firms encountered in the consideration of PAIs from clients?

Main issues are how strictly certain exclusion criteria are actually applied

Q24: Does this correspond to practices adopted by firms? If firms have implemented a different approach, please provide further details.

Unclear question

Q25: How do firms ensure the consistency of the investment advice or portfolio management service provided when conducting suitability assessment with respect to the sustainability preferences expressed by a group of natural persons when no representative has been designated?

Doesn't apply

Q26: What approach and criteria have firms adopted for the mapping of products' ESG features in view of their matching with clients' sustainability preferences?

All positive and/or negative criteria mentioned by clients are matched with an already highly selective product recommendation list

Q27: How do firms apply sustainability-related concepts of Taxonomy Regulation and SFDR to MiFID II financial instruments that are outside the scope of SFDR (e.g., shares, bonds, certificates, etc.)? How do firms apply the "minimum proportion" concept to such instruments? In particular, how is the "minimum proportion" calculated?

Doesn't apply

Q28: Are firms making use of ESG rating/scoring systems for products mapping in terms of sustainability? If yes, please provide details.

Yes we are using several rating/scoring systems (FNG-rating, ISS-rating, Ecoreporter scoring, Ökotest, Finanztest etc) and data bases like https://datenbank.faire-fonds.info/funds to preselect product recommendations

Q29: In case of a positive reply to Q28, how do these interrelate with information gathered from manufacturers (or other sources)?

We do not rely on information by product manufacturers alone. We only use product information of manufacturers to identify concrete investment targets.

Q30: How are firms, in their capacity as manufacturers and/or distributors, defining the target market for products with sustainability-related objectives, in terms of granularity? Please specify the elements that are defined for this purpose. Do firms

adopt one single approach for all products, irrespective of whether they are in scope of SFDR? In case approaches differ, please explain why and how.

As intermediaries we are not defining target markets. We do control if defined targets match individual preferences

Q31: What are the factors that firms, in their capacity as manufacturers and/or distributors, would consider for the periodic product reviews with respect to sustainability-related objectives?

Unclear question

Q32: How are firms, in their capacity as distributors, collecting relevant information from manufactures on sustainability-related objectives of the target market? Is the information received from manufacturers sufficient, or are firms considering other inputs? If so, please explain why and describe such additional inputs.

As intermediaries we are already suffering from overloaded ESG descriptions by manufacturers. These are of little help. This is the most negative outcome of misconducted regulatory efforts that do more harm than good. FNG has already identified core sustainable investment profiles (https://www.forum-ng.org/de/fng-nachhaltigkeitsprofile). We don't need any additional information at this time. We would welcome if independent bodies checked from time to time if the profiles investment criteria are accurately applied and help existing data bases (e.g. https://datenbank.faire-fonds.info/funds) to become more precise about critical company profiles.

Q33: How are firms, in their capacity as manufacturers and/or distributors, treating products that do not consider sustainability factors in their product governance processes, specifically concerning the target market assessment related to the sustainability-related objectives (e.g. are sustainability-objectives considered in the negative target market assessment for such products? If so, please explain how).

We generally and strictly exclude products from our general recommendation list that do not apply sustainable investment criteria

Q34: Have firms noticed increased demand by clients of financial instruments with sustainability features? Please provide any relevant available statistics on this topic (e.g. percentage of clients asking information about these products; trends over time). Furthermore, please explain if factors such as age, gender, level of education or level of income/wealth play a role in the demand for financial instruments with sustainability features.

Demand has always been stronger from clients with some sort of higher education or academic background, many of whom have traveled the world extensively – age and gender play little role in this. We do not see an increased demand with our clients. Investment hesitancy has been especially high in 2022. Many clients are worried about the backlash to sustainable investment funds as compared to conventional investments since the escalation of the conflict over Ucraine.

Q35: Which percentage of products in firms' offering have sustainability features? Please provide breakdowns and details, where available. Are retail clients satisfied with the availability of products with sustainability features (number, type, characteristics)?

100% of our product recommendations have sustainability features – our clients expect exactly that. If clients should demand different products we would not engage in a client relationship and suggest to look for another service provider.

Q36: Are firms facing specific issues related to data availability/data quality with respect to financial instruments with sustainability features? If yes, how are firms dealing with these issues?

We are confronted with the fact that precise numbers can only be provided with a very limited set of criteria and many important things cannot directly and only to some degree indirectly be measured. There is a general tendency that fairly easily measurable criteria like climate gas emissions are dominating media and perception while more complex issues are left in the shadow. Overall there is a disturbing climate bias, which leads to increased ESG-washing.

There also seems to be a contradiction with customer protection organisations who advise cheap index oriented products, while we are asked to provide more and more "education" to our clients. That simply doesn't work. Besides high diversification usually goes along with low transparency and ESG data quality (e.g. contradicting ESG-ratings from different providers)

We encourage our clients to focus on how broad their general preferences are addressed in OGAW/AIF investment products and how strict exclusion criteria are applied. Balancing different investment criteria (sustainability profile, risk-return-ratio, liquidity, tax issues) are at the core of customer's needs, rather than fulfilling certain UN or EU sustainability goals.

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