Dutch Banking Association

CONSULTATION RESPONSE

Dutch Banking Association consultation response to ESMA's call for evidence on the integration of sustainability preferences in the suitability assessment and product governance arrangements

Date: 14 September 2023

Introduction

The NVB welcomes the opportunity to provide feedback to the call for evidence (CfE) of the European Securities and Markets Authority (ESMA) on the integration of sustainability preferences in the suitability assessment and product governance arrangements. The answers were provided by 5 Dutch banks.

Answers to the questions

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?**

The standard questionnaire is used by 4 of 5 banks; 1 bank has tailored the questionnaire to make complex definitions more understandable.

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)?**

Retail investors struggle with the complexity of rules and lack of industry standardization. Investors find questions too complex and too extensive to understand. A definition of sustainable investments is lacking.

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.

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?

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?)

40 % of the clients are positive and 20% of the clients negative with regard to the new questionnaires.

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)

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.

Clients most often opt for the UN Sustainable Development Goals (SDG) alignment and revenues from sustainable activities. Some clients consider Principal Adverse Impact (PAI) indicators.

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?

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

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?

4 of 5 banks provide standardized profiles to their clients and do not offer taxonomy products to their clients. Some banks intend to do so. 1 bank offers taxonomy products and clients can choose their own funds.

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)?

N/A

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

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

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

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.

Data not available

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?

Data not available

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?).**

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

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.

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

Banks encounter in the application of requirements at portfolio level the following issues:

- a lack of legal precision in regulatory definitions,
- different approaches of external providers
- ensuring consistency across products
- adjusting to changes in guidance, sourcing and managing data.

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?

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?**

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

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

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?

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

4 of 5 banks apply mapping to particular products or selection of funds and offer standardized profiles.

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?

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

The 5 banks are making use of ESG rating/scoring systems for products mapping in terms of sustainability. 3 banks use only in-house ratings. 1 bank uses a combination of inhouse ratings and ratings of external providers and 1 bank only use ratings of external providers.

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

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.

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?

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.

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).

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.

In general, it is noted that client demand for financial instruments has greatly increased from 2021 to 2022 because there is a client expectation of more ESG products with the new rules in place.

3 of 5 banks see no increased demand by clients of financial instruments with sustainability features. 2 of 5 banks % do see an increase in demand.

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)?

95-100% of products promoted by 4 of 5 banks have sustainability features. for 4 of 5 providers. 1 bank did not provide data.

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?

1 bank uses all PAI indicators and 4 banks use a range of PAI indicators, such as: Hazardous waste ratio, emissions to water, GHG intensity, biodiversity measures, processes to monitor compliance with OECD guidelines, unadjusted pay gap, violations of UN Global Compact's 10 principles for business.

3 of 5 banks have a single data provider. 2 banks default to a preferred data provider.

Contact information

Franciska Pouw
Adviseur Financiële Markten
E pouw@nvb.nl
I www.nvb.nl