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FECIF's response to ESMA's Call for evidence on the integration of sustainability preferences in the suitability assessment and product governance arrangements

With this document, the ***European Federation of Financial Advisers and Financial Intermediaries (FECIF)*** aims to present its comments on ESMA's paper on the integration of sustainability preferences in the suitability assessment and product governance arrangements, and in particular on the specific questions summarised in Annex 1.

Sustainable finance and financial education

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 did these trainings consist of? Was any test or exam put in place?**

Firms have taken several actions to take into account the new requirements related to sustainability preferences, such as ESG questionnaires for clients, educational activities on sustainability, tailored training for personnel and so on. However, to date the situation differs among EU Member States.

For example, in Italy, intermediaries have provided client-facing financial advisors with specific training on sustainability topics, with both internal courses and external courses organized by qualified entities. The managers of non-client-facing staff also received training. Training requirements are obviously tighter for listed companies that also have certification and reporting requirements. Generally, courses consist of face-to-face and online classes, and they prepare the advisor for a final exam to certify the acquired knowledge, by means of a certificate upon passing the examination.

In Cyprus, although this is not mandatory, firms are seeking to spend a minimum of 5 hours of Continuing Professional Development annually on ESG related topics and to encourage advisers and compliance to take the CISI Certificate on sustainability investments, where a test is also involved. In Belgium, the training on sustainability topics is not yet mandatory, although most firms already provide training to employees.

- **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?**

We have not noticed any conflict of interest.

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)?**

To date, even financial advisors have problems with the definitions, because they are very abstract, and advisors have difficulties in explaining their specific aspects to clients. At the same time, it appears that many clients do not wish to consider sustainability options if that may impact their potential returns. Therefore, we find that it is necessary to explain to savers the concept of financial planning, taking into account also the sustainability preferences, and the link between risk and return that is present in every investment, regardless of sustainability. It is surely quite complex to explain to customers the definitions of sustainability preferences and principal adverse impact as laid down in the rules. We notice that, in general, the topic of governance is often neglected, yet it has a strong impact on sustainability, and it is also at the base of all the aspects related to environment and social topics.

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.

FECIF is committed to sustainability and to helping financial advisors and their clients to understand their carbon footprints. FECIF partnered with Billion-Air in order to provide tools to help advisors and their clients, such as carbon calculators for individuals and businesses. Furthermore, the cooperation provided templates for seminars and guides on emissions, which in turn were meant to enable advisors to talk to businesses regarding ESG matters, how to reduce their CO2 footprint, and how to help clients and businesses to use carbon offsets to become carbon neutral. It also helped providing multi-faceted ESG factsheets to allow advisors to look at sustainability, CO2 emissions, PAI and so on from a complete perspective, and to encourage community events led by advisors to support local ESG or CO2 initiatives. To date, FECIF itself, several of our national associations, and various member firms have utilised the tools, followed the recommended steps, and became carbon neutral. In this manner, FECIF has taken a stance on the environment and will encourage existing and new clients of its members to take action and to realign their investments to greener funds.

In addition to this important example, we would like to highlight a notable initiative by *Associazione nazionale consulenti finanziari* (ANASF), the Italian association of financial advisors. In November 2020, ANASF launched the first preparation course for the "EFPA ESG Advisor" certification in the field of sustainable finance and sustainable investments, carried out by SDA Bocconi School of Management, which takes place on a distance learning platform with eight modules by SDA Bocconi teachers, has a duration of 24 hours and is accredited by EFPA Italia for the annual updating of certifications. The course allows participants to acquire knowledge and skills that are useful both to develop personal sensitivities and to provide a financial advisory service that is the most updated and complete. In addition, it prepares for the EFPA ESG Advisor certification exam, organized by EFPA Italia, to which participants can register after obtaining the certificate of participation. To date, as a result of the course, more than 3,000 financial advisors have already obtained the EFPA ESG Advisor certification.

The EFPA ESG Advisor certification offers a complete view of the ESG topic and is aimed at all professionals interested in acquiring solid knowledge in the environmental, social and governance fields, increasingly necessary and useful for financial advisory and planning. After the exam, an updating is envisaged, which will begin from the calendar year following the obtaining of the certification.

Since 2011, ANASF has also started a collaboration with the *Forum per la Finanza Sostenibile*, a non-profit association that aims to promote the integration of ESG factors within financial products and services, as well as to inform and raise awareness among citizens on sustainable issues through multiple initiatives. There are numerous training initiatives carried out by ANASF for financial advisors and savers over the years on issues related to sustainability. The next event organized by the Forum, in which ANASF will also participate, will be *Settimane SRI*, the main event in Italy dedicated to Sustainable and Responsible Investment, now in its twelfth edition. *Settimane SRI* will be held from 14 to 28 November 2023, both face-to-face and online. Conferences and seminars will explore leading issues in the field of sustainable finance, also with the presentation of research and publications.

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**

The principal way through which financial advisors provide information to customers is direct meetings, especially when the suitability assessment is performed, or through digital documents. Through the direct relationship with the customer, the advisor has the opportunity to solve the doubts of the customer and to provide him/her with the financial education necessary to make his/her own investment choices.

In your opinion, are these approaches effective? Please provide details.

We believe that the option of disclosure to savers through brochures and printed material goes against the aims of sustainability. In addition, although many firms already have brochures, the advisors have difficulties in effectively explaining the aspects of sustainable finance.

Are retail clients satisfied with the quality of information provided?

The answer appears to be closely related to the individual situation of the clients and the markets they invest in. The levels of satisfaction reported largely vary across FECIF members.

Sustainability preferences

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?)

Clients show diverse reactions to the questionnaire, most likely linked to the varying interest they show in sustainability. It is likely that their interest in sustainability depends on their investment culture, personal circumstances and interests, and specificities of the reference markets. We noticed that they definitely need guidance to answer the questions of the new questionnaires, although these are self-explanatory and invite learning of the topics. At the same time, sustainability topics increase the administrative burden that exists when investing, and it is challenging to keep the client's focus on the whole process. Certainly, the level of training of the financial advisor makes a difference in conveying the explanation of the Environmental, Social and Governance factors.

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)

These are general questions that need to introduce the topic and are not characterized by technicalities.

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.

In a narrative phase of the relationship with the customer there is no division of information by definitions, as required by law. The customers struggle to base their sustainability preferences on such technical and specific definitions.

In a survey carried out last May among its associates, ANASF*'s Study and Research Centre* found out that the percentage of the portfolio represented by sustainable products is growing, with 59% of financial advisors declaring an ESG portfolio of at least 11% of the total. In particular, the percentage of advisors who have more than 20% of Sustainable/ESG products in their portfolio grows with the age of the professionals (starting from 8% for financial advisors under 30 years of age up to about 30% for professionals aged 70 or more).

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?

Companies collect information on customer preferences through the questionnaire used for the suitability assessment, that also allows them to specify the minimum percentage of the portfolio that they intend to invest in ESG products. Standardized minimum proportions generally start from 20/25% depending on the company.

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

It varies across the EU. On average, we find that it lies around 20% to 25%, often up to 30%.

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?

It appears that firms are able to meet the sustainability preferences expressed by clients, but this can only happen after much work and research. The Taxonomy Regulation is not yet complete, and it is difficult to create products based on this Regulation. Many of the products available pursuant to Article 9 of the SFDR Regulation have been downgraded in recent months to products pursuant to Article 8 of the same Regulation.

Asset managers have been working to implement the SFDR's Regulatory Technical Standards, which came into force in January 2023 and require managers to disclose more information about their funds' ESG approaches, sustainability risks and impact, in pre-contractual documents and periodic reports.

In view of this update and the regulatory clarification that funds self-declaring themselves as "Article 9 funds" can only have sustainable investments, many managers have revised the classification of their funds and downgraded dark green products to light green. Therefore, the offer for customers is not defined as well as required by the rules.

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)?

It was almost never necessary. The practice followed by financial advisors is to wait for the natural expiry of each client's MiFID suitability profile to propose the new questions about sustainability preferences.

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

We are not aware of any such operating agreements. Each intermediary has its own internal policies. In some cases, the adaptation of sustainability preferences takes place typically through annual review meetings.

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

As indicated in the answer to Q11, customers are informed about the possibility of adapting their sustainability preferences when the MiFID profile is updated.

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

No, there are no limits.

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?

The data available to us is not significant. An assessment will be possible only after a few years from the implementation of the rules, considering that the application date is recent (2 August 2022).

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?**

The information shared by our members shows that the figure is low, possibly only 5% at this early stage. Financial advisors have chosen as a practice to collect existing clients' individual sustainability preferences at the next periodic update of the customers' MiFID profile, and firms are updating questionnaires as they expire. This consultation should be proposed again in two/three years' time in order to collect meaningful data.

- **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?).**

Assessment of suitability

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

The practical examples proposed are clear. Between the two, we prefer the portfolio approach. The profiling questionnaire used with customers simply refers to proportions of sustainable investments across the entire portfolio, and examples with this depth are not used. They are therefore not usable at the moment.

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.

No, as stated in the previous answer.

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

To date, there is a lack of certainty in the rules. Therefore, the legislation should not change continuously over time, otherwise it risks putting both producers and distributors in a difficult (if not impossible) position. If the updates are too frequent, the financial advisor, who has direct contact with the customer, often has the burden of reporting to the clients that it is necessary to change the allocation of their portfolio following the changes in the rules. In addition, there is often a need to find suitable funds that meet the clients' preferences.

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?

Customers do not have the necessary skills and knowledge to express a preference on PAI, including those already provided for by the SFDR Regulation.

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?**

Before proceeding with similar considerations, we find that it is necessary to invest in financial education, for example with targeted initiatives, advertising, and so on. At this stage, customers do not have the degree of knowledge required by the application of these rules.

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?

This case is not possible in all EU Member States. In Italy, for example, one cannot have as a customer a group of natural persons without a designated representative, and it is a legal obligation to identify a reference subject, especially when it comes to anti-money laundering aspects.

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

Some financial advisors use a fund selector that also allows ESG characteristics to be screened, e.g. when looking for a fund *ex* Article 8 SFDR.

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?

As mentioned in the previous answer, a fund selector is often used. The characteristics of the instruments are generally declared, so one should be aware of the compatibility with the preferences expressed by the customer. The minimum proportion as mentioned above is about 20-25%.

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

Yes. There are different types of ratings, for example: Climetrics (CDP – formerly Carbon Disclosure Project), ECPI, Morningstar, MSCI, S&P Global Ratings. All these rating agencies have different methodologies, and this makes the comparison difficult.

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

The manufacturer is obliged to transmit the necessary information to the distributors who use and reprocess them.

Product governance and sustainability

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.

Yes, they take a single approach for all products.

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?

They use official data provided by the manufacturing companies (e.g. balance sheet data, bond issuance).

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.

They use official data provided by manufacturers.

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).

No, sustainability goals are not considered in the negative assessment of the target market.

Other

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.

As stated in answer 7, in a survey carried out last May among its members, ANASF*'s Study and Research Centre* found that the percentage of the portfolio represented by sustainable products is growing, with 59% of financial advisors declaring an ESG component of at least 11% of the portfolio. In addition, the percentage of advisors who have more than 20% of sustainable/ESG products in their portfolio grows with the age of the professionals, starting at 8% for financial advisors under 30 years of age, up to about 30% for professionals aged 70 y.o. or older.

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)?

The offer is sufficient. We cannot provide an answer to the first question, as the range of products that can be placed is too wide.

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 do not know it to a detailed extent. Sensitivity and attention on these issues among customers are increasingly important and present. The problems related to availability and quality of data also depend on the taxonomy: without a sound and certain taxonomy, any data is aleatory. At the same time, firms are obliged to spend a lot of time and effort on research. In brief, the final outcome depending on all these issues is still to be fully understood.

About FECIF

FECIF is the European Federation of Financial Advisers and Financial Intermediaries. Chartered in June 1999, FECIF represents 450,000 European financial intermediaries through 24 national trade associations, operating across all EU member states, plus the UK and Switzerland. As such, it is the only European body representing European financial advisers and intermediaries. It works actively for the support and promotion of the role of financial advisers and intermediaries in Europe.