Call for evidence

On the integration of sustainability preferences in the suitability assessment and product governance arrangements

response from Febelfin, Boulevard du Roi Albert II, 19 (2nd floor), 1210 Brussels

Publication of responses

All contributions received will be published following the close of the consultation, unless you request otherwise. Please clearly and prominently indicate in your submission any part you do not wish to be publicly disclosed.

A standard confidentiality statement in an email message will not be treated as a request for non-disclosure. A confidential response may be requested from us in accordance with ESMA's rules on access to documents. We may consult you if we
receive such a request. Any decision we make not to disclose the response is reviewable by ESMA's Board of Appeal and the European Ombudsman.

Q1: What actions did firms implement within their organization 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?

(Mandatory) trainings have been made available for the staff of the banks. These trainings talked about the context of the legislation, the general principles and the impact on the advice process towards the clients.

Q1 (second part)
• 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 identified the following possible conflicts of interest:

I. <u>The (temporary) unavailability of sufficient sustainable financial instruments refrains customers from expressing (specific) sustainability preferences.</u>

The limited product availability could lead to conflicts with other MiFiD requirements or the blocking of suitable advice. This limited and unstable ESG offering is due to :

- most manufacturers struggle with the clear labelling of ESG and sustainability features for their products, the sustainable product offering for customers with a more defensive profile was (and still is) limited. Hence, for example, due to uncertainty on methodology:
    (a) some asset managers had a very conservative approach and underestimated the sustainability features of their funds, on the other hand
    (b) other asset managers were forced to 'downgrade' their Financial Products under SFDR (**Financial Products**), resulting in
        (i) a further decrease of 'green' products and
        (ii) potential rebalancing in case of portfolio advice/portfolio management
- the continuing uncertainty on methodology with regard to financial instruments that are not Financial Products has further narrowed down the available ESG offer
- the risk of unintentional green washing increases the hesitance to include third party funds (not sufficient information, information too complex etc..)
- unavailability of reliable ESG/Taxonomy data has a negative impact~~.~~

a) The limited availability of sustainable products is even more an issue in case of (i) portfolio management and (ii) advice with a portfolio approach/ongoing suitability. Contrary to ad hoc advice in a face-to-face situation, financial institutions do not (always) have the possibility to enter into live discussions with clients when it comes to a specific transaction. To be able to continue offering the services of (individualized) (i) portfolio management and (ii) ongoing suitability (including sustainability preferences), a pragmatic solution is required for clients with ambitious sustainability preferences. The initial sustainability preferences might need to be revised at contract level so they are based on what is currently available in the market or it should be clear to and accepted by the client that his or her initial sustainability preferences are not feasible taking into account the market as well as his/her profile according to the traditional MiFID test and therefore “less” sustainable financial instruments might be advised

b) it should be transparent to the client that it might be possible that, since sustainability preferences only come into play as an add-on following the ‘traditional’ suitability test, the sale or the purchase of a financial instrument could have been recommended if not forthe client’s sustainability preferences (e.g. for reasons of need for cash, geographical spread etc.).

These measures were put in place:

- follow-up on the product developments, product offerings and technical readiness
- provide sufficient documentation for all client facing staff.

II. <u>We did also identify another specific potential conflict of interest related to sustainability when reviewing annually the register of potential conflict of interest</u>:

‘*The launch/sale of a product who is identified as more sustainable it is to increase our benefits and show how sustainable the bank is towards its customers*’.

For reference, internally Belgian banks ensure that the sustainability characteristics of each product are:

- defined according to a documented ruleset;
- coded into the advisory tools, to the extent that they cannot be recommended to clients without matching sustainability preferences.

Hence, banks mitigate the risk of their product governance overestimating the sustainability of a product, or their advisors exaggerating the sustainability towards the clients.

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)?

<u>On the understanding of ‘sustainability preferences’ and its components:</u>

An increasing part of retail investors acknowledges the growing importance of sustainability also when investing, however most retail investors also claim that the differences between used terms, principles and regulations are too difficult to comprehend. The broad use of all type of terms in other sectors than investing and in daily life adds to the confusion. (sustainable, environmental, responsible, climate neutral, environmental friendly, sustainable development goals).

First of all the classification of products can be difficult to understand:

- classification of sustainable products is based upon available data, if there are no data available (combined with the uncertainty on methodology) products are classified as products without sustainability features;
- some firms do not (yet) apply sustainability preferences to financial instruments that are not Financial Products. In such case it is difficult for a retail customer to understand that a fund can be sold as a category (b) financial instrument (*i.e.* minimum proportion invested in Sustainable Investments as defined in SFDR), whilst the individual shares are not (yet) considered meeting sustainability preferences.
- the temporary absence of these data makes it harder to concretize and to compare for retail customers
    - e.g. why is a fund that invests in shares labelled as article 8 and sold as a category b financial instrument in accordance with MiFID (minimum proportion invested in sustainable investments) whilst the individual shares might not (yet)?

If retail investors are not familiar with the new legal definitions, the difference between (a) sustainable investments and (b) environmental sustainable investments is too subtle to understand; It is difficult to explain to a client that an investment can be an investment in an economic activity that contributes to an environmental objective (cfr. SFDR) whilst at the same time it is not an environmentally sustainable investment (cfr Taxonomy).

- the requirement to obtain specific preferences which cannot be put in practice is difficult to explain

Specifically on environmentally sustainable investments/taxonomy-aligned investments, clients are frustrated that they need to answer questions in such detail only to hear afterwards that there is no offer.

Retail investors struggle to determine a minimal proportion for Sustainable Investments and Taxonomy-aligned Investments:
- no stable and mature market yet.
- difficult for retail investors to evaluate what are realistic and feasible percentages.
- the consequences and impact of the minimal proportion choice is not clear

All the more because we cannot provide aid/tools (e.g. benchmarks), because this can be experienced as influencing our customers.

Although retail customer can very much instinctively relate to PAI’s in general (most PAI themes and examples are very practical), the expectations about the preferences differ from the reality.
- expectation to positively contribute to the chosen PAI and not to limit the adverse impact on the chosen PAI.
- a real struggle for retail investors to switch during the questionnaire from a positive selection to limit adverse impact
- basically a client instinctively relates PAI to ‘thematic’ funds
- very time consuming to evaluate PAI’s in detail, with limited added value: either clients are interested in ESG products, either they are not.

The above mentioned obstacles, as a result of the complex sustainability legislation, make its elaboration almost impossible via digital applications. If we want to get more retail customers to invest and act in their interest, we must also be able to offer for example the awareness and profiling regarding sustainability through digital channels. The current legal requirements make this impossible (too complex, too far from the world of our customers, ...), causing digital customers to drop out or conveniently they do not choose their own specific preferences.

In general, there is a discrepancy between the complexity of the implementation and the obligation to inform the client in a clear, easy and comprehensive manner.

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.

- **Information from Febelfin:**

https://www.febelfin.be/nl/dossiers/hoe-herken-je-een-duurzame-belegging
https://www.febelfin.be/sites/default/files/2022-07/Leaflet_MiFID-IDD_NL%202022.pdf

- **Information from FSMA**

https://www.fsma.be/sites/default/files/media/files/2022-01/fsma_2022_04_nl.pdf

- **The Towards Sustainability Label**

The Central Labelling Agency (CLA) is a not-for-profit association incorporated under Belgian law. Its goal is to enlarge the impact and substance of sustainable saving and investing. And to substantially strengthen the qualitative approach to sustainable financial products.

Many funds that invest responsibly carry the label 'Towards Sustainability', an initiative of Febelfin. This means that the funds follow a clear sustainability strategy, exclude very harmful or activities and have a transparent policy on socially controversial practices such as the death penalty.

The Towards Sustainability label offers an important assurance for customers: all labelled products come with a minimal level of sustainability. We verify all products against a strong quality standard to ensure seriousness and depth of sustainability integration. The label constitutes a lower bound to expand upon with the client's own personal convictions, sustainability preferences and expectations

https://towardssustainability.be/

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?

Belgian banks do use different channels to provide information on sustainable finance:

- Orally (face to face or remote) during the meetings with clients
    - with comprehensive information and links to more in-depth information if requested or necessary for the clients
- Through educational brochures or other (paper) documents
- Through dedicated website

- A combination of the above

In some banks, information is available via the banking application

Despite the information available to retails investors, understanding the concepts and the impact of sustainability preferences remains difficult for retail investors and creates frustration.

Sharing information through letter/e-mail/website is very important but we think that the most important is the role of the advisors in explaining sustainability to his clients.

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?)

Some banks are performing on a regular basis in-depth customer surveys (on paper or during an interview). Some conclusions on the findings for the last 12 months :

- Increasing part of retail investors do acknowledge the importance of sustainability and responsible investments: The clients are concerned about sustainability and sustainable investments;
- On the other hand, clients have, however, difficulties to understand the detailed questions in the MiFID survey as they find it too difficult. For a retail client principal adverse impact, sustainable investments (definition SFDR) and taxonomy alignment are all new concepts.
    - Retail investors struggle to see the high-level goals of the questionnaire.
    - Retail investors are not always aware on the impact of their responses and tend to lower their preferences if more in-depth information is provided on the impact of the advice.
    - The advisors explain in a neutral way these questions to clients and the new terminology, but we see that most of the clients find it too difficult. For this reason, there is a lot of clients saying they do not have sustainability preferences or that they do not want to detail them.
- Many retail investors are fed up by the administrative burdens in general
    - They do not always feel these obligations are in their best interest and are hesitant to provide so many information.
- Some retail investors do still believe sustainability will affect the return negatively
- If themes are presented (e.g. PAI themes)
    - Retail investors tend to choose for relevant themes and show interest in these themes
    - As stated earlier they want to positively invest in these themes instead of limiting the negative impacts on these themes – cfr above, PAI are instinctively linked to thematic funds.

When questioning clients, firms need to remain neutral and unbiased and are not allowed to discuss the actual offer and the impact of the specific sustainability preferences on the final offer that can be proposed as suitable to the client (if any). This causes frustration with retail investors.

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)

It is difficult to give sector view – bank-specific. We also note that FSMA has already conducted a survey and hence a lot of (statistical) information is already in the possession of the supervisory authorities.

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.

Several banks report that many clients do not detail their sustainable preferences but if they detail them, they mainly determine the consideration of PAI's.

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?

Firstly, as already indicated above, it is still unclear how to apply sustainability preferences to financial instruments that are not SFDR products, such as shares, bonds, structured products (lack of (public) reliable ESG data, quid methodology, quid target market etc). As a consequence thereof some banks do not (yet) consider non-SFDR products as meeting sustainability preferences.

Secondly even when limited to SFDR products, there are still concerns:

- Taxonomy-aligned investments (category a) : In the broad market we see a lack of data available and if data is available it is based on estimates.
  - Therefore we cannot meet the requirements and satisfy the clients' preferences on Taxonomy
  - FSMA communicated that Belgian funds should not commit to any minimum taxonomy investments pending the official publication of reporting sub article 8 Taxonomy Regulation, making questioning on Taxonomy irrelevant.

- Sustainable Investments (as defined in SFDR) : products are available in the market, but due to uncertainty on what 'Sustainable Investments' are (methodology specific to each asset manager) funds are in the end not comparable and distributors have not sufficient insight on third-party funds (i.e. no comparable info on continuous basis that can be easily processed), which may render banks hesitant to include third party funds in their sustainable offer. It is also confusing for investors to compare products based on this criteria.

- Consideration of PAI is complicated:
  - Manufacturers tend to provide only data on mandatory PAI's
  - Data are very limited: for most investment products the detailed PAI's are not yet available or based on estimates which makes it difficult to use the detailed PAI questions
  - The EET file only indicates whether or not PAI are taken into account (Y/N). No further information, certainly not on "how".

We also like to stress out that other MiFiD requirements also have an impact on the availability of financial instruments (e.g. risk appetite and ability to bear losses):

- fewer financial instruments available at this moment for the careful retail investor with more defensive and reticent preferences
- the combination of sustainability preferences while maintaining a healthy asset location and risk diversification makes it challenging to provide appropriate and suitable advice

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 is difficult to give sector view – bank-specific.

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

It is difficult to give sector view – bank-specific.

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

Depending on the bank and the service concerned, information is provided, orally, by digital triggers or by letter.

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

No, a client has the right to adapt its sustainability preferences at all time.

A distinction needs to be made between (a) ad hoc advice on the one hand and (b) portfolio management and portfolio advice with ongoing suitability on the other hand.
In case of **ad hoc advice** a client may adapt its sustainability preferences during the investment advice process. This being said, clients should not be required to adapt their sustainability preferences endlessly until there is finally a suitable financial instrument (that also meets the client's revised sustainability preferences). In line with the ESMA guidelines, (some) banks make use of the possibility to discuss their ESG-related offer once the client has objectively determined his or her sustainability preferences, no suitable financial instruments can be proposed and the client has expressed his willingness to adapt his or her sustainability preferences (cfr. supporting guidelines 83)

The view of some banks in Belgium is as follows: In case of portfolio management or portfolio advice (with ongoing suitability), once a client has been inquired on his or her investment objectives as well as his/her sustainability preferences, bank and client will need to agree on feasible sustainability preferences, taking into account the ESG market and the client's 'classic' MiFID profile and whereby it is understood that sometimes a transaction might be proposed for reasons of diversification that has an adverse impact on his or her sustainability preferences. In any event, in case of portfolio advice (with ongoing suitability), especially when the initial "ambitious" sustainability preferences despite the a unmature market (lack of sufficient diversified sustainable offer) would be maintained, it should be possible to agree upfront with the client that less sustainable financial instruments (e.g. financial products that not meet the clients minimum proportion of taxonomy-aligned investments) might be proposed, without the need for a specific (prior) approval of the client at the occasion of each separate transaction. It should suffice to be transparent in the suitability statement. If not, portfolio advice with ongoing suitability, especially in a digital environment (where there are not necessarily face-to-face discussions with the client) would become impossible, except for clients that have no sustainability preferences or have set those at a lower level, which would go against the aim of the European action plan on sustainable finance.

But some other banks acts differently and do not always adapt the client preferences but keep the preferences of the client and ask to confirm the concerned transaction by the client when it deviates from their preferences.

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.

/

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?

/

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?).

It is difficult to give sector view – bank-specific.

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

There are different approaches in the market amongst one of them being ' *We apply sustainability preferences on the whole portfolio.*

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.

Both approaches exist on the Belgian market and can depend on the specific service.

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

In a product advice environment (retail) the described suitability assessment seems clear and obvious at the level of every single instrument recommend to the client.

On portfolio level retail investors often have a wide range of financial instruments (including bonds, shares, options, funds, third party funds etc…). At portfolio level we encountered amongst others these issues:

- the negative impact of all sell advices for customers
    - e.g. as customers want to make cash available and there are no non-sustainable instruments available or the cost to sell them is higher, it will negatively influence the sustainability grade of the portfolio.
    - or in case it is advisable to sell a certain sustainable financial instrument, but there are not immediately opportunities that meet the client's sustainability preferences. In both cases, based on the traditional MiFID test, the sell-advice is suitable for the client, although due to his/her sustainability preferences the portfolio might no longer meet a client's sustainability preferences. This situation has not explicitly been dealt with in the ESMA guidelines. Acting otherwise would however infringe the bank's advisory duties
- conflicts between MiFiD checks on sustainable preferences and other MiFiD checks
    - other MiFiD requirements also have an impact on the availability of financial instruments (e.g. risk appetite and ability to bear losses)
    - the combination of sustainability preferences while maintaining a healthy asset location and risk diversification (e.g. geographical spread, currency risk, but also the risk of a concentration in certain sustainable investments (whether or not taxonomy-aligned..) make it challenging to provide appropriate and suitable advice whilst still meeting at all times a client's sustainability preferences. It should therefore be possible to agree upon a healthy asset allocation, risk diversification and feasible sustainability preferences.
    - The situation is even more complicated when in a service it is opted to assess the sustainability preferences at instrument-level and the client has – taken into account the market and the client's 'classic' MiFID profile – set his or her sustainability preferences (including at instrument-level) too ambitious. In such case there are basically two approaches:
        - (a) the client agrees to lower down his/her sustainability preferences (taking into account the afore mentioned constraints), thus limiting the need to deviate at transaction level), and/or
        - (b) the initial ambitious sustainability preferences are maintained but the client accepts upfront a deviation/adaptation at the level of the individual transactions (deviations/adaptations which could", in case of very ambitious (taking into account today's market "too ambitious") sustainability preferences be, more 'systematic).

        Especially in case of an ongoing relationship (ongoing suitability) an upfront solution is important. It is unrealistic and not client friendly to ask a client for each advice a separate explicit adaptation of his or her sustainability preferences. Transparency in the suitability statement should suffice. If not, the service of portfolio advice (with ongoing suitability) – especially in case a digital environment where there are not necessarily face-to-face discussions with clients would only be available to client s with no or limited sustainability preferences, which would go against the goals of the EU's sustainable finance action plan.

- The introduction of a waiver upon specific request by customers (with regard to a specific transaction) (e.g. client does not follow advice and holds on to investment not meeting his or her sustainability preferences, or client wants to buy financial instruments that do not meet his or her sustainability preferences resulting in a portfolio that does not meet a client's sustainability preferences) gives rise to difficulties, possible options (not exhaustive) :
    - Option 1: specific labelling of these instruments and keep them outside the sustainability checks => technically challenging (hence keeping such instruments in the portfolio for 'traditional' suitability assessment (without taking into account sustainability preferences), but not include them in the denominator to determine the sustainability of the portfolio)
    - Option 2: overrule the suitability assessment on suitability preferences once during the advice but then it would impact the periodic assessment, triggering subsequent remedial proposals (with the same issues as listed above)
- the alignment of the sustainability checks in periodic assessments (reports, checks) and remedial proposals to which extent sustainability preferences can be taken into account to argue the cost/benefit analysis of a switch?
- Inquiring clients on, reporting and visualization of all possible sustainability preferences in a for clients understandable way.

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?

Banks do refer to the PAI indicators or families of PAI as listed in Annex I of the SFDR Delegation 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?

No, clients cannot determine qualitative elements in order to demonstrate the consideration of PAI's.

- data on PAI's from manufactures are now available as a check box (Y/N) (with the referral to extensive info in other documents)
- evaluation of qualitative elements is very difficult to organize and probably will adapt in time. A distributor cannot anticipate all potential qualitative elements that are and will be taken into account by the asset managers and inquire clients about those.

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

Although retail customer can very much instinctively relate to PAI's in general (most PAI themes and examples are very practical), the expectations about the preferences differ from the reality.

- expectation to positively contribute to the chosen PAI and not to limit the adverse impact on the chosen PAI
- a real struggle for retail investors to switch during the questionnaire from a positive selection to limit adverse impact
- very time consuming for staff and retail investor to evaluate PAI's in detail with ultimately little impact on client's sustainability preferences (often a client does not want to limit in advance his or her choice to very specific PAI). As already explained above, retail investors tend to link instinctively PAI to thematic funds, which is not (necessarily) the same.

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

In case a client expresses preferences 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, some banks (sometimes also depending on the service) interpret these options as alternative.

But other banks consider that if a client expresses more than one detailed preference, they should take them all into account for the sustainability assessment.

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?

(Some) banks have the sustainability preferences agreed by the group of natural persons.

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

Each investment instrument has attributed labels in a central database

- in general: article 6, article 8 , (article 8+), article 9
- for sustainable investments as defined in SFDR (**SI**)
    - proportion of SI %
- for EU taxonomy aligned investments:
    - proportion of EU-Taxonomy %
- for PAI's
    - tick box Y/N for PAI's

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 long as there are/were no reliable and sufficient taxonomy data, banks consider shares, bonds, certificates as non-environmentally sustainable investments (category a sub MiFID)

If a financial instrument is outside the scope of SFDR some banks will adjust the label towards 0% even for category b (Sustainable investments as defined in SFDR). Other banks decide to remain coherent with their (in-house/main) asset manager and will apply its methodology.

Specifically with regard to cash :

- when assessing a client’s portfolio, some banks will include cash in the denominator, others will not
- in any event, whether or not a client has expressed sustainability preferences, banks agree it is always possible (to advise) to sell, even if by doing so a client’s sustainability preferences at portfolio level would no longer be met.

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

/

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

Not applicable.

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.

It is difficult to give sector view – bank-specific.

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?

It is difficult to give sector view – bank-specific.

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.

It is difficult to give sector view – bank-specific.

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).

It is difficult to give sector view – bank-specific.

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.

Currently banks do not see in the figures an increased demand by clients on financial instruments with sustainability features.

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)?

It is difficult to give sector view – bank-specific.

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 have faced or are facing these issues on data availability and data quality:

- uncertainty on some SFDR data as local regulators interpreted the ESMA guidelines differently (proportion ➔ impact of cash (in or out) , impact of government bonds)
- unavailability of EU-taxonomy data (only estimates)
- data unavailability on PAI's
- Asset managers are being defensive and take very low commitments to then report very high actuals with the effect that less products are available for clients and forces the review of preferences

We urge for a standardization on data and on how to make this data available in Europe and abroad.

We are quite precautious:

- if no data is available we label the financial instruments as not sustainable
- if no reliable data is available (e.g. Taxonomy data) we also label the instruments as not sustainable

In addition, for non-SFDR financial instruments, we lack documentation substantiating a financial instrument's sustainability features that can be handed over the client.