



**SUSTAINABLE
BANKING COALITION**

Sustainable Banking Coalition response: ESMA call for evidence on retail investor journey

July 2025

I. Integration of sustainability preferences

Q32: How do retail investors perceive the integration of sustainability preferences in suitability assessments? How has it impacted the investment advice/portfolio management services they receive? Please explain and provide practical examples, or evidence drawn from experience, where available.

Q34: For firms and trade associations: Have firms observed cases where clients struggle to express their sustainability preferences in a meaningful way? How have these issues been addressed to help retail investors? Please explain and provide practical examples, or evidence drawn from experience, where available.

Answer to questions 32 & 34:

One of the most significant challenges in the implementation of sustainability preferences under MiFID II is the lack of consistency and interoperability with the Sustainable Finance Disclosure Regulation (SFDR). While both regulations aim to support the transition to a more sustainable financial system, they are not aligned in design or scope. SFDR applies to financial products and imposes disclosure obligations on manufacturers, whereas MiFID II governs client-facing processes and requires advisors to incorporate clients' sustainability preferences into the suitability assessment. However, there is currently no reliable mapping between the SFDR product categories (Article 8 and 9) and the three categories of sustainability preferences defined in MiFID II: taxonomy-aligned investments, SFDR-defined "sustainable investments," and financial products that consider Principal Adverse Impacts (PAIs).

This regulatory misalignment creates a structural disconnect: clients are asked to express preferences using MiFID II categories, but the investment products available to them are classified using a different system. As a result, advisors cannot reliably match preferences to products, even when both sides are acting in good faith. This leads to significant operational and legal uncertainty for firms, and confusion or mistrust for clients, particularly when a product presented as "sustainable" fails to align with the investor's stated expectations. Without a coherent bridge between the two frameworks, the risk of mis-selling, regulatory scrutiny, and greenwashing perceptions increases.

These challenges are amplified by the low level of sustainability literacy among retail investors. Many clients are unfamiliar with the technical terms used in suitability assessments, such as "taxonomy-aligned" or "PAI consideration," and find it difficult to relate these concepts to their actual values or investment goals. Meanwhile, SFDR categories like Article 8 and 9 are not sufficiently well-defined to



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serve as a reliable reference point. This makes it harder for advisors to guide clients meaningfully, and harder for clients to make informed, value-aligned choices.

From the advisor's perspective, without clear, standardised definitions that link client preferences to product features, even diligent advisors risk recommending products that do not align with what clients actually intended. This exposes firms to mis-selling claims and undermines trust in the advisory process, particularly in a context where expectations around sustainability are high but definitions remain fluid.

The upcoming SFDR review offers a critical opportunity to resolve these issues. Introducing harmonised product categories with clear names, definitions, and thresholds, aligned with MiFID II sustainability preferences, would create a shared language for clients, advisors, and manufacturers. This would not only simplify the advice process but also ensure that sustainability preferences are understood, respected, and meaningfully reflected in investment decisions.

II. Enhancing practical implementation in the advice process

Q31: Are there any steps in the information collection process that could be simplified without compromising investor protection and the objective of this collection which is to propose suitable investments matching client profiles? Please explain and provide practical examples, or evidence drawn from experience, where available.

Answer to question 31:

Yes, several aspects of the current information collection process for sustainability preferences can be significantly simplified while maintaining strong investor protection. A central issue is the disconnect between how preferences are collected under MiFID II and how products are disclosed and categorised under SFDR. Retail clients are currently asked to express preferences using technical terms such as "taxonomy alignment" or "PAI consideration," which are often unfamiliar, inconsistently applied across products, and difficult to translate into meaningful investment choices. This complexity discourages engagement and risks superficial or misunderstood responses.

A key solution lies in reviewing the SFDR framework to introduce harmonised and intuitive product categories that correspond directly to MiFID II sustainability preference types. In particular, we recommend that the following product categories to be developed in the upcoming SFDR review:

- **Sustainable investment:** For investors who want confidence that their funds are invested in businesses and projects that are already significantly sustainable with respect to their business practices **and** business segments.
- **Responsible investment:** For investors who want to ensure their money is not fostering harmful activities but are not necessarily looking for high-impact sustainability investments.
- **Transition investment:** For investors who want to finance businesses in their transition to sustainability, with measurable science-based progress toward net-zero goals.



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Each of these categories must have clear minimum criteria, and standardized calculation methods, which the European Commission should develop through delegated acts in consultation with relevant stakeholders, including investors, asset managers, financial institutions and Civil Society Organisations. Such a structure would provide a shared vocabulary and set of expectations across the industry, making it easier for clients to express their values and for advisors to guide them appropriately.

Advisor training is another critical component. Many advisors still lack the understanding and confidence to explain sustainability preferences in clear, client-friendly terms. Targeted training, combined with simplified and standardised client materials, can greatly improve the quality of advice and ensure that sustainability preferences are captured accurately.

Finally, we recommend the development and adoption of standardised, EU-wide sustainability preference questionnaires. These should follow a layered approach, beginning with simple, high-level questions and introducing more detailed options only if the client expresses interest. Embedding these questionnaires into digital advisory workflows would improve consistency and support long-term preference tracking. It is equally important to ensure these conversations are systematically documented and logged to demonstrate that sustainability preferences were actively discussed and not bypassed during the suitability assessment process.

Taken together, these measures would reduce complexity, increase clarity, and strengthen the overall integrity of the advisory process, without compromising the regulatory objective of protecting retail investors.

III. Additional questions:

Q2a: To what extent do retail investors find investment products too complex or difficult to understand? Please select one of the following options and please explain and provide practical examples, or evidence drawn from experience, where available.

Answer to Q2a:

• A major barrier to investment
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- A moderate concern, but not the main factor
- A minor issue compared to other factors
- Not a concern at all

We consider product complexity to be a major barrier to investment, particularly in the area of sustainable finance. Many retail clients are discouraged by a lack of transparency, inconsistent labelling, and the use of technical or ambiguous language. This is especially true for sustainable



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investments, where terms and metrics differ across SFDR, MiFID II, and PRIIPs, making it difficult for clients to understand how products align with their values.

To address this, the SFDR review should be used as the starting point to create simpler, more intuitive product categories, with clear definitions and minimum thresholds. Once these revised categories are in place, they should serve as the common foundation for updating MiFID II suitability assessments and PRIIPs Key Information Document disclosures. The PRIIPs KID is often the only pre-contractual document that retail investors read before making an investment decision, making it a critical touchpoint for clear and consistent sustainability information.

In particular, the PRIIPs KID should be revised to include clear, harmonised sustainability content, using the same terminology as SFDR and MiFID II, and presented in a more visual, accessible format, such as icons or summary labels. Aligning these frameworks around a single, coherent classification system would significantly improve the investor experience and support informed, confident participation in sustainable investing.

Q41: Does the current regulatory framework strike the right balance between protecting retail investors and allowing them to take informed investment risks? Please explain and provide practical examples, or evidence drawn from experience, where available.

Q42: Are there any aspects of the retail investor experience – whether related to firm practices or the regulatory framework – that are not sufficiently addressed in this consultation or in the current MiFID II rules? If so, please explain where changes in rules, or further supervisory attention or guidance may be helpful.

Answer to questions 41 and 42

At present, the regulatory framework does not strike the right balance between protecting retail investors and enabling informed, value-aligned investment choices. The core issue is the lack of harmonisation across key regulations, namely SFDR, MiFID II, and PRIIPs. Diverging definitions, inconsistent product classifications, and varied implementation practices across these frameworks create confusion for clients and operational uncertainty for financial institutions.

This fragmentation undermines the effective integration of sustainability preferences. Without a coherent and aligned framework, there is a real risk that consumers' choices regarding sustainability are not properly captured, respected, or reflected in the products recommended to them. This not only weakens investor confidence but also exposes firms to potential mis-selling risks, even when acting in good faith.

As outlined in our previous responses, we recommend a more unified regulatory approach, starting with the review of the SFDR. Clear, standardised product categories, with defined thresholds and terminology, should serve as a foundation for aligning MiFID II suitability processes and PRIIPs disclosures. Such harmonisation would reduce complexity, improve comparability, and make the



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sustainable finance framework easier to understand and explain to retail clients, ultimately strengthening both investor protection and empowerment.