Sustainable Finance Initiative - MiFID II suitability requirements

Demanding the inclusion of ESG considerations in the provision of investment advice, represents an important step in the sustainable finance equation. If well defined, the recommended delegated acts amendments can truly unlock the growth potential of sustainable finance. But, in order to maximise the chances to succeed in this mission, there is a need for more clarity around the language used and the meaning of 'ESG considerations[1]', and 'ESG preferences[2]' and how these are linked to the ultimate investors' goal and impact. What needs to be avoided at all cost, is the danger that the reference to ESG criteria remains a vague concept with no substantial links to investment returns and therefore one easy to dismiss. Particular attention also needs to be given to the way the preference towards ESG criteria is given. The specific wording 'it meets the investment objectives of the client in question, including the client's risk tolerance and any preferences, including environmental, social and governance considerations[3]' can be interpreted as **singling out** one (or more) component of ESG, instead of addressing them as one.

In the absence of clear definitions, diverging approaches by retailers could lead to increased confusion among clients and overlook solutions which would better take into account clients' objectives, including their preferences for impact products.

The integration of ESG factors into investment product design refers to the consideration of environmental, social and governance criteria as part of an investment process. In the draft, there is no further indication as to what this means nor entails in practice for the investment**. The lack of clarity in this respect translates into increased confusion for the retail investor who is not able to see how his/her ESG related preferences and concerns are actually translate in the investment choice.** In order to address this issue, there needs to be a clear reference to the wider understanding of Sustainable and Responsible Investing – SRI- the industry term used for investment strategies that incorporate ESG integration and analysis, at any level. Eurosif's definition of SRI is clear in this respect: *'SRI is a long-term oriented investment approach which integrates ESG factors in the research, analysis and selection process of securities within an investment portfolio. It combines fundamental analysis and engagement with an evaluation of ESG factors in order to better capture long term returns for investors, and to benefit society by influencing the behaviour of companies'*. SRI includes a number of investment strategies that investors can choose from to demonstrate their ESG preferences. These are: <u>exclusions of holdings from investment universe, norms-based screening, best-in-class investment selection, sustainability themed investment, ESG integration (one of the strategies per se),</u>

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[1] see suggested **Amendments Article 48 (1)**

[2] see **suggested Amendment Article 47 (3) point d**

[3] See **suggested Amendment Article 54 (a) para 2**

engagement and voting on sustainability matters and impact investing. Eurosif has devised these investment strategies to account for the SRI assets under management invested in Europe since 2003 and since then reports on their evolution every two years in its biennial SRI study. In order to truly enable investors to make a conscious choice and properly express their ESG preferences, the concept of ESG factors needs to be integrated as part of a wider discussion which includes the concept of Sustainable and Responsible Investment – SRI – as a whole. The assessment of preferences regarding ESG considerations should include questions (as part of a standardised questionnaire) about the willingness to invest in entities that do not pursue objectives in line with the investors' preferences and in line with the interest to pursue an ESG objective, by choosing a specific SRI strategy (see list above). In this respect, we await the clear inclusion of ESG factors as part of suitability assessment in line with ESMA's work.