

**BETTER FINANCE's answer to the Questionnaire on Suitability test**

**BETTER FINANCE**, the European Federation of Investors and Financial Services Users, is the dedicated representative of financial services users at European level. It counts about fifty national and international members and sub-member organizations in turn comprising about 4.5 million individual members. Our organization acts as an independent financial expertise centre to the direct benefit of the European financial services users (shareholders, other investors, savers, pension fund participants, life insurance policy holders, borrowers, etc.) and other stakeholders of the European financial services who are independent from the financial industry.

**BETTER FINANCE** is the most involved European end user and civil society organisation in the EU Authorities' financial advisory groups, with experts participating in the Securities & Markets, the Banking, the Occupational Pensions and Insurance and Reinsurance Stakeholder Groups of the European Supervisory Authorities since their inception; as well as in the European Commission's Financial Services User Group (FSUG), and in the Board of the European Financial Reporting advisory Group (EFRAG). Its national members also participate in national financial regulators and supervisors bodies when possible.

For further details please see our website: <http://betterfinance.eu/>

As you may know the High Level Group on sustainable finance strongly recommended the integration of sustainability preferences in the advisory process<sup>(1)</sup> [https://ec.europa.eu/info/publications/180131-sustainable-finance-report\\_en](https://ec.europa.eu/info/publications/180131-sustainable-finance-report_en)<sup>(1)</sup>. Therefore, the Commission is considering this recommendation as part of the action plan on sustainable finance. By providing advice, **investment firms (portfolio managers and investment advisors) and insurance distributors** can play a central role in orienting the financial system towards sustainability. The advisory process enables them to assess clients' investment objectives and risk tolerance and to recommend suitable financial instruments or insurance products. However, investment preferences as regards sustainability (environmental, social and governance issues) are often not sufficiently taken into account in the advice given. This situation does not allow current and potential clients to clearly reflect their preferences for sustainable investments in their investment portfolio.

**Glossary**

**Environmental** issues relate to the quality and functioning of the natural environment and natural systems including biodiversity loss; greenhouse gas emissions, renewable energy, energy efficiency, natural resource depletion or pollution; waste management; ozone depletion; changes in land use; ocean acidification and changes to the nitrogen and phosphorus cycles

**Social** issues relate to rights, well-being and interests of people and communities including human rights, labour standards, health and safety, relations with local communities, activities in conflict zones, health and access to medicine, consumer protection; and controversial weapons.

**Governance** issues relate to the management of investee entities. Issues include board structure, size, diversity, skills and independence; executive pay; shareholder rights; stakeholder interaction; disclosure of information; business ethics; bribery and corruption; internal controls and risk management; and, in general, issues dealing with the relationship between a company's management, its board, its shareholders and its other stakeholders.

### Questionnaire

**1. Do you ask a/several question(s) to understand Environmental, Social and Governance (ESG) preferences of your clients in the questionnaire to collect clients' information?**

- a. Yes, I ask a general question in relation to ESG preferences in the questionnaire
- b. Yes, I ask several specific questions in relation to ESG in order to clearly understand the clients' preferences as regards sustainable finance
- c. No, I don't find necessary to focus on ESG issues since I already assess the client's risk profile
- d. No, I believe that discussing ESG issues increase the complexity of the advisory work
- e. Other (please specify)

**NOT APPLICABLE: BETTER FINANCE represents individual savers and investors**

**2. If you ask a/several question(s) to understand ESG preferences of your clients in your questionnaire, in your opinion what is the level of interest of your client in considering ESG in their investment decision? (Rank 1 to 5)**

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**3. Can you explain why you have integrated a/several specific question(s) related to ESG issues into the questionnaire to collect clients' information?**

- a. You believe that this is an opportunity to explain the investment strategy in place
- b. You believe that a prominent role of ESG factors in the advisory process could be used as an element of differentiation which can be communicated to your clients
- c. You think that it improves your level of expertise on ESG factors/products
- d. You believe that it raises the awareness of clients on ESG factors/products
- e. You believe that this is your role to initiate the discussions on ESG factors/products
- f. Others (please specify)

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**4. Would you say that the clients proactively raise ESG issues during the advisory process?**

- a. No, they never proactively raise these issues
- b. A few minority of them raise these issues
- c. The majority of them raise these issues
- d. The vast majority of them raise these issues

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**5. If a majority of your clients do not raise these issues, how can you explain it?**

- a. The information on ESG products is not very transparent and/or the risk of 'greenwashing' of existing documentation is high
- b. Your clients are not interested in ESG products
- c. You presume that there is a lack of education on the impact of sustainability factors on risk and performance
- d. Other reasons (please specify)

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**6. Do you believe that the clients would need more information (e.g in the prospectus, KiD PRIIP or on your website) in order to understand the challenges (risks/returns) associated with sustainable finance?**

- a. Yes, some information should be disclosed on my website on how I take into account ESG risks in the suitability process could be a useful source of information/education for investors
- b. Yes, further ESG information on the product documentation could be a useful source of information/education for investors
- c. Yes, some information on the website on how I take into account ESG risks in the suitability process and further ESG information on the product documentation could be useful sources of information/education for investors

- d. No, I think that investors have sufficient information to take informed investment decisions

As a representative of individual savers and investors in Europe, we believe that further ESG information in the Prospectus, Summary Prospectus, in the KIID (investment funds), in the KID and in the PBS (occupational pensions) would be a useful source of information for investors since EU savers are by nature mostly long-term driven and therefore are of great need for “sustainable finance” products<sup>1</sup>.

We believe that the current framework regarding the inclusion of ESG in the Prospectus Regulation and in the KID PRIIPs regulation is however not sufficient to encourage issuers to clearly include them in those documents. Regarding the Prospectus Regulation, the inclusion of environmental, social and governance circumstances as risks factors for the issuer and its securities is only mentioned in Recital 54 of the Prospectus Regulation. Article 7 does not mention in particular ESG as risks factors.

The KID PRIIPs Regulation however, provides in its article 8 (3)(c) ii that *“its objectives and the means for achieving them, in particular whether the objectives are achieved by means of direct or indirect exposure to the underlying investment assets (...) including, where applicable, specific environmental or social objectives targeted by the product, as well as how the return is determined”*.

As such, BETTER FINANCE believes that issuers should provide more information to clients on the challenges associated with sustainable finance.

**7. Which constraints prevent you from integrating sustainability factors in the suitability assessment? Please provide the importance of the different constraints that you consider relevant (1 is not important and 5 is very important).**

- a. The lack of expertise and experience of your staff on ESG products
- b. The lack of time due to the complexity of the advisory process and/or the lack of education of the clients
- c. Your methodologies employed for the calculation of risks are not tailored to adequately take into account ESG risks
- d. This is too expensive (in this case, could you specify the type of costs and provide an estimation of these costs)
- e. You believe that your clients are not interested in ESG products
- f. Others (please specify)

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<sup>1</sup> See BETTER FINANCE Press Release

[http://betterfinance.eu/fileadmin/user\\_upload/documents/Press\\_Releases/en/Other\\_investors/PR\\_-\\_SUSTAINABLE\\_FINANCE\\_-\\_2017\\_0714\\_01.pdf](http://betterfinance.eu/fileadmin/user_upload/documents/Press_Releases/en/Other_investors/PR_-_SUSTAINABLE_FINANCE_-_2017_0714_01.pdf)

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**8. Do you consider ESG factors in your product selection (the process of assessing a range of products suitable for your clients)?**

- a. Yes, I always take into account ESG factors
- b. Yes, I take into account ESG factors when they are prominently relevant
- c. No, I don't believe it is necessary unless the product is specifically manufactured for ESG strategies
- d. No, I don't believe it is necessary (please explain why)

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**9. Do you believe that the integration of ESG consideration into the suitability assessment should be required?**

- a. No, I believe that the current requirements are clear enough
- b. Yes, I believe that the integration of ESG consideration into the suitability assessment should be clarified by non-binding guidance
- c. Yes, I believe that the integration of ESG consideration into the suitability assessment should be clearly required

YES =>