# Mifid II sustainability preferences will create ‘considerable costs’

By Amie Keeley  8 February 2022

Europe’s fund industry trade body has expressed concern over the depth and breadth of sustainability assessments that are expected to be carried out by financial advisers on their clients under proposed changes to Mifid II.

The European Fund and Asset Management Association warns that the amendments will create considerable extra work for intermediaries and increase costs, which will have an impact on the number of funds they can review and offer.

The European Securities and Markets Authority recently published a consultation with final guidelines on certain aspects of the Mifid II suitability requirements.

Firms will need to collect highly detailed information from clients on their preferences for sustainable investments and identify suitable products.

“Robust and objective procedures, methodologies and tools” should be adopted by firms to consider different characteristics of each investment product they recommend or invest in on behalf of clients, Esma says.

Information collected should be “sufficiently granular to allow for a matching of the client’s sustainability preferences with the sustainability-related features of financial instruments”.

This includes information on any “principal adverse impacts”, as outlined in the EU’s Sustainable Finance Disclosure Regulation, that clients wish to be considered.

Efama says the rules will “extend the client’s required assessment quite considerably”, with Esma requiring firms to have “quite a granular view on what they want or do not want, leading to many additional questions”.

“This will have a considerable impact on the time spent on providing advice and thus its costs,” Efama adds.

Under the proposed changes to the regulation, staff giving investment advice or information about products and services “must possess the necessary knowledge and competence required”, and will have to undergo “appropriate training” on sustainability topics.

Valentin Allard, senior consultant at Indefi, an asset management consultancy, says every adviser will need to be as up to speed on sustainability as they are on risk management and asset allocation.

But he says understanding every single product from a sustainability perspective is “extremely difficult” compared with assessing products using financial metrics.

“This will require an immense resourcing of people who are able to analyse sustainability preferences, analyse products and be able to match them up,” Mr Allard says.

He adds: “The industry is very, very far from being mature on this.”

Advisers and intermediaries will be expected to explain sustainability preferences and differences between products “in a clear manner, avoiding technical language”.

But Efama says the current guidelines do not provide the industry with any “concrete help on how to translate the complex sustainable finance legal framework into ‘easy to understand’ concepts”.

“Financial advice will become even more important. This, of course, requires them to have the proper training,” Efama says.

Mr Allard says some asset managers and distributors believe the only way for them to comply will be to reduce the number of funds they offer, while some advisers are considering moving towards a sub-advisory model, where they are “in control of the sustainability factors of the products”.

Esma’s consultation closes on April 27, with a final report due to be published in the third quarter of 2022.