

January 2021

DUFAS Position Paper on ESG Sustainability Preferences under MiFID

Summary



ESG sustainability preferences: SFDR classification

DUFAS welcomes that the European Commission refers to the SFDR for defining how sustainability preferences under MiFID II should be perceived.

We support references to the SFDR in MiFID for defining the type of financial products which meet the sustainability preferences where an investment firm provides investment advice or renders individual portfolio management services.

However, DUFAS is of the opinion that the classes of financial products defined in the SFDR are relevant for assessing the sustainability preferences under MiFID. These should be exclusive and distinct. This means that so-called article 8 SFDR products (products that promote ESG, “ESG Products”) and article 9 SFDR products (products that have sustainability as objective, “ESG Impact Products”) should be products eligible to qualify as products that suits the sustainability preferences of a client under MiFID. Defining sustainability preferences linked to financial products with sustainable investments as an objective or a minimum as underlying, as proposed by the European Commission, will substantially limit the number of products available to investors who wish to invest in sustainable products and may make the suitability test under MiFID unnecessary complex. We find this undesirable as this will actually be contra-productive with the goal of mainstreaming ESG products in EU ambition for the transition towards a sustainable economy.





Financial advisors and portfolio managers will also as a result thereof have a problem in building a well suited and diversified portfolio with sustainable products, and therefore may not be able to meet the demand of client sustainability preferences.

Guidance for financial advisors

We believe that some of guidance for financial advisors would be useful when they ask questions to retail investors seeking financial advice in connection with sustainability preferences. However, such guidance should not necessarily be too detailed. Financial advisors should be able to provide simple choices for investors, which needs to be accompanied by the provision of simple information on sustainable financial products which for a retail investor could be well understand. Key is therefore keeping it simple and not to overdo it. Having a clear classification, and a clear explanation hereof, of the various types of sustainable financial products in place would be very helpful. This can be achieved by creating buckets and having labels in place.

Sustainable financial products as default option

DUFAS believes that clients should be given the option to acquire an investment product which is or is not classified as a sustainable financial product. Although there may be merit in offering sustainable financial products as alternative for comparable products that are not sustainable, it is essential to note that it will not always be easy to compare such products in terms of costs and expected return. Hence, by offering per default a sustainable alternative financial product for a given financial instrument and arguing that these products are in terms of costs and return comparable would be difficult to guarantee towards the client.

Questions or suggestions?

A lot is happening in the field of sustainability. We are constantly adapting our positions accordingly, where necessary. For questions or suggestions, or our latest opinions on sustainability, please feel welcome to contact Randy Pattiselanno, DUFAS manager strategy & regulatory affairs, at rp@dufas.nl.