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Targeted consultation on options to enhance the suitability and appropriateness assessments

Fields marked with * are mandatory.

Introduction

Following the 2020 capital markets union (CMU) action plan, the Commission is preparing a retail investment strategy, which aims to take a holistic view of investor protection rules. One of the key objectives of the CMU is to make the EU an even safer place for individuals to save and invest long-term and to increase participation of retail investors in capital markets. To this end, the Commission is looking at possible ways to increase the level of trust that retail investors have in capital markets.

Investors should be empowered and better supported to be able to identify investments that take into account their needs, objectives and constraints. Digital innovation is expected to enable new and more efficient means for investors to understand the markets and invest in an informed manner.

In the answers received to the 2021 public consultation on the Commission's retail investment strategy for Europe, many stakeholders, on the industry and consumers side, called to simplify, improve, automate and standardise the way investors' profiles are currently assessed. Some have also expressed support for more focus on the overall investor portfolio composition rather than on individual products. Respondents also highlighted the need to adjust the different investor assessments to make them better adapted to the online environment, as well as the importance of improving data quality of the suitability and appropriateness assessments. Some also recommended anticipating the evolution of robot-assisted advice or fully automated advice. Finally, some also requested more independence in the suitability assessment process.

Taking stock of these results, the Commission's Services are currently exploring different ways to improve the suitability and appropriateness regimes to address the above-mentioned issues. The Commission' services are assessing, *inter alia*, the idea of whether and how all retail investors, and not only wealth management clients, might benefit from a new suitability assessment that could provide them with more support along their investment journey to better achieve their investment objectives and to enhance their participation in the capital markets.

By means of this targeted consultation, the Commission Services intend to complement the 2021 public consultation exploring the feasibility of a new retail investor-centric assessment to improve the current suitability and appropriateness tests. Not only might such an approach modify the current MIFID II/IDD suitability and appropriateness tests with the view to no longer differentiate among the various investment services offered to retail investors, but it might rather replace the current "per product" approach with a new element, a personalised asset allocation strategy.

The new retail client suitability rules, together with the personalised asset allocation strategy, would represent a personal investment plan intended to help retail investors achieve their defined investment objectives. Its main goal would be to provide retail investors with the best possible expected returns, taking into account their personal circumstances and risk tolerance. While the personalised asset allocation strategy would provide concrete guidance on optimal investment allocations, the investor would remain free to choose the products it wants to invest in.

The personalised asset allocation strategy could achieve this objective by setting out an investment plan that relied on an optimal diversification of various asset classes considered fit for retail investors. This could include a defined (in % terms for instance) exposure to any financial instruments and products distributed to retail investors, including but not limited to, shares, bonds, funds, structured products (including insurance based investment products). The personalised asset allocation strategy could identify, on an overall portfolio basis, the appropriate risk-return for each individual versus profile with a view to achieving the investor's investment goals. However, retail investors should ultimately remain free to take autonomous investment decisions, even where they do not align with the allocation strategy.

The retail client assessment, together with the personalised asset allocation strategy, could be provided and recorded in a structured and machine-readable format for future reference by the retail investor, financial intermediaries (with clients' consent) and competent authorities. Introducing this new approach might increase the level of intelligibility and comparability of investments with the purpose of limiting risks of mis-selling or ill-advised investments.

A key element of this new tool could be the transferability (or portability) of the client assessment (enhanced with a personalised asset allocation strategy) with any financial intermediary the client chooses, including on-line brokers and platforms which would allow investors to easily switch between or using multiple brokers/financial intermediaries. The question of the transferability of the client assessment will be specifically consulted in the context of the Commission's Open Finance framework.

Subject to the portability of a personalised asset allocation, this consultation aims to assess to what extent any subsequent intermediaries should be allowed to depart from the asset allocation and under what conditions (e.g. where there are objective reasons to justify a change, including in the case of a material change in personal circumstances of the retail investor).

Responding to this consultation and follow up

In line with the Commission's stated objective of "an economy that works for people", this targeted consultation aims to gather stakeholders' views on a possible enhancement of the current suitability and appropriateness regimes. This consultation does not prejudge any outcome nor prevent the Commission from considering alternative options.

The consultation covers the following points

A. an enhanced client assessment regime – General

B. a personalised asset allocation strategy

Responses to open questions are limited to 5000 characters (including spaces and line breaks, i.e. stricter than the MS Word characters counting method), but you can also complement your answers by uploading one or several additional document(s) in the last section of the questionnaire called "Additional information".

Please note: In order to ensure a fair and transparent consultation process **only responses received through our online questionnaire will be taken into account** and included in the report summarising the responses. Should you have a problem completing this questionnaire or if you require particular assistance, please contact fisma-suitability-assessments@ec.europa.eu.

More information on

- this consultation
- the consultation document
- retail financial services
- the protection of personal data regime for this consultation

About you

* Language of my contribution

- ( ) Bulgarian
- ( ) Croatian
- ( ) Czech
- ( ) Danish
- ( ) Dutch
- (•) English
- ( ) Estonian
- ( ) Finnish
- ( ) French
- ( ) German
- ( ) Greek
- ( ) Hungarian
- ( ) Irish
- ( ) Italian
- ( ) Latvian
- ( ) Lithuanian
- ( ) Maltese
- ( ) Polish
- ( ) Portuguese
- ( ) Romanian
- ( ) Slovak
- ( ) Slovenian
- ( ) Spanish

- ( ) Swedish

* I am giving my contribution as

- ( ) Academic/research institution
- (•) Business association
- ( ) Company/business organisation
- ( ) Consumer organisation
- ( ) EU citizen
- ( ) Environmental organisation
- ( ) Non-EU citizen
- ( ) Non-governmental organisation (NGO)
- ( ) Public authority
- ( ) Trade union
- ( ) Other

* First name

Satu

* Surname

Wennberg

* Email (this won't be published)

satu.wennberg@financefinland.fi

* Organisation name

255 character(s) maximum

Finance Finland

* Organisation size

- ( ) Micro (1 to 9 employees)
- ( ) Small (10 to 49 employees)
- (•) Medium (50 to 249 employees)
- ( ) Large (250 or more)

Transparency register number

255 character(s) maximum

Check if your organisation is on the [transparency register](). It's a voluntary database for organisations seeking to influence EU decision-making.

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* Country of origin

Please add your country of origin, or that of your organisation.

- Afghanistan
- Åland Islands
- Albania
- Algeria
- American Samoa
- Andorra
- Angola
- Anguilla
- Antarctica
- Antigua and Barbuda
- Argentina
- Armenia
- Aruba
- Australia
- Austria
- Azerbaijan
- Bahamas
- Bahrain
- Bangladesh
- Barbados
- Belarus
- Djibouti
- Dominica
- Dominican Republic
- Ecuador
- Egypt
- El Salvador
- Equatorial Guinea
- Eritrea
- Estonia
- Eswatini
- Ethiopia
- Falkland Islands
- Faroe Islands
- Fiji
- Finland (selected)
- France
- French Guiana
- French Polynesia
- French Southern and Antarctic Lands
- Gabon
- Georgia
- Libya
- Liechtenstein
- Lithuania
- Luxembourg
- Macau
- Madagascar
- Malawi
- Malaysia
- Maldives
- Mali
- Malta
- Marshall Islands
- Martinique
- Mauritania
- Mauritius
- Mayotte
- Mexico
- Micronesia
- Moldova
- Monaco
- Mongolia
- Saint Martin
- Saint Pierre and Miquelon
- Saint Vincent and the Grenadines
- Samoa
- San Marino
- São Tomé and Príncipe
- Saudi Arabia
- Senegal
- Serbia
- Seychelles
- Sierra Leone
- Singapore
- Sint Maarten
- Slovakia
- Slovenia
- Solomon Islands
- Somalia
- South Africa
- South Georgia and the South Sandwich Islands
- South Korea
- South Sudan

- Belgium
- Belize
- Benin
- Bermuda
- Bhutan
- Bolivia
- Bonaire Saint Eustatius and Saba
- Bosnia and Herzegovina
- Botswana
- Bouvet Island
- Brazil
- British Indian Ocean Territory
- British Virgin Islands
- Brunei
- Bulgaria
- Burkina Faso
- Burundi
- Cambodia
- Cameroon
- Canada
- Cape Verde
- Cayman Islands
- Central African Republic
- Chad
- Germany
- Ghana
- Gibraltar
- Greece
- Greenland
- Grenada
- Guadeloupe
- Guam
- Guatemala
- Guernsey
- Guinea
- Guinea-Bissau
- Guyana
- Haiti
- Heard Island and McDonald Islands
- Honduras
- Hong Kong
- Hungary
- Iceland
- India
- Indonesia
- Iran
- Iraq
- Ireland
- Montenegro
- Montserrat
- Morocco
- Mozambique
- Myanmar/Burma
- Namibia
- Nauru
- Nepal
- Netherlands
- New Caledonia
- New Zealand
- Nicaragua
- Niger
- Nigeria
- Niue
- Norfolk Island
- Northern Mariana Islands
- North Korea
- North Macedonia
- Norway
- Oman
- Pakistan
- Palau
- Palestine
- Spain
- Sri Lanka
- Sudan
- Suriname
- Svalbard and Jan Mayen
- Sweden
- Switzerland
- Syria
- Taiwan
- Tajikistan
- Tanzania
- Thailand
- The Gambia
- Timor-Leste
- Togo
- Tokelau
- Tonga
- Trinidad and Tobago
- Tunisia
- Turkey
- Turkmenistan
- Turks and Caicos Islands
- Tuvalu
- Uganda

- Chile
- China
- Christmas Island
- Clipperton
- Cocos (Keeling) Islands
- Colombia
- Comoros
- Congo
- Cook Islands
- Costa Rica
- Côte d'Ivoire
- Croatia
- Cuba
- Curaçao
- Cyprus
- Czechia
- Democratic Republic of the Congo
- Denmark
- Isle of Man
- Israel
- Italy
- Jamaica
- Japan
- Jersey
- Jordan
- Kazakhstan
- Kenya
- Kiribati
- Kosovo
- Kuwait
- Kyrgyzstan
- Laos
- Latvia
- Lebanon
- Lesotho
- Liberia
- Panama
- Papua New Guinea
- Paraguay
- Peru
- Philippines
- Pitcairn Islands
- Poland
- Portugal
- Puerto Rico
- Qatar
- Réunion
- Romania
- Russia
- Rwanda
- Saint Barthélemy
- Saint Helena Ascension and Tristan da Cunha
- Saint Kitts and Nevis
- Saint Lucia
- Ukraine
- United Arab Emirates
- United Kingdom
- United States
- United States Minor Outlying Islands
- Uruguay
- US Virgin Islands
- Uzbekistan
- Vanuatu
- Vatican City
- Venezuela
- Vietnam
- Wallis and Futuna
- Western Sahara
- Yemen
- Zambia
- Zimbabwe

*Field of activity or sector (if applicable)

- Insurance
- Investment services
- New Technologies
- Pension provision
- Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)
- Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)

- [ ] Social entrepreneurship
- [ ] Other
- [x] Not applicable

The Commission will publish all contributions to this targeted consultation. You can choose whether you would prefer to have your details published or to remain anonymous when your contribution is published. **Fo r the purpose of transparency, the type of respondent (for example, 'business association, 'consumer association', 'EU citizen') is always published. Your e-mail address will never be published.** Opt in to select the privacy option that best suits you. Privacy options default based on the type of respondent selected

* Contribution publication privacy settings

The Commission will publish the responses to this public consultation. You can choose whether you would like your details to be made public or to remain anonymous.

- ( ) **Anonymous**
  Only the organisation type is published: The type of respondent that you responded to this consultation as, your field of activity and your contribution will be published as received. The name of the organisation on whose behalf you reply as well as its transparency number, its size, its country of origin and your name will not be published. Please do not include any personal data in the contribution itself if you want to remain anonymous.
- (•) **Public**
  Organisation details and respondent details are published: The type of respondent that you responded to this consultation as, the name of the organisation on whose behalf you reply as well as its transparency number, its size, its country of origin and your contribution will be published. Your name will also be published.

- [x] I agree with the personal data protection provisions

A. An enhanced client assessment regime – General

The new regime would be built around two parts: a first part focused on assessing, via a unique standardised questionnaire, the retail investor's investment objectives, risk tolerance and personal constraints and a second part dedicated to establishing a basic but personalised asset allocation strategy for the retail investor's investment portfolio.

Question 1. Do you consider that a unique and standardised retail investors' assessment regime, as described above, applicable to all investment services and enhanced with the provision of a personal asset allocation strategy, could address the weaknesses of the current suitability and appropriateness regimes?

- Yes
- (x) No
- Don't know / no opinion / not applicable

Please provide a detailed answer to question 1:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

FFI wants to start by pointing out that it is extremely difficult to respond to this consultation due to the limited information about the proposed regime under the consultation. We are unsecure whether this regime is meant to replace the current client suitability and appropriateness assessment under MiFID and IDD or whether it is meant as additional to the current assessment. Moreover, the scope of the new regime is unclear. Is it targeted only to retail investors or are professional investors also included? Are the service providers able to trust the assessment made by another provider, and who takes the responsibility, when the assessment is based on wrong information and assumptions and the output is erroneous? How does this option fit to the "execution only" procedure?

FFI does not consider the full standardization or suitability and appropriateness analyses the preferrable option. Furthermore, an investment plan is not a comprehensive tool to make recommendations to the clients. The service provider may need to gather additional information and all service providers will most probably continue to gather information in their own ways. Different service providers have different product lines, which creates the need for some differences and freedoms and the possibility to modify the investment plan. In addition to the investment plan, clients usually need an investment recommendation based on their own situation and needs.

At worst case, completely standardized suitability assessment could lead to narrower investment advisory than currently. Service providers would only ask the standardized questions and handle everything similarly. This would create a situation in which retail investors would be focused only on some key points of advisory (for example, only on costs), instead of addressing their personal situation and constraints more broadly.

The complexity of assessment requirements might also lower the investment service provider's willingness to offer investment advice, especially in person. As a result, the advice service might be targeted only to the wealthier retail customer, which is the opposite to the Commission's goal. The retail investors with smaller portfolios will be offered automated investment advice and execution-only service under MiFID.

When it comes to insurance-based investment products (IBIPs), the suggested regime is entirely incompatible with these products and we would like to refer to Insurance European's response. It is common the insurance company offers only restricted range of financial instruments based not only on expected return to investment, but for example on benefits of delaying taxation, cost-efficient allocation changes, additional diversification, capital guarantees, inheritance & succession planning and personalised investment vehicles to supplement insurance coverage. The commission consultation has not considered unique advantages of insurance basement of the investment products, unionwide legislation of life and unit-linked insurance or investor’s actual need for insurance enough for an insurance undertaking to perceive but additional expenses without even balancing benefits. The proposal of non-insurance intermediaries distributing counsel on whether customer should consider different insurance products is an unexpected deviation from the approach of the IDD and complementing insurance product’s oversight and governance regulation.

However, we do believe that a standardization of the regimes might be beneficial in increasing the comparability and easening the administrative burden. As an example, the Commission could seek to propose options for model questions and explanations in order to support both the development of questionnaires and the training of both employees and investors in replying to those originally complex regulatory concepts. The only use case for the standardized assessment would be to gather information on a client’s financial situation and their experience and knowledge of the different financial instruments in the digital environment. However, these are subject to change over time and need to be updated regularly.

Finally, the implementation costs regarding this proposed regime are huge, covering IT costs of the whole new integrated system, setting up application programming interfaces (APIs), changes in internal processes, update of clients’ profiles, training costs, etc. These requirements could lead to diminished competition if only the biggest service providers are able to bear these additional costs.

Question 2. Do you think a new retail client assessment (enhanced with a personalised asset allocation strategy) and its transferability could bring benefits and opportunities to retail investors and financial intermediaries?

- ○ Yes, it could bring them benefits and opportunities
- ◉ No, it would not bring them specific benefit
- ○ Don’t know / no opinion / not applicable

Please explain your answers to question 2:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

See our answer to question 1. We do not recognize any mis-selling or “gamification" of the retail investment process.

We do not see that this investment plan would give a more comprehensive view of the investment held by a retail investor. The allocation suggestion doesn’t disclose the actual assets held by various investment service providers, insurance companies and banks.

The proposals included in this consultation paper are unlikely to shorten or streamline the suitability test. Instead, they seem likely to make the process longer and more burdensome. The suitability assessment already covers the key aspects needed and will shortly be updated to also cover ESG preferences. Further changes under this regime are unnecessary.

We would also like to point out that the proposed approach is very restrictive and stabile from an investor perspective. Investors should at all times and regardless of the suitability test model be able to swiftly change strategy both for single investments (such as invest in riskier product), for short term (for example, stiffness and inflexibility of suitability and appropriateness test is now a barrier to swiftly readjusting the strategy following the recent developments in Russia and Ukraine), and finally, also long- term.

If the Commission seeking to streamline and reduce costs and burden relating to onboarding, the focus should be on developing tools to allow for the financial market participants to transfer and share KYC data (on client’s permission). Discussing and thinking investment strategy together with the client is much more preferred and educative that asking the clients to reply to same, detailed KYC questions several times.

Question 3. Should retail investors be able to transfer the results of their assessment together with their personalised asset allocation strategy to brokers/financial intermediaries of their choosing in order to facilitate switching between or using multiple brokers/financial intermediaries and generally enhance the investor experience?

- ○ Yes
- ● No
- ○ Don’t know / no opinion / not applicable

Please explain your answer to question 3:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

FFI doesn’t see a need for this since most customers only have one investment service provider, and the costs seem to outweigh the benefits. The possibility to trust the assessment and investment plan made by another service provider is only limited.

Question 4. Would you see any drawbacks that could emerge from the creation and use of such a new suitability assessment applicable to all investment services (including its sharing/portability if any) for retail investors and financial intermediaries?

- (x) Yes
- ( ) No
- ( ) Don't know / no opinion / not applicable

Please explain your answer to question 4:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

As mentioned in our response to question 1, the products and structures are very different and thus, creating transferable methods and systems is a hugely costly effort without any proof of success.

To sum up, the main drawbacks are:

- huge implementation costs
- the quality of advisory service might decline due to standardization
- the complexity of regulation, which leads to the advice service being targeted only to clients with bigger investment portfolios under MiFID
- risk of sanctions and lack of trust on assessment made by another service provider
- need to tailor, revise and update assessment and investment plans based on service provider's own, constantly developing product category
- lack of need from the consumer side

Question 5. Who should prepare the clients' assessment and their asset allocation strategy?

- (x) Any financial intermediary selected by the retail investor
- ( ) An independent function within the financial intermediary selected by the retail investor
- ( ) An independent financial intermediary selected by the retail investor
- ( ) Other (e.g. public entity)

Please explain your answer to question 5:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

FFI doesn't support the standardized client's assessment, but if we have to pick up one instance who should prepare this assessment, we choose "any financial intermediary selected by the retail investor". There is no need to have a separate service provider like a public entity or an independent function. The financial service providers have trained and well-experienced staff to conduct assessment. Enabling only certain service providers to prepare the client assessment could inadvertently restrict access to advice in markets where 'independent' advice is not available. In the Finnish market, for example, there are not enough independent service providers to perform this function.

Question 6. What should be the key components of a standardised personal investment plan?

Please select as many answers as you like

- [x] A description of the investor
- [ ] A description of **duties and responsibilities of the investment adviser** drawing up the personal investment plan, custody arrangements and the duties of the client to signal changes in her personal circumstances
- [ ] **Procedures and reviews** that are necessary to keep the IPS topical and up-to-date
- [x] **Investment objectives**
- [ ] **Investment constraints**
- [ ] **Technical guidelines** specifying technical aspects on how the investment should be carried out, such as permissible use of leverage or derivatives; exclusion of specific types of assets from investment, if any
- [ ] **ESG factors**, such as specific types of assets to be excluded from investments
- [ ] **Evaluation and review**
- [ ] Rules on identifying **strategic asset allocation** – including the baseline allocation of portfolio assets to asset classes
- [ ] **Rebalancing** – policies on rebalancing asset class weights

Please explain your answers to question 6:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

FFI doesn't support the standardized client's assessment or the personal investment plan.
These key components seem very different from the current requirement under MiFID and IDD suitability and appropriateness regime, and it is unclear what the connection is between these two regimes.

However, if the Commission will continue with this, the components should be as simple and understandable as possible for retail investors with a limited amount of information. Professional investors are more interested, aware, and knowledgeable about such things as technical guidelines and rebalancing policies, but most retail investors do not understand these concepts.

Especially the ESG factors on an investor level are very complicated and dependent on the product offering of the service provider and should be left out from the key components in a detailed manner. The proposals in relation to including sustainability factors in suitability assessments entering into force in 2022 are more than sufficient in this respect. Same goes for the duties and responsibilities of the investment adviser, which are dependent on the services and service providers and can't be standardized.

The investor should never be burdened with process description and procedures related to updates nor technical guidelines related to investment activity.

Finally, we would like to stress the importance of swift changes. The investor and the service provider need to be able to change allocations smoothly, as learned, for example, from the recent developments in Russian markets.

Question 7. What are the main investment objectives and constraints that should be addressed in a personal investment plan?

Please select as many answers as you like

- [x] **Return objectives**: Long-term investment return per year, in nominal terms, net of fees
- [ ] **Constraints**: Liquidity – expected investor outlays, etc.
- [x] Time horizon
- [ ] Tax situation
- [ ] Legal and Regulatory factors, if any
- [ ] Unique investor circumstances, e.g., ethical or environmental preferences

Please explain your answers to question 7:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

FFI doesn't support the standardized client's assessment or the personal investment plan.

However, if the Commission does continue with this, we would only choose return objectives and, more precisely, a long-term investment return per year without net of fees, which is impossible to calculate. However, IBID's should be excluded from the scope.

We noticed that the list is lacking the client risk profile/appetite, which usually goes in hand with the return objectives. We would also choose the time horizon from the list. Generally, a too strong focus on return objectives is likely to create false expectations.

Question 8. Storage and accessibility of the new suitability assessment, including the asset allocation strategy.

Do you agree with the following statement?

All data in the suitability assessment and the personalised asset allocation strategy (the personal investment plan) should be stored electronically and, subject to the client's consent, the investment plan personal should be accessible to all financial intermediaries that the client employs ("open finance").

- ○ Yes
- ● No
- ○ Don't know / no opinion / not applicable

Please explain your answer to question 8:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

FFI supports the electronic format, but we don't see a need for accessibility to all financial intermediaries (open finance). Standardization is complicated and very costly without any added value to the client.

Question 9. How often should the client's assessment and asset allocation strategy be updated?

A personal investment plan should be reviewed regularly in order to ensure that it remains consistent with the client's investment objectives and constraints. A personal investment plan should also be reviewed as soon as a financial intermediary becomes aware of a material change in the client's circumstances. A client may request an update of her personal investment plan when her objectives, time horizon, personal circumstances of liquidity needs change.

Question 9.1 When the investor is NOT under advice:

Please select as many answers as you like

- [ ] a. once per year
- [ ] b. upon significant changes in the retail investor's personal circumstances or objectives, communicated by the investor to its financial intermediary
- [ ] c. upon suggestion of the financial intermediary selected by the investor, subject to providing the investor with any necessary written justification evidencing the need for an update, and subject to the investor's agreement + duly stored
- [x] d. other

Please specify to what other update frequency you refer in your answer to question 9.1:

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The update frequency is dependent on the type of client, and the service provider should be allowed to define the frequency according to its own services and needs. The update frequency should be in line with MiFID and IDD requirements.

The proposal in (C) is extremely burdensome and does not fit the market and the practices at all. Written justifications and evidence is unnecessary and a huge burden for the both parties with no benefits. The plan should be updated in connection with client meetings, if considered necessary, or when requested by the investor.

Recognizing changed client circumstances is not possible in a digital environment and thus should never be required. The advisor will not become aware of changed circumstances and therefore, the responsibility and initiative in connection with changes in circumstances should always remain on the client’s side.

Please explain your answers to question 9.1:

5000 character(s) maximum
including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Question 9.2 When the investor is under advice/portfolio management:

Please select as many answers as you like

- [x] a. once per year

- [x] b. upon significant changes in the retail investor's personal circumstances or objectives, communicated by the investor to its financial intermediary
- [ ] c. at the initiative of the financial intermediary providing the advice and subject to written justifications evidencing the improvement, communicated to the investor and duly stored
- [ ] d. other

Please explain your answers to question 9.2:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The update frequency is dependent on the type of client and the service provider should be allowed to define the frequency according to its own services and needs. The update frequency should be in line with MiFID and IDD requirements.

Question 10. Please provide us with an estimate of the necessary costs to set-up and update this possible new client assessment (including the personalised asset allocation strategy) in a structured and machine-readable format as well as for its storage in a way accessible for future reference by the retail investor and competent authorities:

	Estimate (in €)
One off costs	
Ongoing costs	

Please explain your answer to question 10 and provide a breakdown of the most important cost components:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

On-off costs

- Remarkable IT costs (millions per service provider) for the necessary changes to the current IT system
- Cost of setting up application programming interfaces (APIs) to make the transfer possible between the service providers. The amount of this depends on the structure of the IT system.
- Cost of changes in the internal processes
- Training costs of employees for the new process
- Cost of updating of client profiles, which means that clients should be contacted and met (time use also for the client)

Ongoing costs:

- Yearly maintenance costs, which are typically some proportions of on-off costs
- Yearly training costs for the employees

Question 11. Please provide us with a cost comparison between the costs associated to this possible new client assessment regime (including the personalised asset allocation strategy) in and your current costs associated to compliance with the current suitability and appropriateness regimes?

	Estimate (in €)
Your current costs associated to compliance with the current suitability and appropriateness regimes	
Estimate costs associated to compliance with the possible new suitability assessment regime (including the personalised asset allocation strategy)	

Please explain your answer to question 11:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The investment service providers have made the necessary changes to the IT systems to comply with the current regulation on suitability and appropriate assessment under MiFID II. These costs have been huge, depending on the size of the investment service provider and the structure of the IT system.

IT systems are at the moment under the development due to the integration of ESG preferences to the suitability assessment process, which applies from 2 August 2022 (SFDR level 2 regulation, ESMA's guidelines). All these costs would be “sunk costs” if the current regime will be replaced shortly by the enhanced client assessment regime and/or personalized assets allocation strategy.

Changes in the current assessment regime proposed by the Commission mean the total renewal of the current systems, which generates new costs. We assume that the new systems will be more complicated, which means an increase in the maintenance costs. In addition to this, there will be costs from training of employees for the new process and from the updating of client profiles (time use also for the client).

Question 12. Do you consider that the new client assessment regime would allow material cost savings for financial intermediaries taking into account the standardised and single nature of the possible assessment regime, once the initial sunk costs are absorbed?

- ○ Yes
- ◉ No
- ○ Don't know / no opinion / not applicable

Please explain your answer to question 12:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

FFI doesn't perceive any cost savings in the future. The only cost savings, if any, could be taken form simplified, joint KYC information databases and if the regulatory requirements were simplified and supported by practical training and background to further improve staff training in complex matters.

B. A personalised asset allocation strategy

A personalised asset allocation strategy would be the main output of the new client-centric assessment carried out by a financial intermediary. It would represent a basic investment framework for achieving the retail investor's investment objectives and aim to provide the investor with maximum returns in view of its personal circumstances, while exposing the investor to an optimal amount of risk. This would be achieved by setting out a unique plan for exposure (in % terms for instance) to an optimal diversification of broad asset classes (e.g. fixed income, equity, commodities, etc.) and set the right risk-return profile for the retail investor's investment goals.

The rules on asset class categorisation could feature a varying level of details and granularity. For example, the legislation could establish very general asset classes across which diversification should be ensured (e.g. equity, bonds, commodities, real estate, private equity, hedge funds) or it could foresee or allow for a creation of more detailed ‘sub-asset classes’ (government bonds vs. corporate bonds, high yield vs. investment grade bonds, large cap vs. small cap shares, etc.).

This personalised asset allocation strategy could then be made portable and transferable across financial intermediaries that the retail investor chooses to interact with. It should then be determined whether and to what extent financial intermediaries should be allowed to depart from this personalised asset allocation strategy and under what conditions.

Question 13. Should the rules on personalised asset allocation strategy foresee standardised investor profiles based on retail investors' personal constraints, risk/return appetite and objectives?

- ○ Yes
- ◉ No
- ○ Don’t know / no opinion / not applicable

Please provide a detailed answer to question 13:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

FFI doesn’t see a need for the change. Investment service providers have their own existing classification systems that are based on current legislation and their own products, which work well.

Question 14. Which elements should form the basis for distinguishing between asset classes within the asset allocation strategy?

Please select as many answers as you like

- [x] Risk
- [x] Return
- [ ] Paired correlation with other asset classes
- [ ] Additional criteria

Please explain your answer to question 14 and provide details on the additional criteria if any:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

FFI doesn’t support the standardized client’s assessment or the personal investment plan. However, we would propose risk and return from the given answers.

Question 15. Exposure to assets, as set out in the asset allocation strategy, could be achieved either by investing directly in securities (e.g. shares, bonds), or via investment in potentially complex financial products (e.g. funds, structured products, insurance-based investment products) or a combination thereof.

How should a financial intermediary assess best value-for-money when considering asset classes or sub-asset classes offering the optimal exposure for the retail investor?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Value-for-money can be created through all kinds of products. This depends heavily on the client’s knowledge and experience in the investment products and on how interested they are in following and acting independently in the market. Also, the amount of money used on investment and taxation should be taken to account in the assessment. The assessment should be made according to the client’s situation and needs.

Question 16. The rules on the asset allocation strategy should allow for the establishment of asset classes that are fit to achieve the investment objectives of retail investors.

How should those rules take into account situations where the investment intermediary wishes to offer products that do not fit into one of the common asset categories?

- ○ Where the intermediary proves that the risk, return and correlation properties of the product are equivalent to those attributed to one of the established asset classes, he/she can consider that instrument as belonging to that asset class
- ○ Such products should only be made available to the investor at his or her explicit request, and not as a part of the investable universe determined by the asset allocation strategy
- ◉ Other solutions

Please specify to what other solution(s) you refer in your answer to question 16:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

It should be always possible to offer the products outside the investment plan. The products and models develop over time and thus, the categories cannot be locked in rules and regulations. The service provider should be able to describe all kind of instruments with relevant information linked to the instruments.

Please explain your answer to question 16:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Question 17. Although the form and content of the asset allocation strategy should be prescribed to a certain extent, financial intermediaries will always exercise a degree of discretion when establishing the asset allocation for a given investor. Competition between financial intermediaries in establishing an optimal asset allocation strategy for a given set of client data could yield better quality asset allocation propositions for the client. On the other hand, changing without objective reasons the investment guidance set out by the asset allocation strategy should be avoided in order to ensure that his or her investment goals are attained.

Should a financial intermediary other than the one that drew up the client assessment be able to propose a different asset allocation strategy than the one originally established, where the data required to produce the asset allocation strategy are made available to that financial intermediary?

- ○ Yes, but only when there are objective reasons (see notably (b) and (c) in question 9.1 and 9.2 respectively.)
- ○ No
- ◉ Don’t know / no opinion / not applicable

Please explain your answer to question 17:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

It should always be possible to propose a different asset allocation strategy to the client based on the financial intermediary’s own product category, if the client wishes so. If not, all financial intermediaries would have to act in a similar manner, making any competition in services very difficult.

Question 17.1 Should the investor be required to give explicit consent for the development of a new asset allocation strategy?

- ○ Yes
- ○ No
- ◉ Don’t know / no opinion / not applicable

Please explain your answer to question 17.1:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Question 18. Would you have any general comments on an enhanced client assessment regime and/or personalised asset allocation strategy?

- (x) Yes
- ( ) No
- ( ) Don’t know / no opinion / not applicable

Please explain your answer to question 18:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

At this stage we would strongly prefer if the Commission did not go beyond defining standardized questions to be asked in suitability and appropriateness analyses. We would encourage not to create standardized investor profiles or strategies at least for now. Standardization would most likely only create massive costs and make investment advisory even more complicated than currently.

Investment service providers have to build their systems based on the current MiFID and IDD legislation, and those systems are currently under development due to the integration of ESG preferences to the suitability assessment process, which applies from 2 August 2022. All these costs would be “sunk costs” if the current regime will be replaced shortly by the enhanced client assessment regime and/or personalized assets allocation strategy.

To sum up, the current suitability and appropriate tests work quite well, and there is no need to replace the regime with the enhanced client assessment regime. FFI however welcomes all plans to standaradize and simplify KYC and AML related requirements in a manner where the information could be collected into a common source where, subject to the client consent, the information could be shared with several financial service providers.

Additional information

Should you wish to provide additional information (e.g. a position paper, report) or raise specific points not covered by the questionnaire, you can upload your additional document(s) below. **Please make sure you do not include any personal data in the file you upload if you want to remain anonymous**.

The maximum file size is 1 MB.
You can upload several files.
Only files of the type pdf,txt,doc,docx,odt,rtf are allowed

Useful links

More on this consultation (https://ec.europa.eu/info/publications/finance-consultations-2022-suitability-appropriateness-assessments_en)

Consultation document (https://ec.europa.eu/info/files/2022-suitability-appropriateness-assessments-consultation-document_en)

More on retail financial services (https://ec.europa.eu/info/business-economy-euro/banking-and-finance/consumer-finance-and-payments/retail-financial-services_en)

Specific privacy statement (https://ec.europa.eu/info/files/2022-suitability-appropriateness-assessments-specific-privacy-statement_en)

More on the Transparency register (http://ec.europa.eu/transparencyregister/public/homePage.do?locale=en)

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