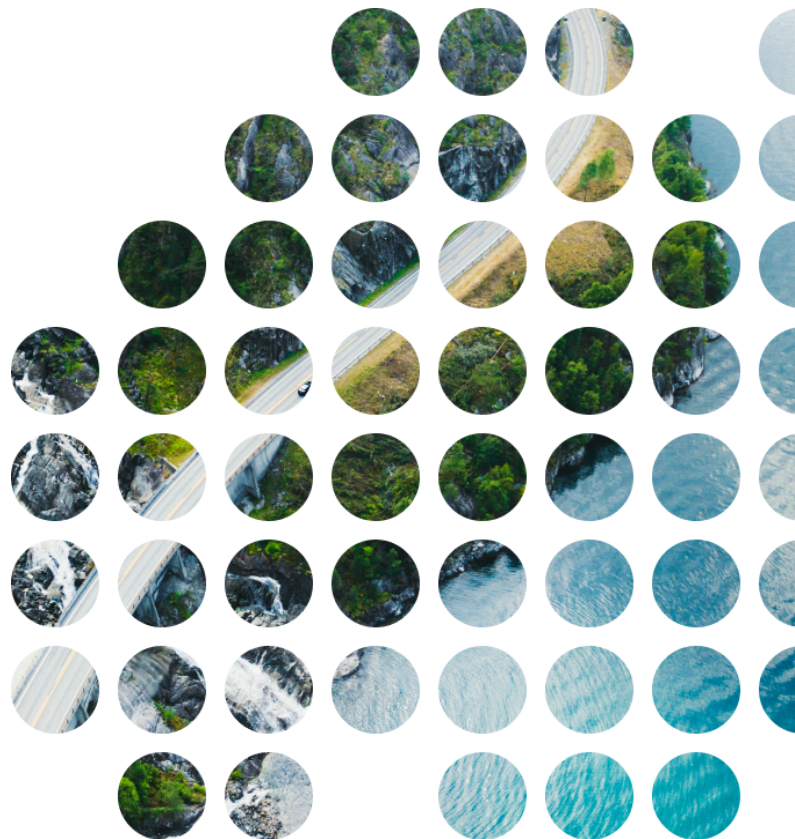


MiFID II and IDD Checklist

A Guide to Integrate Your Clients' Sustainability Preferences, in line with EU Regulations

September 2024



Prepare for Upcoming Deadlines

Since August 2022 distributors of certain financial instruments in the EU have been required to gather their clients' sustainability preferences to ensure that any financial products sold to them align with these preferences. This regulation primarily applies to investment firms offering investment advice (including robo-advice) and portfolio management (e.g. wealth managers), but also applies to credit institutions, asset managers, and investment advisers who offer advice or portfolio management. The parallel regulation impacting insurance companies and brokers (via the Insurance Distribution Directive, IDD) mirrors the requirements under MiFID II.

To help managers bring their practices in line with the regulation, this checklist will help to either refine their existing practices, or begin to comply with the regulation.

Checklist

Step 1: Evaluate Applicability

Understand if your activities are captured by MiFID II or IDD sustainable preference suitability assessments. Answer these questions:

- Does your institution distribute investment products in the EU?
- Do you offer your clients advice or portfolio management services?
- Do you distribute insurance-backed investment products?



If No: no further action

If Yes: see Step 2.

Step 2: Organize For Compliance

Prepare Your Organization for MiFID II or IDD.

A. Familiarize yourself and your team with the requirements of MiFID II and IDD..

B. Develop a process for ensuring any new and existing clients are asked about their sustainability preferences and that these preferences are regularly updated. *For existing clients, ensure you periodically check-in to see if their sustainability preferences or the sustainability profile of their investments have changed (at least annually).*

C. Prepare questions to ask clients about their sustainability preferences. These should follow the regulatory requirements and advice in ESMA and EIOPA's guidelines. In particular, the focus should be on clients' preferences for investments that:

- Consider the SFDR Principal Adverse Impact indicators (**PAIs**).
- Commit to a minimum level of **sustainable investment** as defined in SFDR Article 2(17), and/or
- Commit to a minimum level of alignment to the **EU Taxonomy**.

- D. Understand the sustainability characteristics of the different products you offer, referencing the three key regulatory concepts in part (c) (PAI, SI, EU Taxonomy).**
- Which of your products consider SFDR PAIs as a whole? Which consider individual PAIs?
 - What is the sustainable investment level in each of your products?
 - What is the taxonomy alignment of each of your products?

Step 3: Complete Sustainability Preferences

- Undertake the sustainability preferences part of your suitability assessment:**
- A. Collect your clients' sustainability preferences:** ask your client if they have any sustainability preferences. This can be done in person, on the phone or digitally. Where appropriate, integrate sustainability questions into existing client investment preference questionnaire processes or software. This is typically done as part of the same process after existing MiFID II and IDD suitability questions around risk tolerance and ability to bear loss are asked.
- If the client expresses no sustainability preference, you can offer the client products with any sustainability characteristics.
 - If the client indicates they do have sustainability preferences, ask more granular questions about your client's preferences.
 - Do they want to invest in products that consider PAIs? Which ones?
 - Do they want their investments to have a minimum % of sustainable investment?
 - Do they want their investments to have a minimum % of EU Taxonomy alignment? *Offer to support them to understand these different concepts. If they are still struggling to express their preferences, you could consider offering to simplify the choice by, for example, categorizing your products in terms of differing levels of "sustainability."*

Step 4: Match Client Needs With Offerings

- Match client preferences to the characteristics of your products established in 2(d) and offer suitable products.**
- A. To simplify this step, integrate the sustainability data into your portfolio selection applications.**
- In the same way that a client with a certain risk tolerance should only see funds that match their stated risk levels, clients with a preference for 10% SI alignment should be recommended funds that help them achieve that desired SI alignment at a portfolio level.

Step 5: Document Preferences

- Maintain a record of sustainability preferences and recommendations.**
 - A. Suggested periodic actions:**
 - Review product offering alignment as a firm regularly (i.e. quarterly) with updated sustainability data.
 - Review questions annually to ensure any regulatory changes are accounted for and so that the questions adequately address client needs.
 - Should client preferences consistently fall outside of available offerings, consider realigning portfolio offerings with additional funds.

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