



# Questionnaire for assessing client sustainability preferences

For use with the accompanying Guidance

CONSULTATION DRAFT March 2022 – WORK IN PROGRESS

# About

The 2° Investing Initiative (2DII) is an international, non-profit think tank working to align financial markets and regulations with the Paris Agreement goals.

Working globally with offices in Paris, New York, Berlin, London, and Brussels, 2DII coordinates some of the world's largest research projects on climate metrics in financial markets. In order to ensure our independence and the intellectual integrity of our work, we have a multi-stakeholder governance and funding structure, with representatives from a diverse array of financial institutions, regulators, policymakers, universities and NGOs.

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**DISCLAIMER:** This work reflects only the views of 2DII. Other members of the Finance ClimAct Consortium and the European Commission are not responsible for any use that may be made of the information it contains.



# 1: Summary

## Background

- (1) Investment firms providing financial advice and portfolio management should carry out a mandatory assessment of sustainability preferences of their clients or potential clients. Investment firms should then take these sustainability preferences into account in the selection process of financial instruments that are recommended to those clients.
- (2) 2DII has developed this Questionnaire for assessing client sustainability preferences (the **Questionnaire**) to assist investment firms carry out a comprehensive assessment of a client's sustainability preferences and wider sustainability motivations and harmonise practice among investment firms. 2DII believes that all of these aspects are critical to improving the suitability of the recommended product(s), increasing consumer trust, and ensuring that financial markets work towards societal and environmental goals.

## Overview

- (3) The Questionnaire should be read together with the accompanying Guidance for assessing client sustainability preferences (the **Guidance**). Taken together, the Questionnaire and the Guidance support investment firms ensure legal compliance with the new requirements regarding integration of client sustainability preferences to the suitability assessment<sup>1</sup>.
- (4) Given the continually evolving nature of sustainable finance approaches and client expectations regarding sustainability aspects of their investments, the Questionnaire and the Guidance also support investment firms implement better practice than currently required by the regulatory framework and avoid certain risks and pitfalls.

## Scope

- (5) The Questionnaire and the Guidance relate to the provision of investment advice and portfolio management and principally address situations where these services are provided to retail clients.
- (6) The Questionnaire and the Guidance relate to the following requirements for the suitability assessment:
  - a) Directive 2014/65/EU<sup>2</sup> (**MiFID II**)
  - b) Commission Delegated Regulation (EU) 2017/565<sup>3</sup> (**MiFID II Delegated Regulation**) (as amended by Commission Delegated Regulation (EU) 2021/1253<sup>4</sup>)

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<sup>1</sup> Commission Delegated Regulation (EU) 2021/1253 of 21 April 2021 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organisational requirements and operating conditions for investment firms

<sup>2</sup> Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU

<sup>3</sup> Commission Delegated Regulation (EU) of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive

<sup>4</sup> Commission Delegated Regulation (EU) 2021/1253 of 21 April 2021 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organisational requirements and operating conditions for investment firms

- c) ESMA Guidelines on certain aspects of the MiFID II suitability requirements (**ESMA Guidelines**).
- (7) Unless otherwise specified, terms used in MiFID II and the MiFID II Delegated Regulation have the same meaning in the Questionnaire and the Guidance. Recognising that the Questionnaire and the Guidance also support investment firms implement better practice than currently required by the regulatory framework, the word 'should' is often used (rather than words such as 'shall', 'must' or 'required to' which are more relevant for mandatory obligations). In addition, the following interpretive principles should be adopted:
- a) 'I' refers to the investment firm which is carrying out the suitability assessment
  - b) 'you' refers to the client or potential client
  - c) 'client' refers to client or potential client as applicable
- (8) The Questionnaire and the Guidance focus only on the assessment of client sustainability preferences during the suitability assessment and not to the assessment of traditional investment objectives such as time horizon, risk appetite etc.
- (9) While the Questionnaire and the Guidance are focussed on the requirements for the suitability assessment articulated under MiFID II, the content could also be useful to the assessment of sustainability preferences now required under Directive 2016/97/EU<sup>5</sup> (**IDD**).

#### **Disclaimer**

*The Questionnaire and the Guidance is produced by 2DII. Both documents relate to EU level regulation and guidance and do not cover any national level regulation or guidance that may have been published in any member state in relation to the integration of sustainability preferences of clients to the suitability assessment.*

*Neither document is endorsed by financial regulators or supervisory authorities. In addition, the Questionnaire and the Guidance includes content which in the opinion of 2DII supports investment firms implement better practice than currently required by the regulatory framework. However, investment firms must independently satisfy themselves that they have complied with the overarching duty to act in the best interests of the client (Art 24, MiFID II).*

*It is important to note that better practices put forward in the Questionnaire and Guidance should not be confused with binding rules or even soft law issued by legislators and regulators. They are advice expressed by 2DII based on their knowledge in sustainable finance and their will to reallocate individual savings to finance the low-carbon transition.*

# 2: Using the Questionnaire and the Guidance

## How to use the Questionnaire

- (10) The Questionnaire guides an investment firm through the part of the suitability assessment related to assessing client sustainability preferences and wider sustainability motivations. Wider sustainability motivations are not addressed by the regulatory concept of client sustainability preferences; however, we believe they are relevant to implement better practice for a comprehensive assessment of all sustainability related aspects associated with client investments.
- (11) This Questionnaire focusses on questions related to sustainability aspects of the suitability assessment and should be integrated to the investment firm suitability questionnaire. Questions related to sustainability are currently considered by the legislator and the regulator as a top up to the assessment of traditional investment objectives, therefore, they should be addressed after questions related to traditional investment objectives.
- (12) The Questionnaire is structured around the following process.



- (13) Each section of the Questionnaire articulates what is required for investment firms to:
  - a) **Step 1: Explanation of sustainability preferences:** Explain the different categories of sustainability preferences and additional concepts (such as ESG aspects) to provide sufficient information to enable the client to make an informed decision about his or her sustainability preferences and wider sustainability motivations.
  - b) **Step 2: Identification of client sustainability preferences:** Ask the right questions to comprehensively assess the client's sustainability preferences and wider sustainability motivations.
  - c) **Step 3: Financial product recommendation:** Use the information revealed by the client to make a financial product recommendation.
- (14) The Questionnaire provides a mean to record information to demonstrate that relevant actions have been completed and document key information about a client's sustainability preferences and wider sustainability motivations. In particular, investment firms providing investment advice need to provide a

report to the client that outlines the advice. The report should identify why the recommendation provided is suitable including how the recommendation meets the client's investment objectives, his or her personal circumstances, the client's knowledge and experience, the client's attitude to risk his or her capacity to sustain losses and his or her sustainability preferences.

- (15) For the reasons set out in [paragraphs (25) to (31)] of the Guidance, a pure focus on the regulatory concept of sustainability preferences may not cover wider sustainability motivations or capture all the granular aspects of how some clients want to invest their money. The Questionnaire and the Guidance are structured so that there is a clear distinction between (1) requirements to meet the threshold for regulatory compliance for assessing client sustainability preferences and (2) steps to assess wider sustainability motivations (not addressed by the regulatory concept of client sustainability preferences) which are relevant to implement better practice for a didactic and comprehensive assessment of all sustainability related aspects associated with client investments.

*Investment firms are encouraged to use all parts of the Questionnaire. However, for those investment firms choosing to comply with the bare minimum legal requirements, these are indicated in the Questionnaire in green text and with the following symbol.*



- (16) Some clients may have no interest in sustainability preferences or wider sustainability motivations for their investments. The Questionnaire accommodates different levels of interest in sustainability preferences and wider sustainability motivations through introducing three levels of assessment in *Step 2: Identification of client sustainability preferences*:
- Short Assessment (around 5 minutes):** If having provided an explanation of sustainability preferences as per *Step 2: Identification of client sustainability preferences*, the client does not have any interest in sustainability at the end of the Short Assessment, then no further assessment of sustainability preferences is necessary, and the investment firm can proceed to *Step 3: Financial product recommendation*.
  - Medium Assessment (around 10 to 15 minutes):** If at the end of the Short Assessment, the client expresses any interest in sustainability or a need for further information, the investment firm should proceed to the Medium Assessment which focusses on assessing sustainability preferences and wider sustainability motivations for the client. At the end of the Medium Assessment the client is asked if he or she wants to provide more detailed information on specific values or priorities. If the client does not wish to provide more detailed information, then no further assessment of sustainability preferences and wider sustainability motivations is necessary, and the investment firm can proceed to *Step 3: Financial product recommendation*.
  - Long Assessment (a minimum of 15 minutes):** If at the end of the Medium Assessment the client wants to provide more information on specific values and priorities, the investment firm should proceed to the questions in the Long Assessment which relate to values and priorities. Following this assessment, the investment firm can then proceed to *Step 3: Financial product recommendation*.
- (17) The left column of the Questionnaire focuses on the substantive content for the assessment of suitability preferences and motivations and provides a means to record relevant actions have been completed and record key information necessary for making a financial product recommendation. The right column of the Questionnaire includes hints and tips for the investment firm on how to complete the Questionnaire and links to the relevant sections of the Guidance for more information and support.

# Questionnaire

## Step 1: Explanation of sustainability preferences

<p>Explanation to be provided by the investment firm to all clients:</p> <ul style="list-style-type: none"> <li>• Introductory explanation on the links between financial investment and the environment and society.</li> <li>• Explanation on what environmental, social and governance aspects mean.</li> <li>• Explanation on the different types of sustainable financial instruments available on the market.</li> <li>• Explanation of the different categories of sustainability preferences.</li> <li>• Articulation between sustainability preferences and other investment objectives.</li> </ul> <p>To be completed by the investment firm:</p> <p><input type="checkbox"/> I have enquired about the client's level of financial literacy and knowledge of sustainability issues.</p> <p><input type="checkbox"/> I have provided an explanation of sustainability preferences to enable the client to understand the different degrees of sustainability which are possible for financial instruments and explained environmental, social and governance aspects.</p> <p><input type="checkbox"/> In my explanation of sustainability preferences, I used the following client explanatory materials: .....</p>	<p>The investment firm has an obligation to explain the different categories of sustainability preferences. Firms should also explain what environmental, social and governance aspects mean.</p> <p>This is a preliminary explanation to provide sufficient information to enable clients to take informed decisions and advocate effectively in relation to their own sustainability preferences.</p> <p>The explanation of sustainability preferences and additional aspects should be based on the client explanatory materials used by the investment firm. Annex 1 of the Guidance articulates key considerations and content which needs to be included in the client explanatory materials to ensure that the explanation of sustainability preferences is effective.</p>
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## Step 2: Identification of client sustainability preferences

### Short Assessment

<p>Q1. Do you have sustainability preferences for your investment?</p> <p><input type="checkbox"/> a) Yes  <input type="checkbox"/> b) Don't know, need to hear more about it  <input type="checkbox"/> c) No, only care about financial aspects of the investment</p>	<p>The investment firm has an obligation to assess if the client has sustainability preferences for his/her investment.</p> <p>If the client answers</p>
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End of Short Assessment



If the client answers "c) No, only care about financial aspects of my investment" in Q1 then proceed to Step 3: Financial product recommendation.

If the client answers otherwise, proceed to Q2. In case the client answers "b) Don't know, need to hear more about it", please note that further information will be provided along with Q3 and Q4. The investment firm should clarify the explanation then.

## Medium Assessment

<p><b>Q2. How would you express your sustainability motivations and preferences in your own words?</b></p> <p><input type="checkbox"/> Answer: .....</p> <p><input type="checkbox"/> Don't know yet</p>	<p>Assessing sustainability preferences and motivations of the client without providing a pre-defined framework will reduce risk of bias.</p>
<p><b>Q3. What do you want to achieve?</b></p> <p><i>(Please select one or several sustainability goals. If you have several sustainability goals, please rank them from 1 to 3, 1 being the most important)</i></p> <p><input type="checkbox"/> Want to have a clear positive impact on the society and/or the environment with the investment  <input type="checkbox"/> Want to align investments with personal values  <input type="checkbox"/> Want to invest in products taking into account sustainability factors to increase risk adjusted return</p>	<p>Annex I of the Guidance contains information on explanations to be provided to the client on sustainability goal(s).</p>
<p><b>Q4. In which type of economic activity would you be willing to invest your money? The investment can focus on one type of economic activity or a mix of them.</b></p> <p><i>(If you select several answers, please provide a ranking from 1 to 3, 1 being the most important)</i></p> <p><input type="checkbox"/> a) Economic activities that contribute substantially to the following environmental objectives:</p> <ul style="list-style-type: none"> <li>• Climate change mitigation</li> <li>• Climate change adaptation</li> <li>• Sustainable use and protection of water and marine resources</li> <li>• Transition to a circular economy</li> <li>• Pollution prevention and control</li> <li>• Protection and restoration of biodiversity and ecosystems</li> </ul> <p>It should represent .... % of the product.</p> <p><input type="checkbox"/> b) Economic activities that contribute to environmental objectives (such as efficient use of energy, renewable energy, raw materials, water...) or social objectives (such as tackling inequality or fostering social cohesion, social integration and labour relations...).</p> <p>It should represent .... % of the product.</p> <p><input type="checkbox"/> c) Economic activities that do not aim at contributing to any environmental or social objective but only consider negative effects on environmental, social and employee matters, respect for human rights, anti-corruption, and anti-bribery matters.</p>	<p></p> <p>The investment firm has an obligation to explain the different categories of sustainability preference and assess client sustainability preferences.</p> <p></p> <p>Annex I of the Guidance contains information on further explanations to be provided on sustainability preferences.</p>

<p>Indicators on negative effect considered should be linked to the following topics (<i>If you select several answers, please provide a ranking, 1 being the most important</i>)</p> <p>Indicators on the companies invested:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Greenhouse gas emissions</li> <li><input type="checkbox"/> Biodiversity</li> <li><input type="checkbox"/> Water</li> <li><input type="checkbox"/> Waste</li> <li><input type="checkbox"/> Social and employee matters</li> <li><input type="checkbox"/> All indicators above</li> </ul> <p>Indicators on the countries invested:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> GHG intensity</li> <li><input type="checkbox"/> Countries subject to social violation</li> <li><input type="checkbox"/> All indicators above</li> </ul> <p>Indicators for real estate assets</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Exposure to fossil fuels through real estate assets</li> <li><input type="checkbox"/> Exposure to energy-inefficient real estate assets</li> <li><input type="checkbox"/> All indicators above</li> </ul>	
<p>Q5. Do you want to provide more detail regarding your values and priorities?</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> a) Yes</li> <li><input type="checkbox"/> b) No</li> </ul>	

End of Medium Assessment

 If the client answers "b) No" in Q5 then proceed to Step 3: Financial product recommendation. If the client answers otherwise, proceed to Q6.

## Long Assessment

Values and priorities	
<p>Q6. Which of the Sustainable Development Goals below do you want to advance with your investments? (<i>If you select several answers, please provide a ranking, 1 being the most important</i>)</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Environment matters           <ul style="list-style-type: none"> <li><input type="checkbox"/> Clean water and sanitation</li> <li><input type="checkbox"/> Affordable and clean energy</li> <li><input type="checkbox"/> Sustainable cities and communities</li> <li><input type="checkbox"/> Responsible consumption and production</li> <li><input type="checkbox"/> Climate action</li> <li><input type="checkbox"/> Water quality and fish stocks</li> <li><input type="checkbox"/> Nature conservation and biodiversity</li> </ul> </li> <li><input type="checkbox"/> Social &amp; governance matters           <ul style="list-style-type: none"> <li><input type="checkbox"/> No poverty</li> <li><input type="checkbox"/> Zero hunger</li> <li><input type="checkbox"/> Good health and well-being</li> <li><input type="checkbox"/> Quality education</li> <li><input type="checkbox"/> Gender equality</li> </ul> </li> </ul>	<p>This question enables better understanding of the values and priorities of the client and can help you better define the product recommendation.</p>

<ul style="list-style-type: none"> <li><input type="checkbox"/> Decent work and economic growth</li> <li><input type="checkbox"/> Sustainable industry, infrastructure and innovation</li> <li><input type="checkbox"/> Reduce inequalities</li> <li><input type="checkbox"/> Peace, justice and strong institutions</li>   <li><input type="checkbox"/> All environment, social &amp; governance matters</li> </ul>	
<p><b>Q7. Do you refuse to be financially exposed to the following economic activities? (If you select several answers, please provide a ranking, 1 being the most important exclusion)</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Environment exclusions             <ul style="list-style-type: none"> <li><input type="checkbox"/> Pesticides and biocides</li> <li><input type="checkbox"/> Animal testing</li> <li><input type="checkbox"/> Genetic engineering</li> <li><input type="checkbox"/> Palm oil</li> <li><input type="checkbox"/> Coal</li> <li><input type="checkbox"/> Oil</li> <li><input type="checkbox"/> Nuclear energy</li> <li><input type="checkbox"/> Gas</li> <li><input type="checkbox"/> Fur</li> <li><input type="checkbox"/> Factory farming</li> </ul> </li>   <li><input type="checkbox"/> Social and ethics exclusions             <ul style="list-style-type: none"> <li><input type="checkbox"/> Weapons and/or armament</li> <li><input type="checkbox"/> Tobacco products</li> <li><input type="checkbox"/> Alcohol</li> <li><input type="checkbox"/> Gambling</li> <li><input type="checkbox"/> Pornography</li> <li><input type="checkbox"/> Research on human embryos</li> </ul> </li>   <li><input type="checkbox"/> Breach of international norms:             <ul style="list-style-type: none"> <li><input type="checkbox"/> Violation of the principles of the UN Global Compact (Human Rights, Labour, Environment, Anti-Corruption)</li> <li><input type="checkbox"/> Violation of OECD guidelines for multinational enterprises (Responsible business conduct)</li> <li><input type="checkbox"/> Violation of International Labour Organisation rules</li> </ul> </li>   <li><input type="checkbox"/> Don't refuse financing any sector</li> </ul>	<p>This question enables better understanding of the values and priorities of the client and can help you better define the product recommendation.</p>
<p><b>Q8. Do you refuse to be financially exposed to economic activities in countries with following controversies? (If you select several answers, please provide a ranking, 1 being the most important exclusion)</b></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Nuclear weapons</li> <li><input type="checkbox"/> Non-proliferation treaty of nuclear weapons</li> <li><input type="checkbox"/> Countries classified as not free</li> <li><input type="checkbox"/> Corruption</li> <li><input type="checkbox"/> Death sentence</li> <li><input type="checkbox"/> Wars</li> <li><input type="checkbox"/> Non-ratification of Paris-Agreement</li> </ul> <p><input type="checkbox"/> Don't refuse financing any country</p>	<p>This question enables better understanding of the values and priorities of the client and can help you better define the product recommendation.</p>
<p><b>Q9. Are there any additional values and priorities you would like to express?</b></p>	<p>This question enables better understanding of the values and</p>

<input type="checkbox"/> a) Yes (please express your additional values and priorities): ..... <input type="checkbox"/> b) No	<p>priorities of the client and can help you better define the product recommendation.</p>
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## Step 3: Financial product recommendation

<b>Outcome 1: Financial product(s) meeting sustainability preferences and wider sustainability motivations</b>	
<p><i>To be completed by the investment firm:</i></p> <p><b>Q10. I recommended the following financial instrument(s):</b></p> <p>.....</p> <p>The recommended financial instrument(s) meet(s) the sustainability preferences required by the client (in Q4) because:</p> <p>.....</p> <p><b>IN ADDITION</b></p> <p>The recommended financial instrument(s) also meet(s) wider sustainability motivations (in Q2, Q3 and Q6 to Q9) defined by the client because:</p> <p>.....</p>	The investment firm has an obligation to explain why a recommended financial instrument meets the client's sustainability preferences and to provide a report to the client including these reasons.  Provided that a financial instrument satisfies the sustainability preferences of a client, investment firms should as far as possible also seek to ensure the financial instrument also satisfies any wider sustainability motivations.  Please refer to Annex II of the Guidance to have more information on how to consider sustainability preferences, goals, values and priorities of the client in the product recommendation.
<b>Outcome 2: Financial product meeting sustainability preferences but not wider sustainability motivations</b>	
<p><i>To be completed by the investment firm:</i></p> <p><b>Q11. I recommended the following financial instrument(s):</b></p> <p>.....</p> <p>The recommended financial instrument(s) meet(s) the sustainability preferences required by the client (in Q4) because:</p> <p>.....</p> <p><b>IN ADDITION</b></p> <p>However, the recommended financial instrument(s) does/do not meet all the wider sustainability motivations (in Q2, Q3 and Q6 to Q9) defined by the client because:</p> <p>.....</p>	The investment firm has an obligation to explain why a recommended financial instrument meets the client's sustainability preferences and to provide a report to the client including these reasons.  Where a financial instrument meets sustainability preferences of a client but not wider sustainability motivations, the financial instrument may still be recommended but the investment firms should inform the client of the criteria which are not satisfied and that a financial instrument which does satisfy these criteria may be available elsewhere.

<ul style="list-style-type: none"> <li><input type="checkbox"/> I have informed the client that a financial instrument which also meets the client's wider sustainability motivations may be available elsewhere on the market.</li> <li><input type="checkbox"/> I have informed the client of online platforms which compare the sustainability features of different financial instruments.</li> <li><input type="checkbox"/> I asked the client if he or she prefers to adapt his or her sustainability motivations or prefer to find alternative investment solutions.</li> </ul> <p><b>AS A RESULT:</b></p> <p>EITHER</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> The client decides to accept the recommended financial instrument(s) through adapting the following sustainability motivations: .....</li> </ul> <p>OR</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> The client decides to look for alternative investment solutions.</li> </ul>	<p>The client should be asked whether he or she wishes to adapt his or her sustainability motivations or look for financial instruments elsewhere.</p> <p>If the client decides to adapt his or her sustainability motivations, a record of that decision should be kept.</p>
<b>Outcome 3: No financial product meeting sustainability preferences</b>	
<p><i>To be completed by the investment firm:</i></p> <p>Q12. I am unable to recommend a financial instrument which meets your sustainability preferences because: .....</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> I have informed the client that a suitable financial instrument which meets the client's sustainability preferences may be available elsewhere on the market.</li> <li><input type="checkbox"/> I have informed the client of online platforms which compare the sustainability features of different financial instruments.</li> </ul>	 <p>The investment firm has an obligation to explain the reasons why no financial product recommendation is possible which meets the client's sustainability preferences and to keep a record of these reasons.</p>
<p>Q13. Considering I cannot recommend a financial instrument to satisfy your sustainability preferences, do you want to adapt your sustainability preferences?</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Yes</li> <li><input type="checkbox"/> No, prefer to find alternative investment solutions</li> </ul> <p>If you have answered 'Yes':</p> <p>Sustainability preferences in the following manner: .....</p> <p>Reason(s) for adapting the sustainability preferences is/are: .....</p>	 <p>Where no financial instrument meets the client's sustainability preferences, the client may adapt his or her sustainability preferences.</p> <p>The investment firm has an obligation to keep records of the decision and the reasons for that decision.</p> <p>If the client answer Yes, the financial advisor may proceed to recommend a financial instrument.</p>
<p><i>To be completed by the investment firm:</i></p> <p>Q14. I recommended the following financial instrument(s): .....</p>	 <p>The investment firm has an obligation to explain why a recommended financial instrument meets the client's sustainability preferences and to provide a report to the client including these reasons.</p>

The recommended financial instrument(s) meet(s) the adapted sustainability preferences because:

.....