



MiFID/IDD: why am I being asked about my sustainability preferences?

New European rules for investments based on advice or within the context of asset management

Do you have investments or wish to start investing? Or are your assets being managed? From 2 August 2022 onwards, you will be asked by your bank, insurer or intermediary agent whether you are interested in sustainable investment and insurance products.

New European rules (MiFID & IDD) on sustainability will come into effect from that date. As a result, you as a customer will have the opportunity to find out extensively about the range of sustainable investment and insurance products available in the market. The ultimate goal is to evolve into a more sustainable society. For you, this means that your bank, insurer or intermediary agent - if you so wish - will take your sustainability preferences into account when giving advice on your savings or investment portfolio or your mandate in the context of asset management.

This brochure offers you a useful overview of what this will mean for you as a consumer.

MiFID II and IDD

- MiFID, which entered into effect in 2007, is the *Markets in Financial Instruments Directive*. Its successor, MiFID II, came into effect in 2018. This is a European directive setting out the rules to be followed by financial institutions when they offer you investment products or give you advice in this regard.
- IDD is the *Insurance Distribution Directive*. This is a European directive that contains rules regarding the distribution of insurance products. The purpose of IDD is to ensure that everyone involved in selling insurance products follows the same rules.

What has changed?

From 2 August onwards, your bank, insurer or intermediary agent will, **if you so wish**, take your sustainability preferences into account when giving advice on your savings or investment portfolio or your mandate in the context of asset management.

Specifically, you will receive an **explanation** about what exactly is meant by sustainability preferences, as well as information about the current market situation and the range of sustainable financial products and instruments. Interested? In that case, your bank, insurer or intermediary agent will also assess your **sustainability preferences** after assessing your level of knowledge and experience, financial capacity and investment objectives. This will become an essential part of creating a savings or investment profile for you that takes into account your specific needs and expectations.

What is the reason for these modifications?

Today, as society increasingly attaches greater importance to sustainable investing and savings, it has become essential to **expand** the scope of the MiFID and IDD guidelines to include sustainability requirements. The ultimate goal of the new regulations is **to create a better link between your savings and investment products and your sustainability preferences** and by doing so ensure that you, as an investor, gain a better understanding of the existing sustainable products and instruments.

Banks, insurers or intermediary agents also note that, for customers, the **sustainability of an investment** is becoming increasingly **more important**. For one out of three Belgians, sustainability issues take precedence when making an investment. Younger investors also attach more importance to sustainability.

When will you be asked about your sustainability preferences?

I am a new customer

Before you can open a savings or investment account/purchase an insurance product, your bank, insurer or intermediary agent will request you to

create a profile, based on a number of questions that will now be **expanded** to include questions about your sustainability preferences.

I am an existing customer

Even if you are an existing customer, the bank, insurer or intermediary agent will ask you about your sustainability preferences. When this will be done may vary from one financial institution to another, but it could be, for example, during the **next advisory meeting** or when your profile is reviewed.

How will my sustainability preferences be determined?

Your bank, insurer or intermediary agent will determine your sustainability preferences by asking you certain **specific questions**:

1. When investment products are offered, do you want the **possible negative impact on people, the environment or society of the investment** to be taken into account? Carbon emissions, damage to biodiversity or unequal remuneration of men and women are some examples of these adverse effects.
2. Do you want **sustainable investments** to be included in your offer from the bank, insurer or intermediary agent, possibly based on a certain minimum? These are investments that strive for a specific and measurable ecological or social impact, as determined by the SFDR¹.
3. Do you want **investments that are in line with the EU Taxonomy Regulation** to be included in your offer from the bank, insurer or intermediary agent, possibly based on a certain minimum? These are investments in economic activities that are considered to be 'green' by the European Commission.

Based on your answers and **if you so desire**, your bank, insurer or intermediary agent will formulate an offer for you consisting of financial instruments and products aligned with your preferences and create or revise your profile.

Of course, sustainability is just **one part** of your profile. Therefore, your bank, insurer or intermediary agent will also discuss with you whether your sustainable investments are **compatible** with your financial possibilities and expectations.

¹ The Sustainable Finance Disclosure Regulation or Regulation concerning sustainability-related disclosures in the financial services sector lays down disclosure requirements related to the organisation, services and products of a financial institution for the purpose of standardising performance in the area of sustainability.

Important to know

Lack of information

Currently, a lot of the **information** required for financial institutions to apply the legislation properly and link your sustainability preferences to specific financial instruments or products **is still not available**.

Why is this?

Companies will only be required to report annually on their sustainability status (under the Taxonomy Regulation and the SFDR) from **2023 onwards**. Moreover, this reporting requirement for companies will be introduced in a **phased** manner. This means that it will be difficult to properly determine **which products** represent an environmentally sustainable investment at this point, because banks, insurers or intermediary agents do not yet have all the information at their disposal.

Hence, due to the complexity and incompleteness of current European regulations, it may take some time before bank, insurer or intermediary agent can come up with product offerings that meet all the individual sustainability preferences of customers.

In addition to this:

- Taxonomie activities, i.e. economic activities that qualify as environmentally sustainable under the Taxonomy Regulation, are very

specific environment-friendly activities that today make up only **a limited part** of the global economy.

- Most companies are engaged in a **mix** of Taxonomy and non-Taxonomy activities.
- The EU Taxonomy is still **limited to the environment** (the E of ESG), and within that, only to the climate.

Products aimed at sectors that are not yet included in the EU Taxonomy (such as the circular economy, health care, social housing, etc.) have a very low or no Taxonomy component at all, even though these could be sustainable investments.

Handige tool

The website <https://towardsustainability.be> offers you a great deal of information about the range of sustainable financial products. Products bearing the 'Towards Sustainability' label meet specific sustainability requirements and are independently verified. There are also other European and international labels that can help guide you through the range of sustainable financial products offered.

Any questions?

Please consult your bank, insurer or broker for additional clarifications.

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