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MFSA Calls on Firms to Provide More Transparent and Clearer Advice on Sustainable Finance Investments

Investment firms licensed by the MFSA are expected to update their policies and procedures to be in line with EU rules and guidelines, particularly on their advisory processes linked to customers' sustainable preferences. These expectations correspond with one of the MFSA's priorities to increase awareness on sustainable finance, not only by ensuring that licensed entities comply with the relative legislative requirements, but also by driving ambitious policies for the benefit of all stakeholders and society at large. This is ultimately crucial for sustaining a fair, honest, and transparent financial market, which strengthens investor confidence and protects clients.

The concept of sustainability has recently gained significant importance especially within the context of the EU's Sustainable Finance Action Plan whose scope is to ensure that finance is being redirected towards meeting the ambitious goals outlined in the Paris Agreement of 2016, to limit global warming and shift towards sustainable economic activities. As a result of this Action Plan, a number of sustainability-related EU legislation and guidelines applicable to investment firms were introduced or amended.

In view of these changes, the MFSA carried out a thematic review to assess how investment firms have updated their policies and procedures in line with the latest regulatory requirements, specifically on the element of consumers' sustainable preferences. This included a desktop review which captured submissions from all licensed entities providing investment advice, as well supervisory meetings with a sample from the sector. The findings point towards an urgent need for improvement on an array of aspects.

The majority of investment firms in the sample did not include the necessary information to assist clients in understanding sustainable finance concepts. Concepts such as ESG and the distinct types of sustainability preferences were not clearly defined in the information provided to clients, and only in very few instances were resources, such as a Q&A document or explanatory notes, made available.

The MFSA also noted that the questions asked by investment advisors when collecting information from clients, were not sufficient to determine clients' sustainable preferences. Moreover, the review found that some of the investment firms were biased in their approach and did not maintain a neutral stance, hence, indirectly influencing clients' preferences. Firms' methods for assessing and investigating these preferences were also found to be lacking, with a large portion of firms not undertaking a consistent approach.

The Authority is concerned to note that the licence holders within the research sample did not make any granular updates to their sustainability disclosures on their website, despite the guidance issued by the MFSA prior to this review.

Sarah Pulis, MFSA's Head of Conduct Supervision, said, *"In its efforts to ensure the application of the EU sustainability-related requirements by licensed entities, the MFSA aims to enhance transparency of the market and tackle the issue of greenwashing, leading to more sustainable economies. This is why it is crucial for investment firms to explore their clients' sustainability preferences effectively during the suitability assessment, so that they can offer the products which best meet their client's objectives. In a [Dear CEO Letter](#) sent to the sector, we have communicated our latest observations on good and bad practices, as well as laying out our expectations, highlighting the urgent need for investment firms to make improvements in this area."*

About MFSA

The Malta Financial Services Authority (MFSA) is the single regulator of financial services in Malta, covering banks, insurance companies, investment services, trusts and pensions. In 2018, the MFSA became the first European regulator to develop a framework to regulate virtual financial assets. The MFSA's mission, as enshrined in its Strategic Statement, is to enhance its position as an independent, proactive and trustworthy supervisory authority with the main purpose of safeguarding the integrity of markets and maintaining stability within the financial sector, for the benefit and protection of consumers. The MFSA licenses over 2,000 entities to operate in the financial services sector.

