Sustainability requirements in POG and suitability assessment: what does the AFM expect from you?

In short In 2024 and 2025, the AFM conducted a survey of compliance with the sustainability requirements for two themes. First, for product oversight & governance (POG) and second for the suitability assessment. We are positive about the steps that investment firms have taken. But we also see that they do not yet meet all the requirements. To help the market make further progress, this second ESG update contains additional clarification and good practices from the market for POG (Ch. 1) and for the suitability assessment (Ch. 2). Finally, we explain the main points of our survey (Ch. 3).

Achieving a good match between the investor's preferences and suitable sustainable investment products – that is the core task of the sustainability requirements for POG and the suitability assessment. A detailed positive and negative target market assessment ensures that clients do not unintentionally end up with unsuitable products. In addition, it is important that investors have a good understanding of the sustainability element in the suitability assessment. A complicated explanation can lead to incomplete answers – or to clients dropping out. Furthermore, a careful and detailed survey is essential to map out preferences. The better the preferences are known, the more effectively investment firms can target suitable sustainable products at the right investors – and the better the match.

Investment firms have a key role in achieving a good match. They know their clients, can translate preferences and offer guidance in a complex investment landscape. A good match strengthens client trust and offers commercial opportunities: almost half of investors pay at least some attention to the sustainability of their investments products.

What does the AFM do? Sustainability in the financial sector is a strategic priority of the AFM. We therefore expect to continue to assess compliance on the themes we mention in the ESG updates. The requirements set in these updates must be met, and we monitor this. In the third ESG update, we will discuss sustainability claims.

If you encounter obstacles or have identified areas for improvement in the market, send an e-mail to: ESG-update@afm.nl. We will answer your messages where possible and use them to identify the major obstacles. The AFM will provide the best possible clarification by further supplementing our information. More information can be found on our Sustainability page.

SUPERVISION
ESG UPDATE 2

DECEMBER 2025

AFM

1. Product oversight & governance (POG): additional clarification by the AFM on the three expectations on this theme

This is what the AFM expects from you
You **know** and **check** the quality and reliability of the sustainability-related information on products (including for the purpose of the suitability assessment).

Additional clarification by the AFM on this expectation

- Provide clear sustainability-related information from the product developer, check it critically and regularly monitor whether new sustainability-related information is available. Define in your policy how this is applied consistently. Inform clients if information is missing.
- Check sustainability-related information for reliability. The distributor remains responsible for determining the target markets and must have reliable product information.
- It can help to use data from a data broker. Be critical of the meaning and scope of this information, especially if it is shared with clients.

Good practice: transparent scoring methods for sustainability
A market participant awards its own sustainability score to its investment products. This allows a better assessment of the target market of products so that they can be matched with the clients' sustainability preferences. When a market participant uses its own scores, it is important that the method and sources used are explained in a transparent manner. Scores should also be awarded to non-sustainable products, to ensure a fair and consistent comparison.

This is what the AFM expects from you
You have set up the **customer journey** (website, app, customer contact) in accordance with the distribution strategy.

Additional clarification by the AFM on this expectation

- Ensure in policies and procedures that products only reach the right (positive) target market. Avoid selling to the negative target market, especially in the case of execution-only services.
- Give clients clear information on the sustainability features of products. Also indicate when a product does not have sustainability features, or when information is missing.
- You may use third-party sustainability labels, provided that you critically assess the underlying methodology. The AFM expects you to investigate how the label was determined, and additionally to test whether the information corresponds to practice, for example by means of random checks.

Good practice: filter by sustainability scores
A market participant offers clients the opportunity to filter products on the basis of sustainability scores. This can contribute to a better tailored choice of products. It is essential that investment firms are transparent about the way in which these scores are determined, including the sources and methodology used.

This is what the AFM expects from you
You **monitor** the distribution of grey products to the negative target market and evaluate the effectiveness of your strategy to prevent this.

Additional clarification by the AFM on this expectation

- Define the negative target market in detail. It helps to do this on the basis of the three categories of sustainability preferences: taxonomy investments, sustainable investments within the meaning of the SFDR and investments that take into account principal adverse impacts (PAIs). This makes it easier to align investments with sustainability preferences.
- In principle, grey products must not be offered to clients with a sustainability preference. This requires a clear and well-defined negative target market to prevent a mismatch.
- Determine the target market at product level. Clustering of products with the same sustainability features is permitted, provided that the underlying sustainability-related information is sufficiently transparent and consistent.
- Check whether grey products still reach the negative target market. Regularly assess the effectiveness of your strategies to prevent this from happening.

2. Suitability assessment: additional clarification by the AFM on the three expectations on this theme

This is what the AFM expects from you
You provide **an understandable explanation** of the sustainability element in the suitability assessment.

Additional clarification by the AFM on this expectation

- Explain why clients are asked to state their sustainability preferences, what they can expect, what choices they have to make and why complete answers are important.
- Explain the three categories of sustainability preferences (taxonomy investments, sustainable investments within the meaning of the SFDR and investments that take into account principal adverse impacts (PAIs)), and the differences between these categories. Make sure the explanation matches the client's understanding.
- Discuss the ESG concept and say what the E, S and G stand for in ESG.
- Clearly explain the difference between investment products with and without sustainability features.
- Provide the explanation before you gather clients' sustainability preferences, for example through brochures, leaflets or a website. This allows clients to prepare well.
- Test whether the client understands the explanation. Preferably do this before asking for sustainability preferences. This provides scope for additional explanation. Testing afterwards is also possible, for example if you ask for sustainability preferences online.

Good practice: explanation with an example
A market participant explains what the requirements are for a taxonomy investment; this explanation is given with an example about a wind farm. The wind farm contributes to solving climate change and could therefore be a taxonomy investment. However, the wind farm is located in a protected nature reserve that is being damaged by the wind farm. As a result, the wind farm does not meet all the requirements of the EU Taxonomy, so it is not an environmentally sustainable investment.

Good practice: good, complete and timely explanation
In a brochure, a market participant explains the sustainability element in the suitability assessment. Clients receive this brochure prior to the suitability assessment. The brochure explains the link between investing and sustainability. Clients can choose the extent to which sustainability can play a role in their investments. The market participant explains in the brochure that it will ask for sustainability preferences for this reason, and the brochure also states how this request will be made, what choices clients can make and what the market participant will subsequently do with this information.

This is what the AFM expects from you
You are thorough when collecting information on the **actual sustainability preferences** and do not steer investors towards a particular product or investment strategy.

Additional clarification by the AFM on this expectation

- Ask new and existing clients about their sustainability preferences.
- Formulate the corresponding questions and the explanation neutrally and without bias, in other words without referring to your own product range or investment policy and without pointing out to clients the consequences of their answers. For multiple-choice questions, also offer options that fall outside the product range.
- Collect information on whether clients have a preference for one or more of the three legal categories of sustainability preferences: taxonomy investments, sustainable investments (SFDR) and investments that take into account principal adverse impacts (PAIs).
- If there is a preference for sustainable investments within the meaning of the SFDR and/or taxonomy investments, ask for the desired minimum proportion. This represents the proportion of an advised or managed financial instrument that must at least meet the requirements for taxonomy investments or sustainable investments within the meaning of the SFDR. This is therefore not about a part or percentage of the portfolio that must meet the client's sustainability preferences.
- You may use standardised minimum percentages, provided that clients have enough options to choose from. If applicable, also include options that you cannot meet.
- Let clients themselves indicate which PAIs the investments should take into account. You can let clients choose PAIs themselves, or let them choose from a standard list, including the list of PAI families from the SFDR. Then also include PAIs that you cannot meet.
- Clients must be able to state on the basis of quantitative or qualitative criteria how PAIs should be considered. For example, ask clients by means of a ranking how important the stated PAIs are to them.
- In case of portfolio management or investment advice with a portfolio approach, you should ask what part or percentage of the portfolio should meet the sustainability preferences.

Good practice: layered questioning
In an online questionnaire, a market participant first identifies whether a client has a preference for taxonomy investments, sustainable investments within the meaning of the SFDR, investments that take PAIs into account or several of these categories. The client is then directed to specific questions about each chosen category. For example, a client with a preference for taxonomy investments and sustainable investments within the meaning of the SFDR will first be asked a follow-up question about their preference for taxonomy investments. Only then will the client be asked a follow-up question about their preference for sustainable investments within the meaning of the SFDR.

Collecting information on sustainability preferences: how it works

A

Does the client have any sustainability preferences?

NO | YES

Does the client have sustainability preferences with regard to environmentally sustainable investments, sustainable investments or investments considering PAIs?

NO | YES

In case of a preference for (environmentally) sustainable investments, ask for the minimum proportion

1 Minimum proportion environmentally sustainable investments

0% 100%

TAXONOMY INVESTMENTS

Minimum proportion that financial instruments (in the portfolio) shall invest in environmentally sustainable investments

2 Minimum proportion sustainable investments

0% 100%

SUSTAINABLE INVESTMENTS (SFDR)

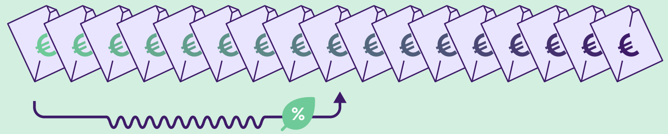
Minimum proportion that financial instruments (in the portfolio) shall invest in sustainable investments within the meaning of the SFDR

IN CASE OF A PREFERENCE FOR PAIs:

Which principal adverse impacts should be considered?

B

Which part/percentage of the investment portfolio (if any) should be invested in accordance with these sustainability preferences?



C

Examples suitability assessment for investment portfolio

- Apply preferences on average at the level of the portfolio as a whole
- Apply preferences at the level of the part/percentage of the portfolio the client wants to be invested in products with sustainability features

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This is what the AFM expects from you
You provide investors with suitable products, matching their **actual/initial sustainability preferences** as far as possible. You will not steer them towards an adjustment to these preferences.

Additional clarification by the AFM on this expectation

- Make sure your advice or portfolio management strategy matches clients' sustainability preferences. In the event of a mismatch, clients can decide to adjust their sustainability preferences so that the mismatch is eliminated.
- Ensure that safeguards and controls are embedded within your policy and implementation processes, so that clients only receive investment products (or recommendations) that match their actual sustainability preferences.
- Include all the necessary information on sustainability preferences that you need to ask for when assessing the suitability of investment products for the client. In your policies and processes, make sure that answers lead to a consistent match with investment products with sustainability features.
- If your product offering does not match the client's sustainability preferences, you can point out the possibility of adjustment, but without steering the client or providing information on the sustainability content of your product range.
- If clients do not wish to change their preferences, stop providing the service. If clients do adjust their preferences, record both the decision and the reason, for example in your client system, and offer suitable products later if they become available.

Good practice: taxonomy profile in the suitability assessment
A market participant assigns a taxonomy profile to clients who indicate a preference for taxonomy investments. This is to indicate that these clients want taxonomy investments in their investment portfolio. However, the market participant does not yet have taxonomy products in its product range. The market participant therefore asks whether these clients are willing to adjust their sustainability preferences. If clients are willing to do so, they will be given a different sustainability profile for which the market participant does have suitable products.

3. Key takeaways from our survey and focus areas

Investment firms are making good progress in designing the customer journey and explaining sustainability

The AFM finds that all six surveyed investment firms are making efforts to improve compliance with the sustainability requirements for POG and the suitability assessment. That is positive.

With regard to POG, we see the following:
- The surveyed investment firms clearly communicate sustainability features in the execution-only channel, for example by means of a filter function.
- The customer journey is designed in such a way that it is easy for clients to buy products that match their sustainability preferences.
- In the positive target market assessment, the majority take sustainability preferences into account, although the level of detail varies greatly.

With regard to the suitability assessment, we see the following:
- All surveyed investment firms explain the sustainability element in the suitability assessment before and during the suitability assessment.
- The majority also provide clear explanations of the different categories of sustainability preferences.
- All surveyed investment firms gather information on clients' sustainability preferences.

Extra steps needed in determining target market and collecting information on sustainability preferences

The AFM also sees several focus areas among the surveyed investment firms. With regard to sustainability requirements for both POG and the suitability assessment, we find that certain procedures and processes are not always laid down in the policy. We would emphasise that this is necessary. In addition, the AFM notes the following points:

Focus areas concerning POG
- Detailed target market in terms of sustainability and a negative target market for investment products without sustainability features:
  - Make both the positive and negative target market more specific.
  - Align with the sustainability preferences from the suitability assessment.
- Critically review information received from the product developer:
  - Check the information received and assess it critically.
  - If necessary, supplement with data from data brokers.

Focus areas concerning the suitability assessment
- Clear explanation of the sustainability element in the suitability assessment:
  - Explain the ESG (environmental, social, governance) concept.
  - Clearly state the difference between investment products with and without sustainability features.
  - Check whether the client has understood the explanation of sustainability.
- Thorough collection of information on sustainability preferences:
  - Obtain information on minimum proportions in case of preferences for taxonomy investments or sustainable investments within the meaning of the SFDR.
  - Obtain information on the precise principal adverse impacts (PAIs) to be considered in the case of a preference for PAIs.
  - Avoid highlighting potential limitations or consequences of certain sustainability preferences.
  - Do not limit the options to the existing product range only.

Sustained effort required to obtain detailed information

We also asked the surveyed investment firms what problems they encounter in implementation:

- Most clients think sustainability is important, but they have no specific preferences. Specific questions about sustainability preferences can then be experienced as a nuisance.
- Sometimes there is insufficient information on products' sustainability features, and the range of taxonomy investments is limited. This makes it difficult to make a good match.

The AFM understands these circumstances. This does not alter the fact that investment firms must continue to make efforts to obtain sufficiently detailed information on clients' sustainability preferences and the sustainability features of investment products.