3
The Traditional Approach to Risk Tolerance

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3.1 Risk tolerance in the MiFID suitability questionnaire

Assessing client risk tolerance is one of the most important, yet most nebulous, activities within the financial planning process. A person's level of risk tolerance impacts upon a diverse number of financial decisions, such as portfolio management, type of mortgage, insurance deductibles, estate planning, and so on (Roszkowski and Grable, 2005). For years, the need to understand the attitude of investors toward risk has led both academics and practitioners to find reliable tools to assess the risk tolerance of individuals.

On the one hand, a number of authors have called for the application of formal procedures and tests to the risk tolerance assessment process; however, there is no consensus on how to best conduct it (among others, Callan and Johnson, 2002; Yook and Everett, 2003; Hanna and Lindamood, 2004; Roszkowski et al., 2005). Techniques for measuring risk tolerance have been devised by economists, psychologists and decision scientists, but as Grable and Joo (2000) observed, the recommended procedures differ depending in part on the academic or professional background of the assessor.

On the other hand, supervisors and regulated firms across the banking, securities and insurance sectors have also dealt with the issue of accurately assessing the level of risk a client may tolerate, in order to provide a product or service that matches the client's characteristics and while avoiding the risks associated with mis-selling.

With specific reference to the European Union, the Market in Financial Instruments Directive (MiFID, henceforth) has formalised the need for financial firms to include their clients' risk tolerance in the set of information required to determine whether an investment is 'suitable' for a

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particular client. The legislative framework comprises the MiFID Level 1 Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 and the MiFID Level 2 Commission Directive 2006/73/EC of 10 August 2006. The first legislative reference contains conduct of business obligations that apply to investment firms and credit institutions when providing investment services (art.19).[1] The second legislative reference specifically includes a section containing technical implementation measures on the assessment of suitability and appropriateness (art. 35 onwards). This Directive required Member States to adopt the laws, regulations and administrative provisions necessary to comply with it by 31 January 2007, and to apply these measures beginning 1 November 2007.

Within the MiFID framework, the client's risk tolerance assessment is included into the more general suitability evaluation process. Suitability is given a broad meaning:[2] 'the degree to which the product or service offered by the intermediary matches the retail client's financial situation, investment objectives, level of risk tolerance, financial need, knowledge and experience'. In essence, suitability is a process by which the firm *gets to know its customer.*

The general application of MiFID suitability obligations is in regard to investment services; nevertheless, the specific application of MiFID rules varies according to a number of conditions, summarised in Table 3.1.

Table 3.1 Modulation of MiFID suitability obligations

Influence of the financial firm upon the client's investment decision	Non-advised services (reception and transmission of orders, execution of orders, dealing on own account, placing of financial instruments)	• Less protection to the client • Smaller information exchange • No risk tolerance assessment
	Advised services (portfolio management, investment advice)	• Greater protection to the client • Wider information exchange • Risk tolerance assessment
Client's classification	Professional client	• Lower level of protection • Less information • Risk tolerance assessment
	Retail client	• Higher level of protection • More information • Risk tolerance assessment
Type of financial intermediary	Insurance sector	Partial application
	Banking and securities sector	Full application

First, the need for a deeper knowledge of the client depends upon the kind of investment service provided; the kind of investment service may be defined according to the influence that the investment firm exerts on the final investment decision of the client. In this perspective, investment services may be divided into two groups: a first group of services that entails an element of recommendation on the part of the firm upon the final investment decision of the client, as the firm advises some products or receives an explicit mandate from the client to manage his or her assets ('advised services', that is, investment advice and portfolio management); a second group of services that do not imply a recommendation by the financial intermediary, resulting in a mere execution of transactions autonomously decided by the client ('non-advised services', such as reception and transmission of orders, execution of orders, dealing on own account, placing of financial instruments). As we will outline below, the amount of information required to provide the first group of services is greater and includes the assessment of risk tolerance, according to the MiFID prescriptions.

Secondly, the MiFID suitability obligations vary also according to the type of customer the service is provided to. In this sense, the MiFID distinction between a 'retail customer' and a 'professional client' is important. In general, the term 'retail customer' is not defined. Instead, anyone who is not a 'professional' investor (for example, financial intermediaries authorised to operate in the financial markets, companies meeting specific size requirements, some public organisations and, on request, private individual investors meeting certain minimum net worth levels or experience standards) is generally treated as a retail customer.[3] Suitability requirements apply to both, but differently: for retail clients the sources of information are more numerous, while for professional clients the data requirements are more essential. Nevertheless, risk tolerance is required in both cases, as we will discuss later in more depth.

Finally, even if the notion of suitability is recognised in the regulatory requirements across all financial services sectors (banking, securities and insurance), there are some differences in its application in each sector. In particular, the application of MiFID suitability requirements is only partially mandatory among insurance intermediaries providing investment services, whereas they fully apply to banks and financial firms.

As we outlined before, suitability obligations are modulated first according to the kind of service provided and the underlying influence upon the client's investment decision. For the group of 'advised

services', MiFID requires the assessment of suitability in the strict sense, while for the second group of 'non-advised services' the assessment of appropriateness is needed. Both suitability and appropriateness have to be assessed through the use of questionnaires that are commonly called the suitability questionnaire and the appropriateness questionnaire. The two questionnaires differ regarding three main points. The first, as we have just observed, is the different field of application: portfolio management and investment advice need the suitability questionnaire, whereas services other than financial advice or portfolio management (for example, where the client simply asks that an order be executed) require an appropriateness questionnaire. Under MiFID, in the case of execution-only services (but in non-complex products only) the appropriateness test is not applied, provided that the service is offered at the initiative of the client, that the client has been clearly informed that the firm is not required to assess the appropriateness of the instrument or service offered and accordingly that the client will not have the benefits that would otherwise be provided by appropriateness determinations; the investment firm also has to comply with its conflict of interests obligations. There are two further distinctions between the suitability and appropriateness questionnaires, even more relevant from an operational point of view (see Table 3.2).

Table 3.2 The suitability questionnaire and the appropriateness questionnaire: a comparison

	Suitability	**Appropriateness**
Application field	• Portfolio management • Investment advice	Investment services other than portfolio management and investment advice No test is required for execution-only service
Content	Three sections: • investment objectives • financial capacity • experience and knowledge	One section: • experience and knowledge
Operational effects	Compulsory questionnaire: if the questionnaire is not filled in by the client, portfolio management and investment advice services cannot be provided	Non-compulsory questionnaire: if the client refuses to give some information, the service may be provided all the same, but under a disclosure obligation by the firm

The suitability and appropriateness questionnaires require a different set of information from the client. The MiFID dictates that the suitability questionnaire should be deeper and organised in three sections containing different information about the client.

The first section is addressed to the investment objectives of the client; in this section, the client has to express his or her preferences about the time horizon and the risk profile of the investment he or she is going to make, in order to identify those investment products that matches his or her preferences about risk, return and length of time. The second section is focused on the financial capacity of the client; it relates to the client's financial ability to incur risk and is a function of some economic information, such as the amount and stability of his or her income, the amount of expenses relative to income, the diversification of assets, the amount, timeframe and structure of liabilities. The third section aims to investigate the experience and financial knowledge of the client, as clients who comprehend risk are more likely to make financial planning decisions consistent with accomplishment of their goals; typically, the types of service, transaction and financial instrument with which the client is familiar or that the client has used in the past are investigated. It is evident that the assessment of the client's level of risk tolerance is not a standalone section, but it is included as a supplementary piece of information into the 'investment objectives' section. With regard to the appropriateness questionnaire, the amount of information asked for from the client is lower; as far as 'non-advised services' are concerned, it follows that the only section to be assessed is the necessary experience and knowledge of the client, in order to understand if the client is able to recognise the risks involved in the product or investment service offered or demanded. As a consequence, no element about the risk tolerance of the client is recorded.

Finally, the suitability and appropriateness questionnaires differ with regard to the compulsoriness (or not) of their need to be filled in, resulting in different operational implications for the investment firm. The suitability questionnaire is compulsory: the firm cannot provide the advice or management service if the client has not completed the test and provided all the required information (therefore, also the assessment of risk tolerance); this means that the suitability questionnaire is a preliminary test of knowledge the firm cannot do without, as it works as a stopping step for the service provision. On the contrary, in cases where the client does not provide the information needed to perform the appropriateness questionnaire, or provides insufficient information, firms are required to warn the client that the firm does not have

sufficient information to determine whether the service or product envisaged is appropriate; nevertheless, the service or product may be provided. Therefore, the appropriateness questionnaire is not a stopping step for the service provision, but it simply causes the rise of a disclosure obligation for the providing firm.[4]

Where an investment firm provides an investment service to a professional client, it shall be entitled to assume that, in relation to the products, transactions and services for which he or she is so classified, the client has the necessary level of experience and knowledge; moreover, where that investment service consists of the provision of investment advice, the investment firm shall be entitled to assume also that the professional client is able financially to bear any related investment risks consistent with his or her investment objectives.[5] This means that for professional clients the suitability questionnaire is reduced into two sections ('investment objectives' and 'financial capability'), when providing portfolio management, and even into one section ('investment objectives'), when providing financial advice, as the other information may be implicitly assumed by the firm. Nevertheless, in both cases the level of risk tolerance is investigated. In contrast, the appropriateness has no more need to be assessed, as the only set of information required for appropriateness ('financial experience and knowledge' of the client) is implicitly supposed to exist.[6]

The suitability and appropriateness obligations are explicitly provided only to investment firms providing investment services. Investment firms are defined as 'any legal person whose regular occupation or business is the provision of one or more investment services to third parties and/or the performance of one or more investment activities on a professional basis';[7] the reference is to the securities and banking sector, so that 'pure' investment firms and credit institutions that provide investment services are subject to the same rules. In the original MiFID prescription, nothing is specified as far as insurance companies providing investment products are concerned. As a consequence, each Member State is free to design a specific regime for the insurance sector, provided that the regime is compliant with the Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on Insurance Mediation (IMD, henceforth). For example, in Italy the Regulation n. 16190 of the 29 October 2007 (Reg. 16190/2007, henceforth), provided by the Italian regulatory authority for financial markets (Commissione Nazionale per le Società e la Borsa, CONSOB) and implementing MiFID prescriptions in the Italian legislation, extends the suitability and appropriateness obligations to the so-called Subjects Qualified to the Insurance Intermediation

(SQII, henceforth) (art. 85); Reg. 16190/2007 underlines that Italian and European investment firms, Italian and European banks, financial intermediaries belonging to the list ex art. 107 of the Legislative Decree n. 385 of 1 September 1993 and Poste Italiane are considered SQII, also when providing remote services (art. 83). When offering insurance products with an investment purpose,[8] they are asked to follow the same rule of suitability/appropriateness dictated to banks and investment firms. Art. 87 of the same regulation extends this prescription also to insurance firms that directly sell financial insurance products to the client, while no mention is made about insurance distributors, such as brokers and insurance agents, that continue to follow the general prescriptions dictated by the Italian regulatory authority for insurance firms, Istituto per la Vigilanza sulle Assicurazioni Private e di Interesse Collettivo-ISVAP ('Code of private insurance', Legislative Decree n. 209 of 7 September 2005 and ISVAP Regulation n. 5 of the 16 October 2006) and by the IMD cited above (see Table 3.3).

This lack of prescriptions for agents and brokers creates a gap between some distributors of investment linked insurance products and others: the same product may require a test of suitability/appropriateness or not according to the kind of subject responsible for the provision. If the product is provided by a SQII or directly by an insurance firm a suitability/appropriateness questionnaire must be done and it may work

Table 3.3 Normative framework about suitability/appropriateness applied to the Italian insurance sector

Intermediary	**Financial insurance products**	**Non-financial insurance products**
SQII	Suitability/ Appropriateness obligations ex MiFID (Art. 83ss. Reg. n. 16190/2007)	ISVAP rules (Code of private insurance and ISVAP Regulation n. 5 of the 16 October 2006)
Insurance firms (direct selling)	Suitability/ Appropriateness obligations ex MiFID (Art. 83ss. Reg. n. 16190/2007)	ISVAP rules (Code of private insurance and ISVAP Regulation n. 5 of the 16 October 2006)
Other 'traditional' distributors (agents, brokers ...)	ISVAP rules (Code of private insurance and ISVAP Regulation n. 5 of the 16 October 2006)	ISVAP rules (Code of private insurance and ISVAP Regulation n. 5 of the 16 October 2006)

as a stopping step for the service provision, while if the same product is provided by an agent or a broker no questionnaire is needed and no stopping step occurs, apart from general rules of disclosure prescribed by ISVAP and IMD for selling insurance products.[9] The same considerations are true if we specifically consider the risk tolerance assessment, being a part of the suitability questionnaire.

This is evidently an inconsistency within the law, which should be considered and discussed at the institutional level, in order to avoid ambiguity in the provision of investment services and to effectively guarantee customer protection. From this perspective, the European Commission's Communication on Package Retail Investment Products (PRIPs, henceforth), which was published on 29 April 2009, points out a number of differences in the regulation of selling practices of PRIPs. In the Communication, the European Commission sets forth a horizontal approach in order to harmonise sales practices not only across different product classes, but also across various distribution channels. The work of the Commission, which has included a call for evidence and an open hearing, plans to revise the IMD and to make a legislative proposal at the end of 2010.[10]

From the above considerations, we derive that the MiFID suitability and appropriateness questionnaires are not strictly risk tolerance tests, as their general goal is wider and addressed to a global knowledge of the client in order to provide an investment service that is understood by the client in its risk profile and that matches the client's financial features. In this perspective, the client's risk tolerance assessment enters as just one component, among others, required to know the client. Nevertheless, even if the MiFID suitability questionnaires are not risk tolerance tests in the strict meaning of the term, it is important to discuss them, as they are actually the only tool that financial firms are obliged to provide by law to their clients before investment service provision. As the 'investment objectives' section contains questions about the client's risk profile, MiFID suitability questionnaires become also the only tool that financial firms are obliged to use by law for the assessment of risk tolerance.

3.2 The Italian experience: comparisons of MiFID questionnaires

The suitability determination and, within it, the risk tolerance assessment of individuals relies primarily on adequate information gathering by financial firms. From this standpoint, a key part of the analysis is

to understand what firms actually do to meet their MiFID suitability obligations and to derive the risk profile of their clients. We analyse 14 suitability questionnaires provided by the first 14 Italian financial groups in terms of promoted assets[11] in the area of portfolio management; altogether, these groups share 90 per cent of the total market. Our analysis deals only with questionnaires in respect to *retail* customers and products with a significant *investment* component that require a suitability determination. Questionnaires for institutional investors and those addressed to the provision of services that require only an appropriateness evaluation are not part of this survey, as they may be considered a portion of the wider suitability questionnaire.

The aim of our analysis is twofold: on the one hand, we try to understand how the major Italian financial firms actually deal with their customer suitability obligations, in order to compare different approaches in developing the questionnaire and outline the main differences; on the other hand, a specific focus is addressed to investigate how these intermediaries specifically formulate questions to assess the risk tolerance of a client which will help to point out any possible gaps therein.

It is worth pointing out that the Italian regulatory authority for financial markets (CONSOB) has recently implemented the 'Level 3' (L3, henceforth) of MiFID, in order to homogenise the practices for fairness and transparency followed by Italian intermediaries towards retail clients, with a specific concern for illiquid and complex financial products.[12] In this perspective, CONSOB dictates further obligations that financial intermediaries have to follow when assessing the suitability/appropriateness of their customers. Specifically, CONSOB requires that in order to assess the suitability/appropriateness of a product, financial firms have to implement a set of controls, regarding the coherence between the complexity, the risk profile, the liquidity of the product and the characteristics of the client as derived from the suitability/appropriateness questionnaire. These obligations have led some Italian intermediaries to make adjustments to their suitability questionnaires and, most of all, in their algorithms for assessing the risk profile in order to be fully compliant to L3. For example, better specifications of illiquid and complex products inside the questionnaire have been sometimes needed, as well as some further specifications about the investment objectives and the time horizon desired. We collected suitability questionnaires from the 14 Italian financial groups after these regulatory adjustments.

At first glance, the 14 suitability questionnaires provided by the major Italian financial groups appear to be largely different. Some of them are

very analytical, whereas some of the others are very short and essential. The number of questions asked to the client is a first proxy for the comparison: there are questionnaires where the maximum number of questions equals 37 and others with a minimum of 8; in our sample, the average number of questions asked to the client is approximately 19. Indeed, in our sample the range between the maximum and the minimum number of questions is quite high and also the dispersion around the average is not negligible, with a convergence towards the left side of the frequency distribution (see Figure 3.1).

In order to develop a deeper analysis of our sample of questionnaires and to derive a coherent basis for comparisons, we decided to use the information categories suggested by MiFID as an objective parameter. More specifically, as outlined in Section 3.1, MiFID asks firms to provide a suitability questionnaire made up of three sections, respectively in regard to: 'financial objectives'; 'financial capacity'; 'financial experience and knowledge'. These sections are compulsory and must be necessarily covered by each financial firm through the suitability assessment of its clients. At the same time, MiFID suggests a set of items that 'should' be included in each section, without formulating a legislative obligation for them directly.[13] This means that, even though MiFID stipulates some advisable questions to be included in the questionnaire, each financial firm is free to define the specific questions of its own suitability questionnaire, provided that the three main sections are covered. The set of items suggested by MiFID are summarised in

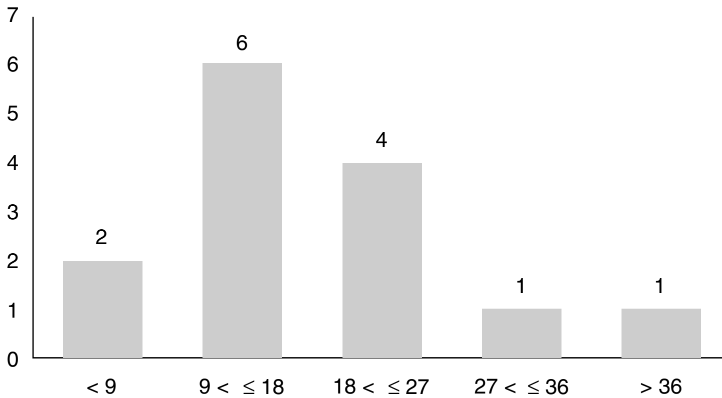

Figure 3.1 Number of questions in the suitability questionnaires
(sample: the first 14 Italian financial groups in terms of promoted assets)

Table 3.4 Set of items suggested by MiFID for the suitability questionnaire

Section	**Should include:**
Investment objectives	• Information on the length of time for which the client wishes to hold the investment • The investors's preferences regarding risk taking • His or her risk profile • The purpose of the investment
Financial capacity	• Source and extent of his or her regular income • His or her assets (including liquid assets) • Investment and real property • His or her regular financial commitments
Experience and knowledge	• Types of service, transaction and financial instrument with which the client is familiar • The nature, volume and frequency of the client's transactions in financial instruments • The period over which the client's transactions have been carried out • The level of education of the client • Profession or relevant former profession of the client

Table 3.4 and we have decided to use them as a 'benchmark' to compare the completeness of various questionnaires provided by our sample of Italian financial firms.

The 'benchmark' questionnaire suggested by MiFID comprises 13 items, equally portioned among the three sections. All the items suggested by MiFID are clearly understandable; the only item that needs a specification is the one related to the risk assessment of the client. In this sense, MiFID makes a distinction between the preferences regarding risk taking and the client's risk profile; provided that the legislation does not explicit the specific meaning of each of them, we associated the 'preferences regarding risk taking' item with all the questions related to the risk and return characteristics of the investments the client is willing to undergo (objective risk), while we interpreted the 'risk profile' item as the one aimed to know the behaviour of the client in situations of riskiness and uncertainty (subjective risk).[14] This way, we are able to make a distinction between the assessment of the objective risk and the evaluation of the subjective aspect of risk.

With these premises, we try to analyse how much the 14 questionnaires under study verge on this 'benchmark' suggested by law and if

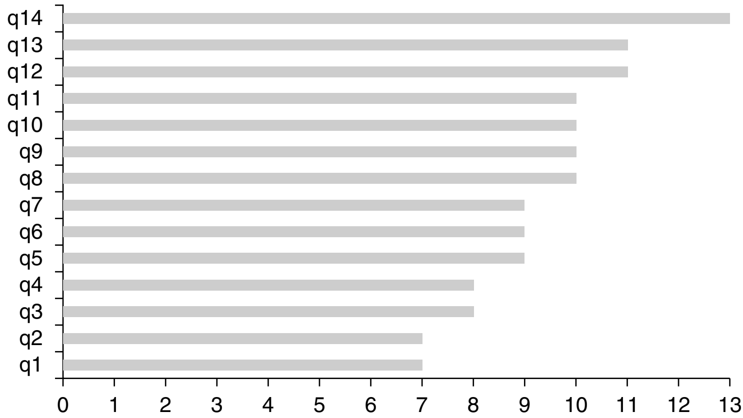

Figure 3.2 The completeness of the suitability questionnaires: number of MiFID suggested items covered

(sample: the first 14 Italian financial groups in terms of promoted assets)

the divergence among questionnaires is significant or not. A first synthesis of our findings is summarised in Figure 3.2.

If we evaluate the completeness of the suitability questionnaires in terms of how much they cover the set of items indicated by MiFID, only one questionnaire is complete, as the other ones leave one or even more suggested items uncovered. The largest element of our sample (nine questionnaires) includes a number of items between eight and ten. On the basis of this evidence, it is interesting to further identify what are the items generally covered in our sample and, conversely, what are the areas of questions generally overlooked. From the first point of view, the items covered by all the 14 questionnaires are those related to: the length of time for which the client wishes to hold the investment, preferences regarding risk taking, types of service, transaction and financial instrument with which the client is familiar, the nature, volume and frequency of the client's transactions in financial instruments.[15] On the contrary, the less investigated areas are those regarding: regular financial commitments (seven questionnaires), the asset composition (six questionnaires), the risk profile (four questionnaires), the period over which past investments have been carried out (one questionnaire). Some intermediaries provide 'extra' questions, not included in the 'benchmark' scheme suggested by MiFID. Nevertheless, generally these questions are introduced for insurance products, in order to be ISVAP

compliant, or to acquire information useful for the firm providing the service rather than for the suitability assessment of the client.[16] The only 'extra' question, not suggested by MiFID, but useful to improve the knowledge of the client is the one related to the frequency to which the client brings himself or herself up to date about financial situation; in our sample, two financial firms include this question in their suitability questionnaires.

Shifting the analysis from the general scheme to the single compulsory sections of the questionnaire, we may provide a deeper insight about the specific questions asked and the different approaches followed by each intermediary. In this sense, as regards the 'investment objectives' section, the approach generally followed by our sample of Italian intermediaries is quite homogeneous (see Figure 3.3).

All the 14 suitability questionnaires under analysis include questions about the time horizon of investments and preferences regarding risk taking; moreover, the majority of questionnaires (85 per cent) ask the client to specify the purpose of the investment he or she is going to realise, in terms of capital conservation, capital growth, or strong capital growth. On the contrary, a generalised behaviour in our sample is to disregard questions about the risk profile of the client, as only four questionnaires include this item among the ones investigated. When the risk profile of the client is assessed, the firm asks the client to place himself or herself in a situation of financial risk or of a more common

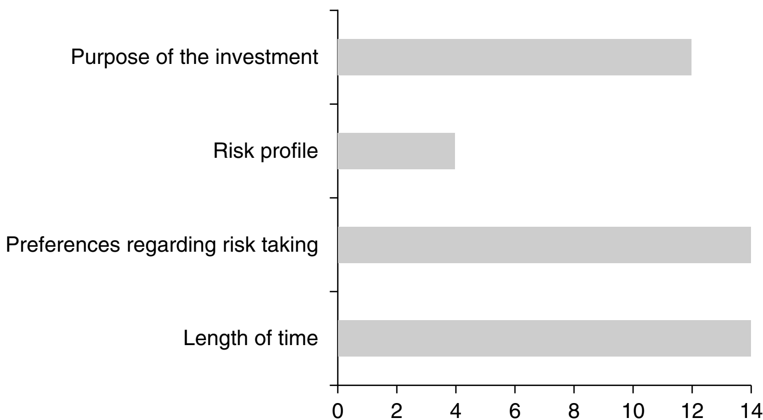

Figure 3.3 Investment objectives: coverage of MiFID suggested items (sample: the first 14 Italian financial groups in terms of promoted assets)

daily uncertainty and to choose the alternative that fits better his or her hypothetical behaviour in presence of that risk or uncertainty. From the perspective of our analysis, this is a critical point: our sample of Italian financial groups seems to take great care on the assessment of the objective financial risk, while less attention is given to the evaluation of the subjective component of risk. In other words, the client is always asked about his or her preferences in respect of the financial risk–return combination of future investments; conversely, the attitude of the client towards a general situation of riskiness or uncertainty is rarely comprised.

Further investigation of the 'financial capability' section of the suitability questionnaire reveals that more diversified choices are observed among Italian financial groups (see Figure 3.4).

There is not an item, among those suggested by MiFID for this section, that is covered by all the questionnaires. Nevertheless, the most frequent group of questions is the one related to the source and extent of regular income (13 questionnaires), followed by those questions regarding the overall property composition (11 questionnaires). The items concerning the evaluation of regular financial commitments and the financial portfolio composition are less investigated (respectively, only seven and six questionnaires). From the perspective of our study, this is another point worthy of note: on the one hand, regular financial commitments are a proxy of the risk capacity of an individual (that

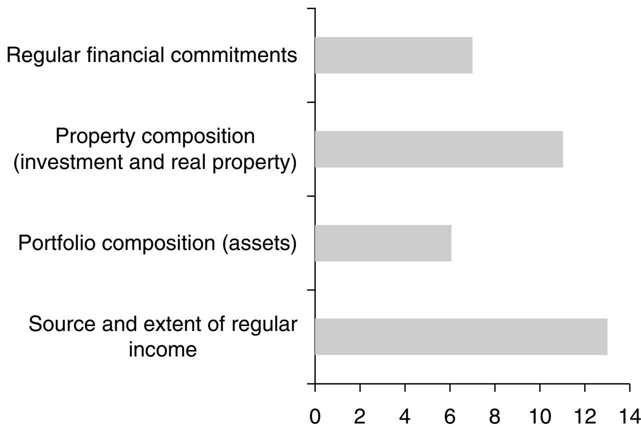

Figure 3.4 Financial capability: coverage of MiFID suggested items (sample: the first 14 Italian financial groups in terms of promoted assets)

is, how much risk he or she affords to take), as the presence of financial dependents reduces the client's ability to assume risk. On the other hand, the actual financial portfolio composition is another important proxy of the client's risk taking behaviour in real life, as it gives information about the financial decisions assumed in the past by the client. As a consequence, neglecting these two items means also that two important pieces of information in the general assessment of risk are overlooked.[17]

Finally, in respect to the 'financial experience and knowledge' section, all of the sample collects information about the type of service/ products with which the client is familiar and the nature, volume and frequency of the client's transactions in financial instruments (see Figure 3.5). In contrast, almost none of the firms take the period over which past investments are carried out into account (only one questionnaire); respectively 12 and 10 questionnaires include the level of education and the profession among the set of questions to be filled in.

The 14 suitability questionnaires are very different not only with regard to the number of items globally asked and the adherence upon the MiFID 'benchmark', but also concerning the degree of investigation within each item. For example, even though the items of the length of time, preferences regarding risk taking, types of service/instrument with which the client is familiar and the nature/volume/frequency of the client's financial transactions are assessed by all of the 14 questionnaires, the number of questions included in each of them varies

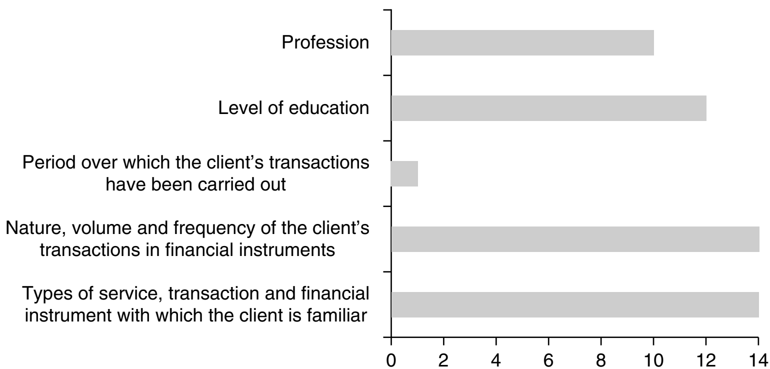

Figure 3.5 Financial experience and knowledge: coverage of MiFID suggested items

(sample: the first 14 Italian financial groups in terms of promoted assets)

consistently from one questionnaire to another: some questionnaires provide just one question for investigating each item, whereas other questionnaires are much more analytical and use more than five questions to analyse the same aspect.

In summary, a key finding of our analysis is that the implementation of the suitability assessment and, within it, of the level of risk tolerance, even though it is recognised as a common MiFID regulatory requirement, is applied in a highly variable manner by our sample of Italian financial firms. The differences that do exist may stem from the fact that supervisors give only general rules for the development of the suitability questionnaire without providing a unique and shared form, in adherence to a prudential regulation approach. As a consequence, each intermediary may develop its own suitability questions according to the:

- business model: the propensity to ask some information may vary depending on the kind of business that characterises each intermediary; the orientation toward a model of commercial banking or a prevalence of the investment business within the financial group, the penetration level in the market of investment services, the development of specific financial services, the diversification and sophistication in the offer of financial products, the characteristics of their prevalent client are all elements that may exert an influence
- compliance function: the specific questions included in the questionnaire may also depend upon how the compliance function of the firm interprets the regulatory recommendations and the relevance accorded to specific aspects in the application of the law
- competence level of front-offices: as front-offices are the bridge between the firm and the customer in the implementation of the suitability questionnaire, a different approach in the development of the questions may also depend upon the specific competence of the front-offices in terms of technical advice, ability to built a relationship, and commercial approach to the client
- a random component, that does not depend upon a strategic or rational motivation by the firm, but just upon erratic occurrences or behavioural biases in the people designed to the development of the questionnaire itself.

However, in spite of different constructions of the questionnaire, some common behaviours among our sample of Italian financial groups may be depicted. Specifically, the majority of our sample seems to derive

the risk tolerance assessment of the client in a partial way: while the desirable objective risk–return characteristics of future investments are constantly investigated, the subjective risk profile of the client, as well as his or her past financial investments (risk taken in the real life) and his or her current financial constraints (risk capacity) are elements less frequently requested, even though they all exert an influence upon the suitability of suggested services/products and may work as a control for the chosen risk–return combination. Indeed, it seems that the suitability questionnaire provided by our sample of Italian intermediaries is drawn mainly with the aim of deriving objective parameters for the implementation of traditional asset allocation strategies (such as time horizon, purpose of investment, preferences regarding the objective risk) rather than with the purpose of making a deeper analysis of the subjective characteristics of the clients.

3.3 Consistency of clients' profiles across a sample of Italian MiFID questionnaires

In Section 3.2 we already underlined that with the introduction of the MiFID, the European Regulator has formalised the need for financial firms to *get to know their customers* before selling any financial service or product to them. Nevertheless, this practice was already consolidated among financial firms both in Italy and in the rest of Europe even before the introduction of the MiFID. Financial firms were already aware that the numerous contentions with their clients that took place in the last years could derive from a misunderstanding of the clients' preferences towards risk when subscribing an investment contract. The introduction of a questionnaire, whose function was to reveal the clients' needs and preferences towards the risk and return of the investment, was a tool to reduce possible misunderstandings. Moreover, as the risk preferences were written and subscribed by the client, it was a tool to protect financial firms against possible complaints from the client in the case of an unexpected loss of the investment. Therefore the MiFID has formalised a habit that was already widespread among financial firms and has also made it *compulsory*.

As already illustrated in Section 3.1 the Directive requires financial operators to submit their retail clients a suitability and appropriateness questionnaire when providing them with financial services and products. Depending on the result of the questionnaire, investors can be provided with products that are more or less risky according to their needs and profile. So, it is clear how important the information that is

obtained from the questionnaire is in every step of the contract between the financial firm and the client:

(a) *before* the financial service or product is subscribed, in order to meet the preferences and need of the investors
(b) *during* the contract, in order to acquire any changes in the needs and preferences of the investor
(c) *after* the end of the contract, in order to protect the bank against any complaint that the client could make with reference to a loss that he or she did not expect but is physiological according to the level of risk that characterises the investment.

Unfortunately, the Directive only dictates general rules as far as the content of the questionnaire is concerned; thus, each financial firm makes use of its own questionnaire that is likely to be different from its competitors' as already demonstrated in Section 3.2. The aim of our analysis is to investigate how reliable MiFID questionnaires are, in terms of the consistency of profiles that come out from different questionnaires submitted to the same person. To do this, we collected a sample of MiFID questionnaires belonging to three Italian banks.[18] All three are suitability questionnaires addressed to retail clients. For each of them we also collected the scoring method used to calculate the profile of the clients answering the questions.[19] The three anonymous questionnaires (hereafter, A, B and C) were submitted to a sample of 100 potential investors in order to verify the consistency of their profiles.[20] The sample was chosen according to a totally random criterion; we did not face any sampling problems as each person represented a result by himself or herself through the comparison of the three different profiles.

Because each of the three banks provides a different structure of profiles, we were forced to subjectively match them according to the description of each classification offered. This way, before comparing the profiles, we made them comparable. In particular, Bank A classifies clients into conservative, balanced and enterprising; Bank B into safety, income, balanced, increase and dynamic; and Bank C distinguishes among cautious, moderate and dynamic. Each of the questionnaires provided a detailed explanation of the characteristics that feature each of the profiles as shown in Tables 3.5, 3.6 and 3.7. The way the profiles are described changes across the questionnaires; questionnaire A and B provide respectively three and five categories and describe in words the main features that investor must have to be included in each profile.

Table 3.5 Description of profiles for Bank A

Profile	**Description of profile**
Conservative	The portfolio suitable for this profile is addressed at realising a financial supply, without any expectation of capital increase and whose main goal is to allow the management of small expenses. It does not require any particular expertise in investing and is generally linked to a low risk propensity. Suitable products according to this risk profile are liquid assets, government bonds, financial insurance products with capital protection.
Balanced	The portfolio that is suitable for this profile is addressed at realising an increase in the invested capital through the acceptance and management of negative oscillations in the value of the capital. It requires a medium expertise in investing and is generally linked to a medium risk propensity. Suitable products according to this risk profile are diversified bond and stock investments and financial insurance products without capital protection.
Enterprising	The portfolio that is suitable for this profile is addressed at realising a relevant increase in the invested capital through the acceptance and management of huge negative oscillations in the value of the capital. It requires a good expertise in investing and is generally linked to a high-risk propensity. Suitable products according to this risk profile are sector stock investments and high-risk bonds and also derivatives.

Table 3.6 Description of profiles for Bank B

Profile	**Description of profile**
Safety	Capital conservation in the short term and slight increase in the medium term
Income	Capital conservation in the medium term and slight increase in the long term
Balanced	Increase of capital in the medium long term
Increase	Relevant increase of the capital in the medium long term
Dynamic	Relevant increase of the capital in the short medium term

Table 3.7 Description of profiles for Bank C

Profile	**Description of profile**
Cautious	35% in liquidity; 54% in bonds; 11% in stocks
Moderate	20% in liquidity; 47% in bonds; 11% in stocks
Dynamic	7% in liquidity; 33% in bonds; 68% in stocks

Table 3.8 Matching of profiles for Banks A, B and C

Questionnaire A	**Questionnaire B**	**Questionnaire C**
Conservative	Safety + Income	Cautious
Balanced	Balanced	Moderate
Enterprising	Increase + Dynamic	Dynamic

On the contrary, questionnaire C provides three risk profiles that are described in terms of the percentage of the capital that should be allocated among liquidity, bonds and stocks for each profile. In this way, any attempt of matching the profiles requires a high level of subjectivity. Table 3.8 illustrates how the different profiles are matched across the three banks in the following analysis.

In the experiment, each of the subjects was requested to fulfil all three questionnaires. Once this step was completed, the three profiles for each subject were calculated and compared in order to assess their consistency.

Table 3.9 illustrates the results; in particular, it shows the percentage of cases in which the profiles of single subjects are consistent throughout the sample.[21] The first column from the left informs that in 77 per cent of cases the same subject obtains profiles that are different across the three banks. In particular, in 14 per cent of cases the profiles are totally different as they range from the highest to the lowest profile across the three banks for the same subject. Moreover, in an attempt to understand if a questionnaire causes inconsistency of the profiles more than the other two, we provide the percentage of inconsistency of profiles for each couple of questionnaires. The analysis shows that the inconsistency is 51 per cent between questionnaires A and B, 60 per cent between A and C and 53 per cent between B and C.

In this sense, we cannot maintain that any of the three questionnaires is 'bad' because the couples of questionnaires show almost the same degree of inconsistency. More precisely, we should recognise that the questionnaires are strongly different as far as their structures and scoring methods are concerned. First of all, the range of questions that are asked to the client varies from eight in questionnaire A to 16 in questionnaire B and nine in questionnaire C, as shown in Table 3.10.

This evidence suggests that questionnaire B could be more precise and articulated that the others. Besides, by following the methodology that we already used in Section 3.2 we briefly analyse the

Table 3.9 Percentage of consistency of profiles across questionnaires

Across all 3 questionnaires	Between questionnaires A and B	Between questionnaires A and C	Between questionnaires B and C
23%	49%	40%	47%

Table 3.10 Number of questions in the questionnaires

Questionnaire	**Number of questions**
q_A	8
q_B	16
q_C	9

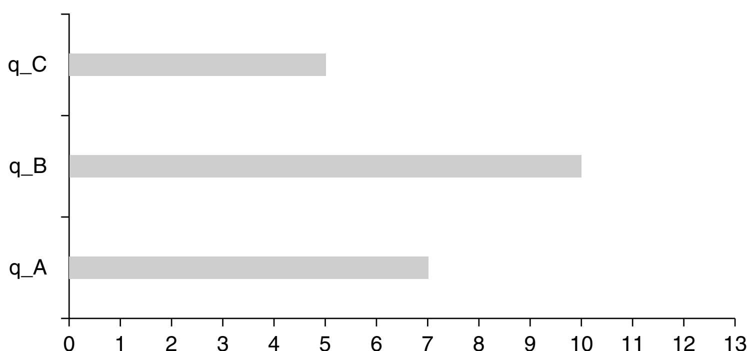

Figure 3.6 Number of MiFID suggested items covered

contents of the three questionnaires in order to catch any difference that could help explaining the relevant inconsistency of the profiles that a single person obtains when he or she is analysed by a bank or another. We first investigate the level of compliance to the MiFID suitability provisions in terms of the number of items that are included into the three questionnaires with respect to the 13 that are suggested in the Directive. Figure 3.6 shows that none of the three questionnaires is perfectly compliant to the number of items suggested (with B covering ten, A covering seven and C only five out of 13 items).

As for the similarities, the items present in all three questionnaires are those related to the purpose of the investment (within the 'investment objectives' section), the source and extent of regular income ('financial capability' section) and the types of services and products the client is familiar with ('financial experience and knowledge' section). This way, at least one of the items belonging to each of the main three sections is present in all of the questionnaires. As a further similarity, the period over which the investments were carried out is absent in all the questionnaires,[22] as Table 3.11 shows.

The main differences deal with the risk profile and risk preferences together with the level of education and profession. In fact, only questionnaire C investigates the investor's preferences for risk taking and only A includes a question on the risk profile. Moreover, questionnaire B is the only one interested in the level of education and current profession of the subject. All the other items are included by two banks out of three. Table 3.12 summarises the main findings in term of differences between the three questionnaires.

This analysis mainly confirms the results we already obtained in Section 3.2. In fact, by observing the information provided in Tables

Table 3.11 Similarities in the three questionnaires

Items included in all 3 questionnaires	**Items absent in all 3 questionnaires**
• Purpose of the investment • Source and extent of regular income • Services and product the investor is familiar with	• Period over which the investment was held

Table 3.12 Differences in the three questionnaires

Items included in one of the 3 questionnaires	**Items included in two of the 3 questionnaires**
• Preference for risk taking (q_C) • Risk profile (q_A) • Level of education (q_B) • Profession (q_B)	• Length of time of the investment (q_A and q_B) • Assets (q_A and q_B) • Regular financial commitments (q_B and q_C) • Nature, volume and frequency of transactions (q_A and q_B)

3.11 and 3.12, all three banks seem to be most interested in the *objective parameters* (purpose of the investment, source and extent of regular income, services and products the client is familiar with, length of time of the desired investment, regular financial commitments, and so on). On the contrary, very little is asked in terms of the level of education, profession, risk profile and also on the preferences of the investor. At the end of Section 3.2 we already focused attention on the possible reasons that could explain the huge differences in the contents of the questionnaires and in the scoring methods. The results of this analysis allowed us to maintain that those differences, together with the little attention to the *subjective characteristics* of the client, seem to provide good explanations for the variety and inconsistency of profiles that an investor can obtain by applying to different banks.

3.4 The post-MiFID Italian suitability assessment compared to the pre-MiFID and non-EU countries practice

We already discussed in Section 3.2 that the MiFID lists a series of information to be collected by banks and other intermediaries when submitting their suitability questionnaire to clients. The list only includes general items but there is no compulsory scheme to be followed by financial firms. As a consequence, the characteristics of the questionnaires, and also the profiles that come out, largely vary from one financial firm to another both within the same country and, even more, from one country to another. At the end of Section 3.2 we also discussed the possible explanations of the differences; in this section we propose another likely justification that is linked to past practice. In fact, the profiling of customers was a widespread habit even before the introduction of the MiFID both within and outside the European Union. As a consequence, many financial firms were already used to submitting their questionnaires and, after 2007, they may have only revised them in order to be as compliant as possible with the MiFID sections and items.

In order to understand to what degree the questionnaires might have changed with the introduction of the MiFID Directive, we compare a sample of *MiFID suitability questionnaires* (hereafter SQ) collected in 2010 with a sample of *profiling questionnaires*[23] (hereafter PQ) belonging both to European financial firms before the implementation of the Directive and also to non-EU financial firms. To do this we make use of the results of research that has been carried out by the Bank for International Settlement (hereafter BIS) in 2008 and also of the 14 Italian questionnaires already described in section 3.2.[24]

The BIS research was carried out among a sample of financial firms (belonging to both EU and non-EU countries) before the MiFID was implemented (between September 2006 and February 2007). Therefore, it offers a landscape of how clients were profiled before the introduction of the Mifid and in non-EU countries. By comparing the PQ in the BIS study with the 14 Italian SQ that we employed in Section 3.2 we should be able to testify how Italian intermediaries are now positioned in terms of clients' profiling and suitability assessment in respect to the average of the pre-MiFID European countries (and of the non-EU sample countries) with reference to:

- the completeness of the questionnaires in terms of the 13 items now suggested by the MiFID within the three sections
- the importance given to the risk tolerance and risk preference components.

The sample that has been used within the BIS research is made up of 90 financial firms belonging to different financial sectors and based in ten countries, as Table 3.13 shows.

It is worth a reminder that the Italian sample is made up of the major 14 groups as already explained in Section 3.2. Moreover, we were informed that all the firms belonging to the same group make use of the same questionnaire; this way, we need no distinction among sectors because each questionnaire is representative of the suitability assessment for the investment firms, the banks, the insurance companies and also the asset managers belonging to the group. As a consequence,

Table 3.13 Composition of BIS research sample

	Asset managers	**Banks**	**Insurance companies**	**Investment firms**	**Financial advisers**
Canada	2	–	–	1	–
France	3	2	4	2	–
Germany	3	-	2	-	–
Italy	3	5	–	2	–
Japan	4	3	4	3	–
Netherlands	1	5	-	–	–
Spain	–	5	1	–	–
Switzerland	–	6	3	–	–
United Kingdom	2	5	2	–	4
United States	1	1	1	10	–
Total	19	32	17	18	4

when comparing the contents of the PQ described into the BIS research with the Italian SQ we do not make any distinction among sectors and consider the results of the BIS research as a sum of the results coming from the different intermediaries included into the sample. The only exception deals with financial advisers that are not included in the 14 Italian groups. Moreover, even the BIS research sets apart this category

Table 3.14 MiFID suitability items included in the BIS profiling questionnaires

MiFID items included or excluded in BIS questionnaires			
MiFID sections	**MiFID items**	**MiFID items included or excluded in non-MiFID questionnaires**	
Investment objectives	Length of time to hold the investment	Time horizon	93%
	Risk preferences	Risk appetite	96%
	Risk profile	–	0%
	Purpose of investment	Purpose of investment	96%
Financial capability	Source and extent of income	Income	84%
	Assets	Diversity of portfolio	77%
	Investment and real property	Net worth	93%
	Financial commitments	Financed by credit	55%
Experience and knowledge	Products the investor is familiar with	Investment experience	94%
		Level of knowledge	89%
	Nature, volume, frequency of transactions	Type of assets held	82%
		Amount invested	93%
		Frequency of transactions	0%
	Length of the transactions carried out	–	0%
	Level of education	–	0%
	Profession	–	0%
Non-MiFID items present in BIS sample			
Age			100%
Family situation			81%
Tax status			77%
Guarantees needed			67%
Gearing strategy			43%

as the only four financial advisers included in the sample come from the UK. This peculiarity leads us to carry out two different analyses:

- First, we compare the contents of the PQ (before the MiFID) with the SQ (after the MiFID).
- Then, we focus on financial advisers by comparing non-MiFID practice with the current UK suitability assessment.

With reference to the first analysis, we compare the contents of the PQ and SQ by making use of the three sections requested by the MiFID.[25] The items that on average[26] are included in the PQ can be listed as in Table 3.14. The percentage on the right side indicates how many firms, out of the 90 that are considered, request that information in the questionnaire. Moreover, some of the questionnaires request extra information that is not included into the current 13 MiFID items; this information is illustrated at the bottom of Table 3.14.

It can be easily noticed that none of the 90 firms included in the BIS research asks questions about the risk profile or length of the transactions that have been carried out and they are also little interested in the education and professional level of the investor. Some interesting results emerge from the comparison of this evidence with the information about the 14 Italian MiFID suitability questionnaires.

With reference to the 'investment objectives' section, Table 3.15 shows the percentage of questionnaires that include the four MiFID requested items in the SQ and PQ samples.

In particular, the MiFID seems to have increased the attention of intermediaries towards the risk profile of the investors, as witnessed by an increase from 0 to 29 per cent; still, despite the fact that it is a sign of increased attention towards the investors' personal attitude

Table 3.15 Comparison of PQ and SQ with reference to 'investment objectives'

MiFID section	MiFID items	% in PQ	% in SQ
Investment objectives	Length of time to hold the investment	94%	100%
	Risk preferences	97%	100%
	Risk profile	0%	29%
	Purpose of investment	97%	86%

towards risk, it is too small, especially if compared to the 100 per cent of presence of the questions on risk preferences. Once again, as already outlined in Sections 3.2 and 3.3, the main focus of the financial firm seems to be on collecting the objective features of the desired investment rather than on understanding the real needs of the client according to his or her personal attitude and current financial situation.

Table 3.16 shows that the SQ sample, if compared to the PQ sample, seems to be less interested in the assets and liabilities of the client. All the percentages, apart from the source and extent of income, have fallen and the interest towards the assets has almost halved.

On the contrary, more attention is addressed to the education and professional level of the customer, as shown in Table 3.17. This information, that was never asked for before the MiFID and is not

Table 3.16 Comparison of PQ and SQ with reference to 'financial capability'

MiFID section	**MiFID items**	**% in PQ**	**% in SQ**
Financial capability	Source and extent of income	85%	93%
	Assets	78%	43%
	Investment and real property	94%	79%
	Financial commitments	56%	50%

Table 3.17 Comparison of PQ vs SQ with reference to 'financial experience and knowledge'

MiFID section	**MiFID items**	**% in PQ**		**% in SQ**
Experience and knowledge	Products the investor is familiar with	Investment experience	95%	100%
		Level of knowledge	90%	
	Nature, volume and frequency of transactions	Type of assets held	83%	100%
		Amount invested	94%	
		Frequency of transactions	0%	
	Length of the transactions carried out	–	0%	1%
	Level of education	–	0%	86%
	Profession	–	0%	71%

included in non-EU countries, is collected by the Italian sample in 86 per cent of cases for education and 71 per cent for the professional level.

Overall, we could say that, in respect to the pre-MiFID practice, the suitability questionnaires reveal an increased attention of the intermediary in assessing if an investment product is suitable or not to the customers, and this is perfectly adherent to the MiFID requests. Nevertheless, this practice leads the bank to ignore important information on the customer (risk profile, current financial situation and properties) that could be useful in deeply understanding the investment needs he or she is unaware of rather than only assessing whether an investment in suitable or not. In this sense, the MiFID has provided an opportunity to intermediaries to 'better understand their clients', but only a few of them seem to take advantage of this opportunity by using the information obtained through the questionnaire in a financial advisory perspective.

If this is true, the further step of the analysis, that focuses upon the financial advisers, should lead to different results. We already explained above that financial advisers are treated separately from all the other financial firms as the BIS research includes only UK advisers in the sample. For this reason, as they do not represent the international landscape in financial advisory but only the British one, we treat them with a separate analysis by comparing the customers' profiling practice before (PQ_FA) and after the MiFID (SQ_FA) in the UK. Once again, the comparison follows the scheme proposed above and we proceed by MiFID sections of information to be included into the questionnaire, as Tables 3.18, 3.19 and 3.20 demonstrate.

Table 3.18 Comparison of PQ_FA vs SQ_FA with reference to 'investment objectives'

MiFID section	**MiFID Items**	**% in PQ_FA**	**% in SQ_FA**
Investment objectives	Length of time to hold the investment	100%	25%
	Risk preferences	100%	100%
	Risk profile	–	25%
	Purpose of investment	100%	100%

Table 3.19 Comparison of PQ_FA vs SQ_FA with reference to 'financial capability'

MiFID section	MiFID Items	% in PQ_FA	% in SQ_FA
Financial capability	Source and extent of income	100%	100%
	Assets	100%	100%
	Investment and real property	100%	100%
	Financial commitments	100%	100%

Table 3.20 Comparison of PQ_FA vs SQ_FA with reference to 'financial experience and knowledge'

MiFID section	MiFID Items	% in PQ_FA		% in SQ_FA
Experience and knowledge	Products the investor is familiar with	Investment experience	100%	50%
		Level of knowledge	75%	
	Nature, volume and frequency of transactions	Type of assets held	100%	50%
		Amount invested	100%	
		Frequency of transactions	–	
	Length of the transactions carried out	–	–	25%
	Level of education	–	–	–
	Profession	–	–	75%

The information provided in Tables 3.18, 3.19 and 3.20 allows us to maintain that the introduction of the MiFID has not consistently changed the behaviour of financial advisers when profiling their clients. A high level of attention was given, and it still is, to the subjective characteristics of the client (such as the purpose of the investment, the risk preferences, the financial and properties situation, and so on) and this is consistent with the nature of the intermediary we are analysing, that is certainly more focused on collecting useful information for its advisory activity rather than on assessing the suitability of a product. Something unexpected comes from the 'experience and knowledge'

section. In fact, the UK sample shows a decreased attention of financial advisers towards the experience and knowledge of the client (with the exception of the profession that is asked more for income knowledge reasons). This is consistent with the particular activity of the adviser, whose role is to help, and sometimes substitute, the client in his or her financial decisions and, in this sense, a deep understanding of the client's experience and knowledge is not vital.

Further developments of this study could be addressed to understand to what degree Italian questionnaires differ from those adopted in other European countries in the post-MiFID context. This analysis should involve a sample of intermediaries belonging to different EU countries and investigate to what degree the MiFID has really led intermediaries to a better knowledge of their customers; or, on the contrary, it may show that the Directive has mainly provided them with a tool to reduce the number of possible contentions with their clients.

Notes

Marinelli is the author of Sections 3.1 and 3.2 and Mazzoli is author of Sections 3.3 and 3.4.

1. Investment services and activities are defined in art. 4 of MiFID Level 1 Directive 2004/39/EC and refer in particular to a list of activities in MiFID Annex I-A (reception and transmission of orders, execution of orders, dealing on own account, portfolio management, investment advice, underwriting of financial instruments and/or placing of financial instruments on a firm commitment basis, placing of financial instruments without a firm commitment basis, operation of Multilateral Trading Facilities) related to financial instruments listed in MiFID Annex I-C.
2. See Bank for International Settlement (2008).
3. For a complete definition of 'professional client', see MiFID Level 1 Directive 2004/39/EC, Annex II.
4. This means that even if the MiFID Level 2 Commission Directive 2006/73/EC, art. 35 (5) does not allow intermediaries to recommend investment services or financial instruments to the client when the investment firm does not obtain the information needed, it could be possible for the investment firm to give other investment services which are subject only to the appropriateness test.
5. The MiFID Level 2 Commission Directive 2006/73/EC, art. 35 (2) – 36.
6. Note that a sub-group of 'professional clients' are the so-called 'eligible counterparties', who typically comprise those subjects professionally operating in the financial markets. When executing orders on behalf of an eligible counterparty and/or dealing on own account and/or receiving and transmitting orders with eligible counterparties, the investment firm may provide the service without being obliged to comply with the suitability and appropriateness obligations, as outlined in the art. 24, section 1 of the MiFID Level 1

Directive 2004/39/EC. For a deeper understanding of the inclusion into the 'eligible counterparty' category, we refer the reader to the art. 24 of the MiFID Level 1 Directive 2004/39/EC.

7. The MiFID Level 1 Directive 2004/39/EC, art. 4.
8. Art. 83 of the Reg. 16190/2007 defines as 'financial insurance products' life insurance policies under the class III and transactions under the class V, as indicated in the art. 2 of the Legislative Decree n. 209 of 7 September 2005, with the exclusion of individual retirement products.
9. Art. 183, section 1, letter b of the Code of private insurance generically prescribes that, before selling a product, insurance firms and insurance distributors acquire information from their clients in order to evaluate their insurance and retirement needs and operate so that their clients are always adequately informed. Art. 12, section 3 of IMD refers to the demands and the needs of that customer as well as the underlying reasons for any advice given to the customer. These are generic disclosure prescriptions, without any specific mention to suitability/appropriateness questionnaires.
10. In the debate which followed the work of the Commission, some interesting positions have emerged. With respect to selling practices, CEOIPS' report to the European Commission on PRIPs underlines that even if the IMD does not provide for a suitability/appropriateness test, the general provision on 'demands and needs' of the customer could be more protective for clients, as it applies to both advised and non-advised mediation and to both retail and professional clients (see CEOIPS' report to the European Commission on PRIPs, 2 November 2009). Moreover, the stopping step provided by suitability may apparently be more protective for the client compared to the regime dictated by IMD, where no stopping step exists; nevertheless, in the case of litigation, the protection of the client may be stronger within the IMD previsions, as the outcome of the suitability questionnaire creates a protection for the intermediary, while in the insurance regulation the insurance firm maintains a joint responsibility for the investment made. In essence, there is general support for the use of MiFID as a benchmark for the distribution of PRIPs; nevertheless, some encourage taking due account of provisions also in other legislation that might add value to the future PRIPs' framework.
11. See Assogestioni, 2009.
12. We refer to the CONSOB Communication n. 9019104 of 2 March 2009. This communication has been followed by interassociative guidelines for the application of L3 measures promoted by the category associations in 14 July 2009.
13. See the MiFID Level 2 Commission Directive 2006/73/EC, art. 35 and 37.
14. For the purpose of clarity, we classified questions of the form: *'Which of the following investment results fits better your preferences regarding risk taking? A- A low expected return with a low risk of loss; B- A medium expected return with a limited risk of loss; C- A high expected return accepting a high risk of loss'* as belonging to the 'preferences regarding risk taking' item, whereas questions like *'Suppose that you have made an investment in a long term stock fund. A month after your investment, the value of your fund drops by 15 per cent. What is your reaction? A- I sell my investment in order to avoid further panic if the market continues to go down; B- I try to keep a cool head and I wait until when my*

investment recoups its value over the planned time horizon; C- I buy some more in order to take advantage of low prices' as belonging to the 'risk profile' item.

15. This finding is coherent with the implementation of L3 that requires a set of controls for the complexity, the risk profile and the liquidity of the products.
16. For example, some questions are used to discover if all the financial assets of the client are deposited in that financial firm or not.
17. One may observe that each intermediary is able to know the portfolio composition of the client, without explicitly asking him or her, looking at their internal source of information and databases. Nevertheless, if this is true for the assets held at that intermediary, this is not possible for the part of the financial portfolio managed by other intermediaries. As a consequence, an explicit question is needed.
18. Names are not revealed for privacy reasons. Moreover, the questionnaires we employ in this study are different from those we used in Section 3.2.
19. Obtaining the scoring method was quite difficult because of the opposition of banks to reveal this information. This is the reason why we were able to collect only three questionnaires.
20. This way we submitted 300 questionnaires as a whole.
21. A full description of the results is provided on request.
22. See Table 3.4 for a description of sections and items suggested by the MiFID.
23. With profiling questionnaires we identify those that were used before the MiFID in order to profile a financial firm's clients.
24. We tried to enlarge the sample of MiFID questionnaires that are currently used to at least US and UK intermediaries but the only cooperation we were given comes from UK financial advisers. Banks, asset managers and financial firms did not give any answer to our request or clearly explained that they do not take part in university research studies.
25. According to the methodology already used in Sections 3.2 and 3.3.
26. As it is an average of the information requested across the five sectors analysed (banks, asset managers, insurance companies, financial advisers and investments firms).