

## Chapter 9A

Suitability (MiFID and insurance-based investment products provisions)



## 9A.1 Application and purpose

**Note:** ESMA has also issued guidelines under article 16(3) of the ESMA Regulation on certain aspects of the MiFID suitability requirements. See [https://www.esma.europa.eu/system/files\\_force/library/esma35-43-869-\\_fr\\_on\\_guidelines\\_on\\_suitability.pdf?download=1](https://www.esma.europa.eu/system/files_force/library/esma35-43-869-_fr_on_guidelines_on_suitability.pdf?download=1).

### Application

9A.1.1

**R**

This chapter applies to a *firm* which provides:

*investment advice or portfolio management in the course of MiFID, equivalent third country or optional exemption business; or*

*investment advice in relation to an insurance-based investment product.*

### Effect of provisions marked “EU” for third country investment firms and MiFID optional exemption firms

9A.1.2

**R**

Provisions in this chapter marked “EU” and including a Note (‘**Note:**’) referring to the *MiFID Org Regulation* apply in relation to *MiFID optional exemption business* as if they were *rules*.

9A.1.3

**G**

The effect of **GEN 2.2.22AR** is that provisions in this chapter marked “EU” also apply in relation to the *equivalent business of a third country investment firm* as if they were *rules*.

### Effect of provisions marked “EU” for the firms distributing insurance-based investment products

9A.1.4

**R**

Provisions in this chapter marked “EU” and including a Note (‘**Note:**’) referring to the *IDD Regulation* apply as if they were *rules* in relation to *insurance distribution activities* to which the *IDD Regulation* does not apply.



## 9A.2 Assessing suitability: the obligations

- 9A.2.1** **R** When providing *investment advice* or *portfolio management* a *firm* must:
- (1) obtain the necessary information regarding the *client's*:
    - (a) knowledge and experience in the investment field relevant to the specific type of *financial instrument*, *insurance-based investment product* or service;
    - (b) financial situation including his ability to bear losses; and
    - (c) investment objectives including his risk tolerance, so as to comply with (2);
  - (2) only recommend *investment services*, *financial instruments* and *insurance-based investment products*, as applicable, or take decisions to trade, which are suitable for the *client* and, in particular, in accordance with the *client's* risk tolerance and ability to bear losses.
- [**Note:** first paragraph of article 25(2) of *MiFID*, first paragraph of article 30(1) of the *IDD*]
- 9A.2.2** **G** *Firms* should undertake a suitability assessment not only when making a *personal recommendation* to buy a *financial instrument* or an *insurance-based investment product* but for all decisions whether to trade, including making any *personal recommendations* about whether or not to buy, hold or sell an investment.
- [**Note:** recital 87 to the *MiFID Org Regulation*]
- 9A.2.3** **G** Where a *firm* providing a *portfolio management* service makes a recommendation or request, or provides advice, to a *client* to the effect that the *client* should give or alter a mandate to the *firm* that defines the limits of the *firm's* discretion, that recommendation, request or advice should be considered a recommendation for the purposes of **■** COBS 9A.2.1R. A *firm* should therefore undertake a suitability assessment in relation to any such recommendation, request or advice.
- [**Note:** recital 89 to the *MiFID Org Regulation*]
- 9A.2.3A** **R** When proposing an *insurance-based investment product* a *firm* must ensure it is consistent with the *client's* insurance demands and needs.
- [**Note:** recital 44 to, and second paragraph article 20(1) of, the *IDD*]

**Assessing the extent of the information required: MiFID business**

9A.2.4 EU

54(2) Investment firms shall determine the extent of the information to be collected from clients in light of all the features of the investment advice or portfolio management services to be provided to those clients. Investment firms shall obtain from clients or potential clients such information as is necessary for the firm to understand the essential facts about the client and to have a reasonable basis for determining, giving due consideration to the nature and extent of the service provided, that the specific transaction to be recommended, or entered into in the course of providing a portfolio management service, satisfies the following criteria:

- (a) it meets the investment objectives of the client in question, including client's risk tolerance;
- (b) it is such that the client is able financially to bear any related investment risks consistent with his investment objectives;
- (c) it is such that the client has the necessary experience and knowledge in order to understand the risks involved in the transaction or in the management of his portfolio.

[Note: article 54(2) of the *MiFID Org Regulation*]

**Assessing the extent of the information required: insurance-based investment products**

9A.2.4A EU

9(1) For the purposes of providing advice on an insurance-based investment product in accordance with Article 30(1) of Directive (EU) 2016/97, insurance intermediaries or insurance undertakings shall determine the extent of the information to be collected from the customer or potential customer in light of all the features of the advice to be provided to the customer or potential customer.

9(2) Without prejudice to the fact that, in accordance with Article 20(1) of Directive (EU) 2016/97, any contract proposed shall be consistent with the customer's demands and needs, insurance intermediaries or insurance undertakings shall obtain from customers or potential customers such information as is necessary for them to understand the essential facts about the customer or potential customer and to have a reasonable basis for determining that their personal recommendation to the customer or potential customer satisfies all of the following criteria:

- (a) it meets the customer's or potential customer's investment objectives, including that person's risk tolerance;
- (b) it meets the customer's or potential customer's financial situation, including that person's ability to bear losses;
- (c) it is such that the customer or potential customer has the necessary knowledge and experience in the investment field relevant to the specific type of product or service.

17(3) Where information required for the purposes of Article 30(1) or (2) of Directive (EU) 2016/97 has already been obtained pursuant to Article 20 of Directive (EU) 2016/97, insurance intermediaries and insurance undertakings shall not request it anew from the customer.

[Note: articles 9(1) and (2) and 17(3) of the *IDD Regulation*]

**Professional clients: MiFID business**

**9A.2.5** EU 54(3) 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 it is so classified, the client has the necessary level of experience and knowledge for the purposes of point (c) of paragraph 2.

Where that investment service consists in the provision of investment advice to a professional client covered by Section 1 of Annex II to Directive 2014/65/EU, the investment firm shall be entitled to assume for the purposes of point (b) of paragraph 2 that the client is able financially to bear any related investment risks consistent with the investment objectives of that client.

[Note: article 54(3) of the *MiFID Org Regulation*]

**Obtaining information about knowledge and experience: MiFID business**

**9A.2.6** EU 55(1) Investment firms shall ensure that the information regarding a client's or potential client's knowledge and experience in the investment field includes the following, to the extent appropriate to the nature of the client, the nature and extent of the service to be provided and the type of product or transaction envisaged, including their complexity and the risks involved:

(a) the types of service, transaction and financial instrument with which the client is familiar;

(b) the nature, volume, and frequency of the client's transactions in financial instruments and the period over which they have been carried out;

(c) the level of education, and profession or relevant former profession of the client or potential client.

[Note: article 55(1) of the *MiFID Org Regulation*]

**Obtaining information about knowledge and experience: insurance-based investment products**

**9A.2.6A** EU 17(1) For the purposes of Article 30(1) and (2) of Directive (EU) 2016/97, the necessary information to be obtained by insurance intermediaries and insurance undertakings with regard to the customer's or potential customer's knowledge and experience in the relevant investment field shall include, where relevant, the following, to the extent appropriate to the nature of the customer, and the nature and type of product or service offered or demanded, including their complexity and the risks involved:

(a) the types of service, transaction, insurance-based investment product or financial instrument with which the customer or potential customer is familiar;

(b) the nature, number, value and frequency of the customer's or potential customer's transactions in insurance-based investment products or financial instruments and the period over which they have been carried out;

(c) the level of education, and profession or relevant former profession of the customer or potential customer.

[Note: article 17(1) of the *IDD Regulation*]

**Obtaining information about a client’s financial situation: MiFID business**

9A.2.7 EU

54(4) The information regarding the financial situation of the client or potential client shall include, where relevant, information on the source and extent of his regular income, his assets, including liquid assets, investments and real property, and his regular financial commitments.  
[Note: article 54(4) of the *MiFID Org Regulation*]

**Obtaining information about a client’s financial situation: insurance-based investment products**

9A.2.7A EU

9(3)The information regarding the customer’s or potential customer’s financial situation, including that person’s ability to bear losses, shall include, where relevant, information on the source and extent of the customer’s or potential customer’s regular income, assets, including liquid assets, investments and real property and the regular financial commitments. The level of information gathered shall be appropriate to the specific type of product or service being considered.  
[Note: article 9(3) of the *IDD Regulation*]

**Obtaining information about a client’s investment objectives: MiFID business**

9A.2.8 EU

54(5) The information regarding the investment objectives of the client or potential client shall include, where relevant, information on the length of time for which the client wishes to hold the investment, his preferences regarding risk taking, his risk profile, and the purposes of the investment.  
[Note: article 54(5) of the *MiFID Org Regulation*]

**Obtaining information about a client’s investment objectives: insurance-based investment products**

9A.2.8A EU

9(4)The information regarding the customer’s or potential customer’s investment objectives, including that person’s risk tolerance, shall include, where relevant, information on the length of time for which the customer or potential customer wishes to hold the investment, that person’s preferences regarding risk taking, the risk profile, and the purposes of the investment. The level of information gathered shall be appropriate to the specific type of product or service being considered.  
[Note: article 9(4) of the *IDD Regulation*]

**Reliability of information: MiFID business**

9A.2.9 EU

54(7) Investment firms shall take reasonable steps to ensure that the information collected about their clients or potential clients is reliable. This shall include, but shall not be limited to, the following:  
(a) ensuring clients are aware of the importance of providing accurate and up-to-date information;  
(b) ensuring all tools, such as risk assessment profiling tools or tools to assess a client’s knowledge and experience, employed in the suitability assessment process are fit-for-purpose and are appropriately designed for use with their clients, with any limitations identified and actively mitigated through the suitability assessment process;

- (c) ensuring questions used in the process are likely to be understood by clients, capture an accurate reflection of the client’s objectives and needs, and the information necessary to undertake the suitability assessment; and
- (d) taking steps, as appropriate, to ensure the consistency of client information, such as by considering whether there are obvious inaccuracies in the information provided by clients.

[Note: article 54(7) of the *MiFID Org Regulation*]

**Reliability of information: insurance-based investment products**

**9A.2.9A** EU

10Insurance intermediaries and insurance undertakings shall take reasonable steps to ensure that the information collected about customers and potential customers for the purposes of the assessment of suitability is reliable. Such steps shall include, but shall not be limited to, the following:

- (a)ensuring that customers are aware of the importance of providing accurate and up-to-date information;
- (b)ensuring that all tools, such as risk assessment profiling tools or tools to assess a customer’s knowledge and experience, employed in the suitability assessment process are fit-for-purpose and are appropriately designed for use with their customers, with any limitations identified and actively mitigated through the suitability assessment process;
- (c)ensuring that questions used in the process are likely to be understood by the customers and to capture an accurate reflection of the customer’s objectives and needs and the information necessary to undertake the suitability assessment;
- (d)taking steps, as appropriate, to ensure the consistency of customer information, such as considering whether there are obvious inaccuracies in the information provided by the customer.

[Note: article 10 of the *IDD Regulation*]

**Maintaining adequate and up-to-date information: MiFID business**

**9A.2.10** EU

54(7) Investment firms having an on-going relationship with the client, such as by providing an on-going advice or portfolio management service, shall have, and be able to demonstrate, appropriate policies and procedures to maintain adequate and up-to-date information about clients to the extent necessary to fulfil the requirements under paragraph 2.

[Note: article 54(7) of the *MiFID Org Regulation*]

**Discouraging the provision of information: MiFID business**

**9A.2.11** EU

55(2) An investment firm shall not discourage a client or potential client from providing information required for the purposes of Article 25(2) and (3) of Directive 2014/65/EU.

[Note: article 55(2) of the *MiFID Org Regulation*]

**Discouraging the provision of information: insurance-based investment products**

9A.2.11A EU 17(2)The insurance intermediary or insurance undertaking shall not discourage a customer or potential customer from providing information required for the purposes of Article 30(1) and (2) of Directive (EU) 2016/97.  
[Note: article 17(2) of the *IDD Regulation*]

**Reliance on information: MiFID business**

9A.2.12 EU 55(3) An investment firm shall be entitled to rely on the information provided by its clients or potential clients unless it is aware or ought to be aware that the information is manifestly out of date, inaccurate or incomplete.  
[Note: article 55(3) of the *MiFID Org Regulation*]

**Reliance on information: insurance-based investment products**

9A.2.12A EU 17(4)The insurance intermediary or insurance undertaking shall be entitled to rely on the information provided by its customers or potential customers unless it is aware or ought to be aware that the information is manifestly out of date, inaccurate or incomplete.  
[Note: article 17(4) of the *IDD Regulation*]

**Insufficient information: MiFID business**

9A.2.13 EU 54(8) Where, when providing the investment service of investment advice or portfolio management, an investment firm does not obtain the information required under Article 25(2) of Directive 2014/65/EU, the firm shall not recommend investment services or financial instruments to the client or potential client.  
[Note: article 54(8) of the *MiFID Org Regulation*]

**Insufficient information: insurance-based investment products**

9A.2.13A EU 9(5)Where the insurance intermediary or insurance undertaking does not obtain the information required under Article 30(1) of Directive (EU) 2016/97, the insurance intermediary or insurance undertaking shall not provide advice on insurance-based investment products to the customer or potential customer.  
[Note: article 9(5) of the *IDD Regulation*]

**Insufficient information: MiFID business and insurance-based investment products**

9A.2.14 G Although a *firm* may not be permitted to make a *personal recommendation* or take a decision to trade because it does not have the necessary information, its *client* may still ask the *firm* to provide another service such as, for example, to arrange a deal or to deal as agent for the *client*. If this happens, the *firm* should ensure that it receives written confirmation of the instructions. The *firm* should also bear in mind the *client's best interests rule* and any obligation it may have under the *rules* relating to appropriateness when providing the different service (see ■ COBS 10A (Appropriateness (for



non-advised services in relation to MiFID and insurance-based investment products provisions))).

**Identifying the subject of a suitability assessment: MiFID business**

9A.2.15 EU

54(6) Where a client is a legal person or a group of two or more natural persons or where one or more natural persons are represented by another natural person, the investment firm shall establish and implement policy as to who should be subject to the suitability assessment and how this assessment will be done in practice, including from whom information about knowledge and experience, financial situation and investment objectives should be collected. The investment firm shall record this policy.

Where a natural person is represented by another natural person or where a legal person having requested treatment as professional client in accordance with Section 2 of Annex II to Directive 2014/65/EU is to be considered for the suitability assessment, the financial situation and investment objectives shall be those of the legal person or, in relation to the natural person, the underlying client rather than of the representative. The knowledge and experience shall be that of the representative of the natural person or the person authorised to carry out transactions on behalf of the underlying client.

[Note: article 54(6) of the *MiFID Org Regulation*]

**Identifying the subject of a suitability assessment: insurance-based investment products**

9A.2.15A EU

13With regard to group insurance the insurance intermediary or insurance undertaking shall establish and implement a policy as to who shall be subject to the suitability assessment in case an insurance contract is concluded on behalf of a group of members and each individual member cannot take an individual decision to join. Such a policy shall also contain rules on how that assessment will be done in practice, including from whom information about knowledge and experience, financial situation and investment objectives shall be collected.

The insurance intermediary or insurance undertaking shall record the policy established pursuant to the first paragraph.

[Note: article 13 of the *IDD Regulation*]

**Bundled packages: MiFID business and insurance-based investment products**

9A.2.16 R

Where a *firm* provides *investment advice* recommending a package of services or products bundled pursuant to ■ COBS 6.1ZA.16R (for MiFID business) or ■ COBS 6.1ZA.16AR to ■ COBS 6.1ZA.16ER (for *insurance-based investment products*), the *firm* must ensure that the overall bundled package is suitable for the *client*.

[Note: second paragraph of article 25(2) of *MiFID* and second paragraph of article 30(1) of the *IDD*]

**9A.2.17** G When considering the suitability of a particular *financial instrument* or *insurance-based investment product* which is linked directly or indirectly to any form of loan, mortgage or *home reversion plan*, a *firm* should take account of the suitability of the overall transaction. The *firm* should have regard to any applicable suitability *rules* in *MCOB*.

**Switching: MiFID business**

**9A.2.18** EU 54(11) When providing investment advice or portfolio management services that involve switching investments, either by selling an instrument and buying another or by exercising a right to make a change in regard to an existing instrument, investment firms shall collect the necessary information on the client's existing investments and the recommended new investments and shall undertake an analysis of the costs and benefits of the switch, such that they are reasonably able to demonstrate that the benefits of switching are greater than the costs.

[Note: article 54(11) of the *MiFID Org Regulation*]

**Switching: insurance-based investment products**

**9A.2.18A** EU 9(7)When providing advice that involves switching between underlying investment assets, insurance intermediaries and insurance undertakings shall also collect the necessary information on the customer's existing underlying investment assets and the recommended new investment assets and shall undertake an analysis of the expected costs and benefits of the switch, such that they are reasonably able to demonstrate that the benefits of switching are expected to be greater than the costs.

[Note: article 9(7) of the *IDD Regulation*]

**Adequate policies and procedures: MiFID business**

**9A.2.19** EU 54(9) Investment firms shall have, and be able to demonstrate, adequate policies and procedures in place to ensure that they understand the nature, features, including costs and risks of investment services and financial instruments selected for their clients and that they assess, while taking into account cost and complexity, whether equivalent investment services or financial instruments can meet their client's profile.

[Note: article 54(9) of the *MiFID Org Regulation*]

**Unsuitability: MiFID business**

**9A.2.20** EU 54(10) When providing the investment service of investment advice or portfolio management, an investment firm shall not recommend or decide to trade where none of the services or instruments are suitable for the client.

[Note: article 54(10) of the *MiFID Org Regulation*]

**Unsuitability: insurance-based investment products**

**9A.2.20A** EU 9(6)When providing advice on an insurance-based investment product in accordance with Article 30(1) of Directive (EU) 2016/97, an insurance intermediary or insurance undertaking shall not make a recommendation where none of the products are suitable for the customer or potential customer.

[Note: article 9(6) of the *IDD Regulation*]

**Guidance on assessing suitability: MiFID business and insurance-based investment products**

9A.2.21

G

- (1) A transaction may be unsuitable for a *client* due to the risks of the associated *financial instruments*, the type of transaction, the characteristics of the order or the frequency of the trading.
- (1A) An *insurance-based investment product* may be unsuitable for a *client* due to the risks of the underlying investment assets, the type or characteristics of the product or the frequency of switching of underlying investment assets.
- (2) A series of transactions, each of which are suitable when viewed in isolation may be unsuitable if the recommendation or the decisions to trade are made with a frequency that is not in the best interests of the *client*.
- (3) In the case of *portfolio management*, a transaction might be unsuitable if it would result in an unsuitable portfolio.

[Note: recital 88 to the *MiFID Org Regulation*, recital 9 to the *IDD Regulation*]

**Investments subject to restrictions on retail distribution: MiFID business and insurance-based investment products**

9A.2.22

G

- (1) *Firms* should note that restrictions and specific requirements apply to the retail distribution of certain *investments*:
  - (a) *non-mainstream pooled investments* are subject to a restriction on *financial promotions* (see section 238 of the *Act* and ■ COBS 4.12);
  - (b) *non-readily realisable securities* are subject to a restriction on *direct offer financial promotions* (see ■ COBS 4.7);
  - (c) *mutual society shares* are subject to specific requirements in relation to *dealing and arranging activities* (see ■ COBS 22.2);
  - (d) *contingent convertible instruments* and *CoCo funds* are subject to a restriction on sales and on promotions (see ■ COBS 22.3).
- (2) A *firm* should be satisfied that an exemption is available before recommending an *investment* subject to a restriction on distribution to a *retail client*, noting in particular that a *personal recommendation* to invest will generally incorporate a *financial promotion*.
- (3) In addition to assessing whether the promotion is permitted, a *firm* giving advice on an *investment* subject to a restriction on distribution should comply with their obligations in ■ COBS 9A and ensure any *personal recommendation* is suitable for its *client*.
- (4) In considering its obligations under ■ COBS 9A, a *firm* purchasing an *investment* subject to a restriction on distribution on behalf of a *retail client* as part of a discretionary management agreement should exercise particular care to ensure the transaction is suitable and in the client's best interests, having regard to the *FCA's* view that such *investments* pose particular risks of inappropriate distribution.

9A

- (5) A restriction on promotion does not affect a transaction where there has been no prior communication with the *client* in connection with the investment by the *firm* or a person connected to the *firm*. Nonetheless, if promotion of an *investment* to a *retail client* would not have been permitted, then the discretionary manager's decision to purchase it on behalf of the *retail client* should be supported by detailed and robust justification of his assessment of suitability.

**Automated or semi-automated systems: MiFID business**

9A.2.23 EU

54(1) Where investment advice or portfolio management services are provided in whole or in part through an automated or semi-automated system, the responsibility to undertake the suitability assessment shall lie with the investment firm providing the service and shall not be reduced by the use of an electronic system in making the personal recommendation or decision to trade.

[Note: second paragraph of article 54(1) of the *MiFID Org Regulation*]

**Automated or semi-automated systems: insurance-based investment products**

9A.2.24 EU

12The insurance intermediary's or insurance undertaking's responsibility to perform the suitability assessment in accordance with Article 30(1) of Directive (EU) 2016/97 shall not be reduced due to the fact that advice on insurance-based investment products is provided in whole or in part through an automated or semi-automated system.

[Note: article 12 of the *IDD Regulation*]



## 9A.3 Information to be provided to the client

### Explaining the reasons for assessing suitability: MiFID business

**9A.3.1** EU 54(1) Investment firms shall not create any ambiguity or confusion about their responsibilities in the process when assessing the suitability of investment services or financial instruments in accordance with Article 25(2) of Directive 2014/65/EU. When undertaking the suitability assessment, the firm shall inform clients or potential clients, clearly and simply, that the reason for assessing suitability is to enable the firm to act in the client's best interest.

[Note: first paragraph of article 54(1) of the *MiFID Org Regulation*]

**9A.3.1A** EU 11 Insurance intermediaries and insurance undertakings shall not create any ambiguity or confusion about their responsibilities in the process of assessing the suitability of insurance-based investment products in accordance with Article 30(1) of Directive (EU) 2016/97. Insurance intermediaries and insurance undertakings shall inform customers, clearly and simply, that the reason for assessing suitability is to enable them to act in the customer's best interest.

[Note: article 11 of the *IDD Regulation*]

### Suitability reports: MiFID business and insurance-based investment products

**9A.3.2** R

- (1) [deleted]
- (2) When providing *investment advice* to a *retail client*, a *firm* must, before the transaction is concluded, provide the *client* with a *suitability report* in a *durable medium*:
  - (a) specifying the advice given and how that advice meets the preferences, objectives and other characteristics of the *client*;
  - (b) (for an *insurance-based investment product*):
    - (i) specifying, on the basis of the information obtained from the *client*, the *client's* demands and needs; and
    - (ii) including a personalised recommendation explaining why a particular *insurance-based investment product* would best meet the *client's* demands and needs.

9A

The details in (i) and (ii) must be modulated according to the complexity of the *contract of insurance* proposed and the type of *client*.

- (3) Where the transaction is concluded using a means of distance communication which prevents the prior delivery of the *suitability report*, the *firm* may provide the *suitability report* in a *durable medium* immediately after the *client* is bound by the transaction , provided both the following conditions are met:
  - (a) the *client* has consented to receiving the *suitability report* without undue delay after the conclusion of the transaction; and
  - (b) the *firm* has given the *client* the option of delaying the transaction in order to receive the *suitability report* in advance.
- (4) Where a *firm* provides a *portfolio management* service or has informed the *client* that it will carry out periodic assessment of suitability, the periodic report, provided under ■ COBS 16A.2.1R, must contain an updated statement of how the *client's* investments meet the preferences, objectives and other characteristics of the *client*.

[Note: second, third and fourth paragraphs of article 25(6) of, and recital 82 to, *MiFID*; article 20(1), article 20(2), second paragraph of article 22(1) and second, third and fourth paragraphs of article 30(5) of the *IDD*]

9A.3.2A **R**

Where a *firm* makes a *personal recommendation* to a *professional client* on an *insurance-based investment product* it must, prior to the conclusion of the contract, provide to the client the information in ■ COBS 9A.3.2R(2)(b) in accordance with ■ COBS 7.4.

[Note: article 20(1) and 20(2) of the *IDD*]

**Providing a suitability report: MiFID business**

9A.3.3 **EU**

54(12) When providing investment advice, investment firms shall provide a report to the retail client that includes an outline of the advice given and how the recommendation provided is suitable for the retail client, including how it meets the client's objectives and personal circumstances with reference to the investment term required, client's knowledge and experience and client's attitude to risk and capacity for loss.

Investment firms shall draw clients' attention to and shall include in the suitability report information on whether the recommended services or instruments are likely to require the retail client to seek a periodic review of their arrangements.

Where an investment firm provides a service that involves periodic suitability assessments and reports, the subsequent reports after the initial service is established may only cover changes in the services or instruments involved and/or the circumstances of the client and may not need to repeat all the details of the first report.

[Note: article 54(12) of the *MiFID Org Regulation*]

**Providing a suitability report: insurance-based investment products**

9A.3.3A **EU**

14(1)When providing advice on the suitability of an insurance-based investment product in accordance with Article 30(1) of Directive (EU) 2016/97, insurance intermediaries and insurance undertakings shall provide a statement to the customer (suitability statement) that includes the following:

- (a)an outline of the advice given;
- (b)information on how the recommendation provided is suitable for the customer, in particular how it meets:
  - (i)the customer’s investment objectives, including that person’s risk tolerance;
  - (ii)the customer’s financial situation, including that person’s ability to bear losses;
  - (iii)the customer’s knowledge and experience.

14(2)Insurance intermediaries and insurance undertakings shall draw customers’ attention to, and shall include in the suitability statement, information on whether the recommended insurance-based investment products are likely to require the customer to seek a periodic review of their arrangements.

14(3)Where an insurance intermediary or insurance undertaking has informed the customer that it will carry out a periodic assessment of suitability, the subsequent statements after the initial service is established may be limited to changes in the services or underlying investment assets, and/or the circumstances of the customer without repeating all the details contained in the first statement.

[Note: article 14(1) to (3) of the *IDD Regulation*]

9A.3.4 **G**

When providing a *suitability report*, a *firm* should consider the requirements in ■ COBS 4.2.1R to ensure that the contents of the suitability report are fair, clear and not misleading.

9A.3.5 **G**

Situations that are likely to require a *retail client* to seek a periodic review of their arrangements include where a *client* is likely to need to seek advice to bring a portfolio of investments back in line with the original recommended allocation where there is a probability that the portfolio could deviate from the target asset allocation.

[Note: recital 85 to the *MiFID Org Regulation*]

**Periodic assessments: MiFID business and insurance-based investment products**

9A.3.6 **R**

A *firm* must:

- (1) in relation to an *insurance-based investment product*, at least in good time prior to the conclusion of the contract;
- (2) otherwise, in good time before it provides its *investment advice*;

9A

inform the *client* whether it will provide the *client* with a periodic assessment of the suitability of the financial instruments or the *insurance-based investment products* recommended to the *client*.

[Note: article 24(4)(a)(iii) of *MiFID*, article 29(1)(a) of the *IDD*]

9A.3.7

G

■ COBS 9A.3.6R supplements ■ COBS 2.2A.2R (information disclosure before providing services (MiFID provisions and insurance distribution)).

**Periodic assessments: MiFID business**

9A.3.8

EU

52(5) Investments firms providing a periodic assessment of the suitability of the recommendations provided pursuant to Article 54(12) shall disclose all of the following:

- (a) the frequency and extent of the periodic suitability assessment and where relevant, the conditions that trigger that assessment;
- (b) the extent to which the information previously collected will be subject to reassessment; and
- (c) the way in which an updated recommendation will be communicated to the client.

[Note: article 52(5) of the *MiFID Org Regulation*]

9A.3.9

EU

54(13) Investment firms providing a periodic suitability assessment shall review, in order to enhance the service, the suitability of the recommendations given at least annually. The frequency of this assessment shall be increased depending on the risk profile of the client and the type of financial instruments recommended.

[Note: article 54(13) of the *MiFID Org Regulation*]

**Periodic assessments: insurance-based investment products**

9A.3.10

EU

14(4) Insurance intermediaries and insurance undertakings providing a periodic assessment of suitability shall review, in accordance with the best interests of their customers, the suitability of the recommended insurance-based investment products at least annually. The frequency of this assessment shall be increased depending on the characteristics of the customer, such as the risk tolerance, and the nature of the recommended insurance-based investment product.

[Note: article 14(4) of the *IDD Regulation*]





**9A.4 Record keeping and retention periods for suitability records**

**Record keeping: MiFID business and insurance-based investment products**

**9A.4.1** G A *firm* to which ■ SYSC 9 applies is required to keep orderly records of its business and internal organisation (see ■ SYSC 9 (General rules on record-keeping)). The records may be expected to reflect the different effect of the requirements in this chapter depending on whether the *client* is a *retail client* or a *professional client*; for example, in respect of information about the *client* which the *firm* must obtain and whether the *firm* is required to provide a *suitability report*.

**9A.4.2** G A *firm* should refer to ■ SYSC 3.2 and ■ SYSC 3.3 (for insurers and managing agents) and ■ SYSC 9 (for other *firms*) for its obligations in relation to record keeping.  
[Note: article 16(7) of *MiFID*]

**Retention of records: insurance-based investment products**

**9A.4.3** EU 19(1) Without prejudice to the application of Regulation (EU) 2016/679 of the European Parliament and of the Council, insurance intermediaries and insurance undertakings shall maintain records of the assessment of suitability or appropriateness undertaken in accordance with Article 30(1) and (2) of Directive (EU) 2016/97. The records shall include the information obtained from the customer and any documents agreed with the customer, including documents that set out the rights of the parties and the other terms on which the insurance intermediary or insurance undertaking will provide services to the customer. Such records shall be retained for at least the duration of the relationship between the insurance intermediary or insurance undertaking and the customer.  
[Note: article 19(1) of the *IDD Regulation*]

**Record-keeping obligations for the assessment of suitability: insurance-based investment products**

**9A.4.4** EU 19(2) In the case of an assessment of suitability undertaken in accordance with Article 30(1) of Directive (EU) 2016/97, the record shall further include the following:

- (a) the result of the suitability assessment;

(b)the recommendation made to the customer and the statement provided in accordance with Article 14(1) of this Regulation;

(c)any changes made by the insurance intermediary or insurance undertaking with regard to the suitability assessment, in particular any change to the customer's risk tolerance;

(d)any changes to the underlying investment assets.

[**Note:** article 19(2) of the *IDD Regulation*]