



# ESMA qualifications guideline

## DSI/ESMA Institutional Investment Consultant

### Guideline A

To understand the most important characteristics and risks of investment products offered or recommended, including any general fiscal consequences and the costs incurred by the client with regard to the transactions. Special care must be taken when recommending products with a higher level of complexity;

#### Qualifications

1. Candidate knows the specifications for financial products, and can use them to evaluate the suitability of the product in the client's investment mandate.
2. Candidate can describe the factors that determine the level of complexity of the financial products.
3. Candidate understands the importance of strategic allocation and its modelling.
4. Candidate can explain the ESG characteristics of financial products and use the client's sustainability preferences to evaluate their suitability within the client's investment mandate.

### Guideline B

To understand the total amount of costs and expenses incurred by the client as a result of the type of investment product offered or recommended, as well as the costs for the provision of advice and any other related services;

#### Qualifications

1. Candidate can explain the full cost structure that the client will be confronted with when he/she begins investing. This pertains to transactions in financial products, but also to the provision of investment services or ancillary services.
2. Candidate is familiar with the common standards for indicating the cost burden, such as the ongoing charges figure and total cost of ownership.
3. Candidate can clearly explain the effects of the costs on the client's investment mandate.
4. Candidate is familiar with the differences between fixed and result-based management fees and is capable of assessing the suitability of these based on the investment service requested by the client.



### **Guideline C**

To comply with the investment firms' obligations with regard to suitability requirements, including the obligations stipulated with regard to the MiFID suitability requirements;

#### **Qualifications**

1. Candidate is capable of determining, based on the information gathered, that each transaction related to advice or management has been tailored to the client's investment goals and risk tolerance;
2. Candidate can explain the investment risks that are associated with the transactions or the management of his/her portfolio;
3. Candidate is familiar with the principle and rules of client classification prescribed in MiFID II;
4. Candidate can differentiate between the duty to inform, the duty to warn, the duty to refuse and the duty to investigate in the context of the duty of care;
5. Candidate is familiar with the requirements inherent in the concept of a 'prudent person'.

### **Guideline D**

To understand why the type of investment product offered by the investment firm may not be suitable for the client, based on an evaluation of the relevant information provided by the client and any changes that may have occurred since the relevant information was collected;

#### **Qualifications**

1. Candidate understands the importance of his/her role in the periodic recalibration of the investment mandate to the client's risk appetite and other relevant circumstances;
2. Candidate can show how he/she must deal with a potential violation of investment guidelines that have been agreed with the client;
3. Candidate is capable of choosing the risk profile that best suits the client's risk appetite from the available risk profiles;
4. Candidate is capable of choosing the risk profile that best suits the client's risk appetite from the available risk profiles;
5. Candidate is capable of formulating investment policy for portfolios focused on short term return, as well as liability coverage portfolios.



## **Guideline E**

To understand how financial markets operate, and how they influence the value and prices of the investment products that are offered or recommended to the client;

### **Qualifications**

1. Candidate is familiar with the risks and value characteristics of the financial products that are suggested and managed for the most common investment categories, including shares, fixed-interest assets, real estate, commodities, derivatives and alternative investments, such as private equity, private debt, hedge funds and infrastructure, as well as investment funds that invest in these instruments;
2. Candidate knows the relevant sustainability risks for financial products;
3. Candidate can explain the sustainability risks for financial products using the legally required sustainability certification;
4. Candidate can identify characteristics of the main interest rate benchmarks, and can explain their history;
5. Candidate knows the most common methods for qualitative and quantitative analysis;
6. Candidate can describe how the qualitative and quantitative analysis can be used to arrive at a valuation for financial products;
7. Candidate can make a justified estimate of the expected total return;
8. Candidate is aware of the most important elements of behavioural finance and understands that both the manager and the client are subject to selective perception when forming their perspectives on the risk/reward ratio of investments, which means that decision making is not always rational.

## **Guideline F**

To understand the consequences of economic statistics and of national/regional/global events on markets and on the value of investment products offered or recommended to clients;

### **Qualifications**

1. Candidate can explain the influence of economic data and (geo)political events on financial markets;
2. Candidate can explain the influence of changes to the investment climate on the value of the financial products used, both at the moment that the events occur, and in reports after the fact.
3. Candidate can identify the consequences of rising or falling interest rates on the value of financial products, and their consequences for the investment policy;
4. Candidate can explain the impact of inflation and deflation on the value of investment products;
5. Candidate can explain the impact of central bank policies on the value of investment products;
6. Candidate can explain the impact that climate risks and a company's non-compliance with climate regulations can have on the value of investment products.
7. Candidate knows the content of the European Benchmark Regulation.



## **Guideline G**

To understand the difference between past performance and scenarios for future results, as well as the limits of prognoses;

### **Qualifications**

1. Candidate is familiar with the various methods for measuring results and the risk/performance parameters prescribed by DNB;
2. Candidate is familiar with the concepts that are relevant for the absolute and relative performance and for identifying attribution, such as Sharpe ratio, tracking error and information ratio;
3. Candidate is familiar with the concepts that are relevant when applying Down Side Risk Measuring;
4. Candidate can explain the difference between achieved and target performance based on applied performance and attribution indicators;
5. Candidate can interpret outperformance and underperformance in relation to the market conditions that occurred and in relation to the chosen regional and sectoral investment allocation, the chosen investment products and the chosen style of management;
6. Candidate can explain the periodic investment reports, regardless of whether they are drawn up in accordance with the Global Investment Performance Standards;
7. Candidate is able to use existing reports to test and explain whether the applicable investment mandate is threatened;
8. Candidate can explain the scenario analyses applicable to the mandate, as well as the model uncertainties pertinent to such prognoses.

## **Guideline H**

To understand issues pertaining to market manipulation and combatting money laundering;

### **Qualifications**

1. Candidate is familiar with the current regulations and guidelines pertaining to market misuse and anti-money laundering measures;
2. Candidate is familiar with the procedures for reporting possible situations of market fraud or money laundering within the organisation, as well as the scope of the sanctions list;
3. Candidate can describe what to do when in doubt about the integrity of a client;
4. Candidate is familiar with the relevance and application of codes of conduct.



### **Guideline I**

To evaluate data which are relevant to the types of investment products offered or recommended to clients, including documents with essential investor information, prospectuses, financial overviews or financial data;

#### **Qualifications**

1. Candidate is familiar with the content of standard documentation that is representative of financial products included or permitted in the client's mandate;
2. Candidate can assess the submitted documentation, and can evaluate and explain internal and external recommendations regarding the documentation;
3. Candidate is familiar with the types of documents that must be shared with the client, which contain information about the specific investment and the market in which it is traded;
4. Candidate knows the main aspects of the Sustainable Finance Disclosure Regulation (SFDR) regarding financial products and the requirements for advising clients.

### **Guideline J**

To understand specific market structures for the types of investment products offered or recommended to clients, and if applicable, their trading platforms or the existence of any secondary markets;

#### **Qualifications**

1. Candidate knows relevant elements of the order implementation policy of the investment firm for which he/she works with regard to all financial products that can be used to compile a (bespoke) portfolio, and can explain the policy to the client.

### **Guideline K**

To have a basic understanding of the valuation methods for the types of investment products offered or recommended to clients;

#### **Qualifications**

1. Candidate knows the common methods for valuing the listed and non-listed financial products offered;
2. Candidate knows the requirements that DNB places on reports about investment portfolios and results.

### **Guideline L**

To understand the basic principles of asset management, including the consequences of diversification for specific investment alternatives;

#### **Qualifications**

1. Candidate is familiar with the Dutch pension system, its supervision and any changes to the system;
2. Candidate can describe the investment guidelines, based on which an investment mandate can be drawn up, such as the strategic asset allocation,



degree of active and passive management, the policy regarding responsible investment, permitted deviations from policy, the applicable risk measurement standards, the fee structure, the demands for the performance report and the client's fiscal background;

- 3.** Candidate can apply the concepts of investment style, asset allocation, and currency and interest rate overlay in line with the basic principles of diversification (CAPM), factor models (Fama and French), Liability Driven Investments (LDI), ALM models and value at risk;
- 4.** Candidate can identify the following styles and long-term risk/yield profiles for portfolio management: core/growth, value-added, and opportunistic;
- 5.** Candidate can differentiate between top-down and bottom-up approaches to allocation;
- 6.** Candidate can describe which risks the investment process may entail, including market risk, credit risk, settlement risk, counterparty risk, solvency risk, liquidity risk, reinvestment risk, currency risk, 'fat tail' risk, operational risk, inflation risk, political risk, greenwashing risk and risks pertaining to government policy.