
TO : **Cyprus Investment Firms**

FROM : **Cyprus Securities and Exchange Commission**

DATE : **January 31, 2025**

CIRCULAR NO. : **C680**

SUBJECT : **ESMA launches a Common Supervisory Approach with NCAs on MiFID II sustainability requirements**

1. The Cyprus Securities and Exchange Commission ('the CySEC') wishes, with this circular, to inform the Cyprus Investment Firms ('CIFs') that the European Securities and Markets Authority ('ESMA') has launched the [CSA 2024-25](#) with national competent authorities (NCAs) on the integration of sustainability in firms' suitability assessment and product governance processes and procedures in 2024.
2. The goal of the CSA 2024-25 will be to assess the progress made by intermediaries in the application of the key sustainability requirements, which entered into application in 2022 following the amendments to the MiFID II Delegated Acts and will cover the following aspects:
 - How the firms collect information on their clients' "sustainability preferences";
 - Which arrangements firms have put in place to understand and correctly categorize investment products with sustainability factors for the purpose of the suitability assessment;
 - How firms ensure the suitability of an investment with respect to sustainability (including the use of a "portfolio approach");
 - How firms specify any sustainability-related objectives a product is compatible with as part of the target market assessment of the investment product.
3. In the context of the CSA, CySEC is planning to conduct on-site visits and/or desk-based reviews on a sample of CIFs that provide the Investment services of Investment Advice and/or Portfolio Management to retail clients, from the 2nd of August 2022 to 31st of December 2024. This action will allow CySEC to assess how the CIFs apply the MiFID II sustainability requirements, and it will help to ensure consistent application of EU rules and enhance the protection of investors in line with ESMA's objectives.
4. For the purposes of the CSA 2024, CySEC will consider the following regulatory framework:

- a. Articles 25(1), 25(4) and 25(5) of Law 87 (I) / 2017.
- b. Articles 9 and 10 of the MiFID II Delegated Directive.
- c. Articles 2(7), 21, 54(1), 54(2) 54(5), subparagraph 2 of Article 54(7), Articles 54(9), 55(3) of the MiFID II Delegated Regulation.
- d. Guidelines on certain aspects of the MiFID II suitability requirements:
 - Guideline 1 – Information to clients about the purpose of the suitability assessment and its scope (paragraph 16).
 - Guideline 2 – Arrangements necessary to understand clients (paragraph 19 and paragraphs 26 to 29).
 - Guideline 5 – Updating client information (paragraphs 53 and 57).
 - Guideline 7 – Arrangements necessary to understand investment products (paragraphs 71 and 73).
 - Guideline 8 – Matching clients with suitable products – Arrangements necessary to ensure the suitability of an investment (paragraphs 76, 81, 85 and 88).
- e. Guidelines on MiFID II product governance requirements:
 - Section 5.2 – Guidelines for manufactures (paragraph 20).
 - Section 5.3 – Guidelines for distributors – (paragraphs 42 and 62).
 - Section 5.4 – Guidelines on issues applicable to both manufacturers and distributors (paragraph 81).
- f. ESMA Q&A (ESMA_QA_1966) submitted to the European Commission on 2 October 2023 concerning integration of sustainability within the MiFID II product governance requirements.

Therefore, CySEC expects CIFs to adhere to the content of this Circular as this will form part of CySEC's supervisory review for the purpose of the CSA 2024-25.

Sincerely,

George Theocharides
Chairman Cyprus Securities and Exchange Commission