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Summary of the main results of the MiFID questionnaires evaluation study conducted by André de Palma (ENS Cachan and Ecole Polytechnique) and Nathalie Picard (Cergy-Pontoise University)

1. Main conclusions of the study

- MiFID questionnaires were introduced in a difficult context

- The financial intermediaries which introduced these questionnaires were faced with a total absence of references in such matters. They therefore could not use a model to write their questionnaires. In other words, the questionnaires were introduced from scratch;
- In addition, despite the clarifications provided in the implementing directive and by the various interpretation texts, the practical implementation of financial intermediaries' requirements, as defined in MiFID, leaves much room for interpretation. This may explain, at least in part, the different subjects addressed and questions asked in the various questionnaires;
- Financial intermediaries also faced the difficulty of surveying a large number of very different customers on a subject often considered to be a sensitive one, or potentially even perceived as an intrusion by many investors who are sometimes reluctant to disclose information they consider to be very personal or surprising, given their existing relations with the intermediary.

- The questionnaires examined comply to varying extents with the recommendations of the different MiFID-related texts

- Although MiFID does not explicitly address the notion of risk tolerance, most of the questionnaires nonetheless attempt to provide a measurement of it, highlighting the concern of financial intermediaries to avoid adopting a "minimalistic" strategy in this matter;
- Their efforts in this respect are not always met with success, however, given that very few questionnaires propose any real quantification of risk tolerance. Yet to provide a basis for good-quality investment advice, evaluation of risk preferences must be based on quantitative measurements.

2. The study identified a certain amount of good practice present in several questionnaires

- A few questionnaires base themselves on scoring rules to divide investors into risk categories and avoid any excessive subjectivity among their salespeople. However, more than half of the questionnaires studied do not use such techniques;
- Half of the financial intermediaries whose questionnaires were taken into account in the study have entered them into their Customer Relation Management information system, thereby seeking to optimise investment recommendations. This integration is not systematic, however.

3. There is room for progress

- The majority of the questionnaires based on scoring techniques do not use genuine statistical methods in defining the rules underlying such techniques. Hence, their classification of investors by risk profile remains largely based on subjective judgement, rather than on quantified results. Also, to provide a basis for good-quality investment advice, **the evaluation of risk preferences must be based on quantitative measurements**, not only of risk tolerance, but also of tolerance to losses and of the tendency to over- or under-estimate the probability of extreme events occurring;
- **Certain advances in behavioural finance and experimental economics** explaining the behaviour of non-professional investors and their attitude towards risk could be used in drawing up these questionnaires. Some of the biases observed and well documented in academic literature on situations of uncertainty could thus be taken into account more effectively. In this respect, the questionnaires could **take better account of the excessive influence of the short-term outlook** on customer responses: this influence is shown by excessive optimism or pessimism according to whether the prospects for the economic and financial environment are good or bad on the whole. Consequently, this bias could be understood better before providing investment advice. The disruptive effects of the outlook on customer responses could then be taken into account correctly in the final decision made by the investor, as recommended by the academic literature in such matters;

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- Customers are generally asked to appraise their investment competencies themselves. However, self-assessment is by nature subjective and can hardly lead to operational, useful advice for the customer. Consequently, **it is also opportune to evaluate their experience objectively** by asking them about investment decisions they have actually made and their duration. In other words, the questionnaires should make more of an attempt to check that the respondent has answered correctly about their real level of knowledge and that they have understood the questions properly;

- Only a minority of questionnaires address **the personal characteristics of the customer**, and very often only optionally. However, although not mandatory (by the terms of MiFID), information such as the age of the respondent, their marital and professional situation, their level of education or the age at which they are considering retiring (despite its pertinence, none of the questionnaires asked this question) are closely correlated with their investment objectives and time horizon. Likewise, a qualitative analysis should be performed more systematically of their sources of income, their current financial commitments and outstanding debts. The effective measurement of their risk profile depends on the appraisal of all these parameters.

Aside from their interest strictly from the points of view of professionals and retail investors, **the report's conclusions can make a useful contribution to the reflection conducted by the AMF within the framework of the revision of MiFID.**