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Shaping the Compass? How Sustainability Preference Elicitation Guides Investor Demand

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Shaping the Compass?
How Sustainability Preference Elicitation Guides Investor Demand

Volker Brühl[*] Marie-Therèse Radetzky[†] Oscar A. Stolper [‡]

Abstract—This study evaluates the effectiveness of MiFID II's mandatory elicitation of retail investors' sustainability preferences in aligning investment advice with EU climate goals. Using comprehensive real-world data from 18,250 advisory meetings at a German savings bank, we analyze how clients' expressed ESG preferences influence advisory recommendations and actual investment behavior. Despite regulatory intent, the share of clients stating sustainability preferences declined significantly after mandatory implementation, and expressed preferences rarely translated into changed investment decisions. Our findings reveal a gap between regulatory frameworks and client engagement, highlighting challenges in operationalizing sustainability preferences. We discuss these results alongside ESMA stakeholder feedback and propose practical improvements to enhance alignment and impact.

Keywords: Financial Advice, ESG Preferences, Sustainable Investing, Household Finance, Retail Investors, MiFID II

JEL-Classification: G11, G21, G40, G50

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1. Introduction

The European Union has set itself the ambitious goal of becoming the world's first climate-neutral continent by 2050 (European Commission, 2019). To reach this target, the European economy must undergo a fundamental transformation towards a more sustainable, resource-efficient, and competitive model (European Commission, 2024). To support this transition, the European Green Deal Investment Plan aims to mobilize at least €1,000 billion in sustainable investments over the next decade, combining public and private capital (European Commission, 2020). Retail investors are expected to play a central role in channeling funds towards sustainable projects. However, for most households, sustainable investing remains a challenging terrain marked by technical jargon, evolving regulations, and unclear product labels (e.g. Gutsche and Zwergel, 2020). To help navigate this complexity and make sustainability considerations more accessible, the European Union has introduced regulatory reforms that integrate sustainability preferences directly into the retail investment process. Financial advisors play a key role in this effort, as they are responsible for explaining the concept of sustainable investing[4] to clients in an understandable and meaningful way, thereby bridging the gap between regulatory intentions and individual investment decisions. Specifically, as of August 2022, financial service providers subject to the Markets in Financial Instruments Directive II (MiFID II) have been required to assess their clients' sustainability preferences as part of the mandatory "Know Your Customer" (KYC) process (Delegated Regulation (EU) 2021/1253).

[4] For ease of exposition, we use the terms "green," "ESG," and "sustainable" investments interchangeably throughout the paper.

In this elicitation of sustainability preferences in investment, clients must be asked whether they wish to invest in financial products that meet certain sustainability criteria as defined by EU regulation. These criteria aim to capture different dimensions of environmental and social responsibility and serve as a basis for aligning investment products with individual sustainability preferences. Elicited preferences must then be taken into account when providing investment advice or portfolio management. Firms are prohibited from recommending products that do not align with the stated preferences, unless clients explicitly choose to adapt them after the elicitation process. Any such adaptations must be documented in full.

The regulation aims to steer retail capital toward sustainable investments by aligning product recommendations with what clients' express as their preferences regarding a given company's environmental, social, and governance performance[5]—assuming that such alignment fosters greater transparency and uptake. However, three years after the implementation of this requirement, questions remain regarding its effectiveness. Has the mandatory sustainability preference elicitation indeed led to more sustainable investments among retail clients? Do their stated preferences influence product recommendations and purchasing behavior? And does the mechanism work equally across investor types?

Drawing on comprehensive real-world data from retail investment advisory meetings at a mid-sized German savings bank, we examine these questions empirically. Based on a rich dataset including (i) clients' individual ESG preferences, (ii) recommendations given by bank advisors together with (iii) detailed financial and sociodemographic information for the sampled clients as well as advisors, and,

[5] ESG is a framework used to assess how a company performs in areas beyond traditional financial metrics. The component E (environmental) focuses on how a company impacts the natural environment, while S (social) evaluates how a company manages relationships with people and society, and G (governance) looks at internal practices and controls.

finally, (iv) their actual investment decisions following the advisory meetings, we assess whether the elicitation of clients' sustainability preferences has meaningfully influenced their investment behavior. Our analysis includes a granular breakdown by various different client characteristics and evaluates the extent to which clients' stated preferences are reflected in both the advice they receive and the investment choices they subsequently make.

By analyzing actual client-advisor interactions during in-person meetings as well as their outcomes, our study complements existing experimental evidence in the literature (e.g., Gutsche et al. (2023); Heeb et al. (2023)) and reveals a more nuanced behavioral response. While previous research finds strong pro-sustainability attitudes in controlled settings, we document that in reality, preferences in favor of ESG investment products are expressed *less* frequently after the regulatory shift, and implementation behavior remains largely unchanged.

Moreover, most clients refrained from specifying any sustainability preference beyond the initial layer, with just 6.0% selecting Article 8 funds[6]—often referred to as 'light-green' funds—or Article 9 funds[7] (i.e. 'dark-green' funds), and only 2.5% opting for Taxonomy-aligned products. A striking 91.8% chose not to define a minimum ESG share in their portfolio, underscoring either limited motivation or uncertainty about the implications of such thresholds. The decline in preference expression was particularly pronounced among private banking clients, where the rate fell to just 2.6%. While the share of green fund recommendations increased across

[6] Article 8 funds promote, among other characteristics, environmental or social objectives under the EU Sustainable Finance Disclosure Regulation (SFDR). While these products must integrate sustainability factors into their investment process, they are not required to demonstrate that their underlying investments qualify as 'sustainable investments' under Article 9 or the EU Taxonomy.

[7] Article 9 funds have sustainable investment as their explicit objective under the SFDR. These products must demonstrate that their portfolio holdings qualify as 'sustainable investments' within the meaning of Article 2(17) SFDR and that they do not significantly harm other environmental or social objectives, including adherence to minimum safeguards.

all clients following the regulatory change, ESG-preferring clients received significantly more such recommendations—yet they were no more likely to act on them. In fact, the overall implementation rate declined in the mandatory phase, especially among clients with stated ESG preferences, suggesting that alignment between preferences and recommendations does not directly map on to clients' investment decisions. This evidence ties in with recent findings by Eckert et al. (2024), who analyze advisory meetings initiated by trained mystery shoppers and document that sustainability preferences are often not properly elicited, with only roughly half of recommended products matching the stated preferences. These findings raise important questions about the practical effectiveness of preference elicitation as a tool for aligning investment decisions with sustainability goals.

The remainder of this paper is structured as follows: Section 2 provides an overview of the regulatory background and traces the evolution, objectives, legal foundations of the sustainability preference elicitation under MiFID II**.** Section 3 summarizes existing literature, Section 4 provides an overview of prior evidence on investor preferences, and Section 5 features our quantitative analysis of client response based on the bank data. Section 6 discusses our empirical findings in light of stakeholder feedback collected in ESMA's 2023 Call for Evidence, and Section 7 develops recommendations for how the regulatory objectives can be more effectively translated into practice. Section 8 concludes.

2. Regulatory framework

2.1. Strategic context

The mandatory assessment of sustainability preferences in investment advice is embedded in the European Union's broader strategy to align financial markets with the objectives of the European Green Deal. At its core, the European Climate Law

codifies the European Union's commitment to climate neutrality by 2050, complemented by an interim target of a 55% reduction in greenhouse gas emissions by 2030. To operationalise these goals, the Commission's "Fit for 55" package sets out sectoral measures across energy, transport, and finance, including a broadened Emissions Trading System (ETS), more ambitious renewable energy and efficiency targets, the Carbon Border Adjustment Mechanism (CBAM) to curb carbon leakage, and updated LULUCF rules for land use and forestry.

Alongside these regulatory instruments, the EU has mobilised substantial public financing mechanisms to support the transition. The InvestEU programme provides guarantees designed to leverage private investment in sustainable infrastructure, innovation, and SMEs, while NextGenerationEU, the Union's €750 billion recovery instrument, channels large-scale funding into climate- and digital-related projects under the Recovery and Resilience Facility. Together with revenues from the ETS and the CBAM, these resources establish the financial backbone of the Green Deal and explicitly rely on mobilizing private capital, primarily from corporates and institutional investors. Taken together, these measures define the macro policy environment in which retail investment advice operates. Within this broader mobilization effort, the elicitation of sustainability preferences targets the retail segment specifically, seeking to redirect household savings towards activities that contribute to a sustainable and climate-resilient economy, thereby positioning the financial sector as a central enabler of the transition.

An important milestone in deploying this policy agenda was the European Commission's publication of the Action Plan on Financing Sustainable Growth in March 2018. The Action Plan outlined ten key actions aimed at fostering a more sustainable financial system, with a clear emphasis on enhancing transparency, improving market functioning, and empowering investors to make informed choices aligned with their values. Action 4 of the plan explicitly called for the integration

of sustainability preferences into the suitability assessment, signaling the EU's intention to go beyond disclosure and promote sustainability through actual investment decisions (European Commission, 2018).

The Commission emphasized the pivotal role financial intermediaries—such as banks, investment firms and insurance distributors—can play in this transformation. By embedding ESG considerations into investment advice, the aim was not only to protect consumers but also to mainstream sustainability into financial decision-making. This initiative is part of a wider movement within the EU Sustainable Finance agenda, which includes complementary legislative pillars such as the EU Taxonomy Regulation, the Sustainable Finance Disclosure Regulation (SFDR), and the Corporate Sustainability Reporting Directive (CSRD).[8]

The regulatory purpose behind the mandatory sustainability preference elicitation in retail investment advice thus is twofold: first, to enhance the integrity and credibility of sustainable financial products by aligning them with client expectations; and second, to empower retail investors to express their values through their financial decisions—thereby stimulating demand and market development.

Against this background, the potential scale of retail investor contributions to the EU's sustainable finance objectives is substantial. The European Commission estimates an annual additional investment gap of approximately €477 billion to achieve the EU's climate goals this decade (Andersson et al., 2025). Using Morningstar data on SFDR Article 8 and 9 fund holdings (Morningstar, 2025) and ESMA statistics on fund ownership (ESMA, 2023), we estimate that households own roughly 48 % of EU ESG fund assets—equivalent to about €2.9 trillion. Even

[8] Specifically, SFDR is operationalized by RTS (EU) 2022/1288, including pre-contractual and periodic templates; the Taxonomy by the Climate and Environmental Delegated Acts plus the Disclosure Delegated Act; and CSRD by the ESRS standards. Advisors ultimately rely on this framework when mapping clients' preferences to product attributes.

moderate shifts in household portfolios, for example a 5 % annual increase in retail ESG allocations, would correspond to additional inflows of around €145 billion per year, covering approximately 30 % of the annual sustainable investment gap; a 10 % increase would cover about 60 %. While such estimates are necessarily approximate and do not imply that all inflows would be invested within the EU, they illustrate that retail investors could, in principle, play a meaningful role in closing the sustainable finance gap.

Recent market data underline the growing scale of sustainable fund investing in Europe. According to Morningstar, net inflows into European Article 8 funds surged in Q4 2024, reversing a previous downward trend and contributing to total sustainable fund assets of over €6 trillion (Morningstar, 2025). This rebound was driven partly by a recovery in investor sentiment and by heightened regulatory clarity under the SFDR framework. While these figures cover both institutional and retail investors, they underscore the size and momentum of the investable universe from which households could allocate capital towards sustainable objectives.

Compared to other major jurisdictions, the EU's MiFID II framework is relatively advanced in explicitly requiring the elicitation of sustainability preferences during the investment advice process. In the United Kingdom, the Financial Conduct Authority (FCA) has not introduced a formal equivalent to MiFID II's preference assessment. However, upcoming Sustainable Disclosure Requirements (SDR) and the associated investment labels regime aim to improve transparency and comparability of sustainable products (Financial Conduct Authority, 2023), while the recently implemented Consumer Duty obliges financial intermediaries to avoid foreseeable harm to clients (Financial Conduct Authority, 2022). Although the Duty does not explicitly reference sustainability, a misalignment between a client's stated sustainability objectives and the products recommended could, in principle, be interpreted as such harm.

In the United States, there is likewise no mandatory sustainability preference assessment. The Securities and Exchange Commission has focused on combating greenwashing through measures such as the amended "Names Rule" (U.S. Securities and Exchange Commission, 2023), while the Department of Labor has clarified that fiduciaries under the Employee Retirement Income Security Act may consider ESG factors where consistent with plan participants' objectives (U.S. Department of Labor, 2022). Furthermore, the Regulation Best Interest requires that brokers act in the best interest of their clients (U.S. Securities and Exchange Commission, 2019), adhering to obligations related to disclosure, care, conflicts of interest, and compliance. While the rule does not explicitly address sustainability criteria, incorporating ESG considerations may fall within brokers' discretion under the broad 'best interest' standard. At the same time, the U.S. regulatory landscape has been marked by substantial uncertainty, particularly during the presidency of Donald Trump, when the Department of Labor signaled skepticism toward ESG integration in retirement plans and several federal initiatives weakened environmental and climate commitments, creating a chilling effect for plan sponsors and asset managers.

Taken together, these differences underscore that the European Union is the only jurisdiction to date that mandates the elicitation of sustainability preferences in retail investment advice. Under MiFID II, sustainability considerations must be assessed and documented alongside traditional suitability dimensions such as risk tolerance, investment horizon, and return expectations. By elevating ESG preferences to the same formal level as clients' risk profiles, the EU has embedded sustainability directly into the core of the advisory process—setting it apart from other regulatory regimes that treat ESG considerations as optional, interpretative, or secondary.

2.2. Legal foundation and implementation in MiFID II

To implement the strategic vision outlined in the Action Plan on Financing Sustainable Growth, the European Commission amended the MiFID II framework to formally incorporate sustainability preferences into investment advice. The legal foundation of this reform is Delegated Regulation (EU) 2021/1253, adopted in April 2021, which amends Delegated Regulation (EU) 2017/565 under MiFID II. The new provisions became legally binding across the EU on August 2, 2022.

These amendments require investment firms to systematically integrate clients' sustainability preferences into the existing suitability assessment as part of the know-your-customer (KYC) process. Advisors must now explicitly ask whether clients wish to invest in financial instruments that (i) contribute to environmental objectives as defined by the EU Taxonomy Regulation (EU) 2020/852[9], (ii) qualify as sustainable investments under Article 2(17) of the SFDR, or (iii) take into account principal adverse impacts (PAIs)[10] on sustainability factors.

Importantly, firms are not only required to collect this information, but also to incorporate it into product selection and investment recommendations. If no suitable financial instrument matches a client's stated preferences, the client must actively revise their preferences—an adjustment that must be transparently documented, including a justification for the change. Firms are explicitly prohibited from recommending or marketing a product as sustainable unless it aligns with the

[9] The EU Taxonomy Regulation (EU) 2020/852 establishes a unified classification system that defines when an economic activity is environmentally sustainable, based on six environmental objectives and detailed Technical Screening Criteria requiring substantial contribution, no significant harm, and compliance with minimum safeguards. It also sets out disclosure rules for financial market participants when claiming that a financial product invests in Taxonomy-aligned activities.

[10] Principal adverse impacts (PAIs) refer to the material negative effects that investment decisions may have on environmental, social, or governance factors, as defined under the SFDR. Financial market participants must measure, monitor, and disclose these impacts using standardized indicators to ensure transparency about the sustainability risks associated with their products.

client's declared preferences, serving as a key safeguard against greenwashing and mis-selling. In parallel, firms must align internal processes—such as product governance, conflict-of-interest management, and staff training—with the integration of ESG considerations. The regulation also mandates that sustainability risks be embedded in firms' risk management frameworks and that ESG preferences be treated on par with traditional financial objectives, including risk tolerance, investment horizon, and return expectations.

To support consistent implementation across Member States, ESMA published updated Guidelines on Suitability Requirements under MiFID II in September 2022 (ESMA, 2022). These guidelines provide detailed instructions for capturing and integrating ESG preferences, with a strong emphasis on clear client communication, thorough documentation, and product transparency. Nonetheless, implementation has proven challenging. Market participants, regulators, and industry associations have cited a range of obstacles, including clients' limited understanding of ESG terminology, a lack of standardized and reliable product data, and inconsistencies in product classification. These issues have raised concerns about the regulation's practical effectiveness—particularly its ability to foster meaningful retail investor participation in sustainable finance under current market conditions.

In response, ESMA launched a Call for Evidence in June 2023, inviting stakeholders to share their experiences with implementation (ESMA, 2023). The consultation aimed to assess whether further clarification or regulatory adjustments are needed to ensure the framework can achieve its intended objectives. Stakeholder feedback underscores that, while the integration of sustainability preferences represents a critical step forward, its success will ultimately hinge on market readiness, regulatory coherence, and investor literacy. Section 6 of this report links our empirical analysis of client sustainability preferences, advisory behaviors, and

investment implementation to the concerns and observations raised by stakeholders in ESMA's 2023 Call for Evidence.

3. Related Research

While research on investor preferences for sustainability has expanded over the past two decades, the body of work remains modest compared to more established fields in household finance. Within this literature, only a relatively small subset of studies examines regulatory interventions that explicitly require the elicitation of sustainability preferences, such as the EU's MiFID II amendments. The existing contributions nonetheless provide important insights into the motivations, constraints, and behavioral responses that shape sustainable investment decisions, and they inform the empirical approach of this paper. On the theory side, models of prosocial (or "warm-glow") utility formalize how non-pecuniary motives interact with financial objectives in portfolio choice and corporate behavior (Bénabou and Tirole, 2010). Recent work embeds ESG directly into investor utility and shows how preference strength, constraints, and product design shape optimal allocations and observable demand for "sustainable" assets (Aslan and Posch, 2022).

A first empirical strand documents that non-financial fund attributes influence flows. Classic evidence shows investors reward screened or values-aligned funds above and beyond risk-adjusted performance (Bollen, 2007). Using Dutch microdata, Riedl and Smeets (2017) establish that many retail investors accept lower expected returns to achieve social impact or express values. Exploiting Morningstar's mid-2016 ESG badge rollout as a quasi-experiment, Hartzmark and Sussman (2019) find large, immediate flow shifts toward highly rated funds, consistent with salience-driven demand for sustainability signals. Together, these papers imply that how preferences are surfaced and labeled can move money even holding fundamentals fixed.

A second strand turns to preference formation and heterogeneity. Experimental evidence for the U.S. confirms meaningful willingness to pay for sustainable investments, but with wide dispersion across investors (Harasheh et al., 2024). Methodologically, multi-criteria approaches help aggregate heterogeneous ESG priorities at the product or portfolio level (Escrig-Olmedo et al., 2017). Survey-based work highlights the role of financial literacy and intermediary choice in whether sustainability intentions translate into product uptake (Cucinelli and Soana, 2023). Comprehensive reviews synthesize expectations and perceptions around ESG, underscoring gaps between stated and revealed preferences as well as the importance of information design (Kräussl et al., 2024). Institutional investors are not immune: large asset owners and managers exhibit ESG preferences that vary with mandate and accountability structures, with implications for product supply and stewardship (Lopez-de-Silanes et al., 2024). Finally, a regulation-focused literature examines how regulation and disclosure shape retail outcomes. ESMA's 2022 Suitability Guidelines operationalize the MiFID II sustainability-preference requirement and emphasize plain-language elicitation, documentation, and product alignment; stakeholders nonetheless flagged frictions around client comprehension and product availability (ESMA, 2022). Complementing this, the OECD reviews consumer-facing evidence and argues for better testing of disclosures, adviser training, and guardrails against greenwashing to ensure preferences are elicited and implemented effectively (OECD, 2023). Our work addresses these policy concerns by observing real adviser–client interactions and the downstream execution of recommendations under the mandatory elicitation regime.

4. Investor Preferences

Investor preferences represent a cornerstone of household finance research and regulatory practice. Suitability frameworks such as MiFID II are built on the

assumption that clients' risk attitudes, investment objectives, and—more recently—sustainability preferences are stable, exogenous inputs into the advisory process. Yet a growing body of evidence challenges this assumption, showing that preferences are not simply revealed but often co-constructed in interaction with financial advisors.

Scheld and Stolper (2025) examine the elicitation of subjective risk tolerance as a client preference in advisory meetings. Using similar data from more than 7,000 face-to-face consultations at a German savings bank, they show that documented risk tolerance varies systematically across advisors, even among otherwise similar clients. This finding underlines that risk tolerance is not a fixed trait but a stated preference that can be shaped during the advisory process. Specifically, clients assigned to male advisors report significantly higher levels of risk tolerance than comparable clients advised by female advisors. This distortion is not the result of strategic manipulation, but rather consistent with a false consensus effect (Ross et al., 1977), whereby advisors project their own preferences onto clients. This false consensus bias matters: Scheld and Stolper (2025) show that advisor "noise" at the preference elicitation stage propagates directly into biased recommendations and ultimately into client portfolios, while related evidence from Foerster et al. (2017) and Linnainmaa et al. (2021) demonstrates more broadly that advisor characteristics systematically shape client portfolio outcomes. These findings resonate with broader evidence that financial professionals' own behaviors and biases spill over into client decisions (Mullainathan et al., 2012; Hoechle et al., 2017)

Beyond risk tolerance, studies also document how non-pecuniary preferences such as values or social impact motives influence investor behavior. For example, Riedl and Smeets (2017) show that Dutch SRI investors are willing to sacrifice financial returns to achieve social objectives. Similarly, Hartzmark and Sussman (2019) exploit Morningstar's introduction of ESG ratings and find that salience of

sustainability signals can trigger large capital flows, even absent changes in fundamentals. These findings suggest that preferences are not only heterogeneous but also malleable depending on information design and framing.

Surveys and experimental studies further illustrate that preference expression is sensitive to literacy and comprehension (van Rooij et al., 2011). Many investors struggle to translate abstract notions such as volatility and downside risk into concrete preferences (Guiso and Sodini, 2013). As a result, retail clients may rely heavily on advisors for interpretation, which creates scope for subconscious advisor biases to shape outcomes. Cucinelli and Soana (2023) document that both financial literacy and the choice of the intermediary critically determine whether stated sustainability intentions translate into actual investment uptake.

Taken together, the literature indicates that investor preferences—whether in the domain of risk or sustainability—are not fixed and exogenous, but context-dependent, constructed, and prone to advisor influence. This challenges the regulatory ideal of preference elicitation as a neutral process and raises the question of how to ensure that documented preferences genuinely reflect client objectives rather than advisor projections or framing effects. Against this backdrop, we turn to our empirical analysis, which examines how these regulatory ideals unfold in practice. Specifically, we evaluate the implementation of the sustainability preference query introduced under Delegated Regulation (EU) 2021/1253.

5. Empirical analysis

To evaluate the practical implementation of the sustainability preference query introduced under Delegated Regulation (EU) 2021/1253, we draw on a granular dataset provided by a mid-sized German savings bank (hereafter referred to as "our bank" or "the bank"). As part of Germany's three-pillar banking system, savings banks play a pivotal role in the provision of retail financial services, serving

primarily private households and small to medium-sized enterprises (SMEs). Characterized by their local roots and universal banking model, savings banks are deeply embedded in regional economies. As of year-end 2022, they accounted for approximately 37.5% of Germany's total retail deposit market (Deutscher Sparkassen- und Giroverband, 2022).

The data provided by our bank enable a nuanced examination of how the new regulatory categories are taken up, interpreted, and operationalized in practice. This analysis offers insights into how retail investors respond to the sustainability preference requirement, uncovers behavioral patterns on both the client and advisor sides, and sheds light on the broader implications for product governance and regulatory compliance.

5.1. Data and summary statistics

Our bank began eliciting sustainability preferences from clients as early as July 2020, roughly two years prior to the mandatory implementation date in August 2022. In the initial voluntary phase, clients were asked in general terms whether they wished to include sustainable products in their investment strategy. This early adoption was driven by a rise in client interest in sustainability themes. With the regulatory changes taking effect in 2022, the bank updated its questionnaire to reflect the three sustainability dimensions defined under the new framework—namely, EU Taxonomy-aligned investments, SFDR investments, and financial products that consider PAIs. The revised form also included a query regarding the minimum desired share of sustainable investments.

The bank's advisory model assigned each client to one of three advisory tiers (basic, advanced, private banking) based on investable assets. Within each tier, clients were quasi-randomly allocated to financial advisors. Advisors primarily recommended standardized portfolios developed by internal investment teams, with

individual adjustments based on clients' risk tolerance and sustainability preferences. Notably, advisors did not receive sales-based incentives or commissions, ensuring neutrality in product selection.

Our dataset covers the period from July 2020 to August 2023 and is well-suited for a comprehensive analysis of how clients responded to the sustainability preference query, how advisors incorporated these preferences into their recommendations, and how stated preferences translated into actual investment behavior. The dataset combines four sources: (1) detailed logs of all advisory meetings, including client preferences and recommended financial products at the individual security level; (2) transaction-level data capturing actual post-advice investment activity; (3) client demographic information, including age, gender, household composition, income, and financial assets; and (4) advisor characteristics.

The final sample comprises 12,355 clients who participated in at least one in-person advisory meeting during the sample period. These clients were advised by 164 different financial advisors across a total of 18,250 meetings.

Table 1 reports descriptive statistics for clients, advisors, meetings, and post-advice investment outcomes. Clients were, on average, 53 years old; 48.5% were male, 48.3% were married, and 15.3% reported having at least one child in the household. The average monthly net income was €2,506, with substantial heterogeneity across the client base (standard deviation: €2,086). Clients held an average of €27,761 in financial assets and €68,375 in total assets. Self-reported risk tolerance averaged 3.0 on a 1-to-5 scale. This measure is derived from a standardized questionnaire used during the advisory process, in which clients rate their agreement with behavioral statements such as "The risk of losing money makes me nervous." Responses are collected on a five-point Likert scale, and combined into a single risk tolerance score. Since the scale is ordinal, it captures relative rankings in clients'

willingness to take risk, but the numerical distances between categories should not be interpreted as equal intervals.

Table 1: Summary Statistics

	N	Mean	SD	1st	25th	50th	75th	99th
A. Clients								
Client male	18,250	.4854	.4998					
Client age (years)	18,250	53.12	18.47	19	37	56	67	87
Client married	18,250	.4831	.4997					
Client parent	18,250	.1532	.3602					
Client income (EUR)	18,250	2,506	2,086	0	1,077	2,149	3,014	10,006
Client financial wealth (EUR)	18,250	27,761	69,884	0	0	1,032	21,205	380,695
Client wealth (EUR)	18,250	68,375	114,626	0	2,954	24,202	83,006	601,964
Client risk tolerance (1-5)	18,250	3.040		1	3	3	4	5
B. Advisors								
Advisor male	158	.4936	.5015					
Advisor age (years)	158	35.52	12.75	19	24	31.5	47	62
Advisor married	158	.3861	.4884					
Advisor parent	158	.2215	.4166					
# clients	158	84.97	70.30	4	25	63	136	266
# meetings	158	124.3	116.7	5	29	78	208	469
C. Meetings								
# recommendations per meeting	18,250	2.289	1.932	1	1	2	3	10
% buy recommendations	18,250	.4047	.4483					
% sell recommendations	18,250	.0091	.0794					
% savings plan recommenddations	18,250	.5862	.4505					
Sum of recommendations (EUR)	18,250	13,330	29,998	25	60	1,000	15,000	135,000
Sum of buy recommendations (EUR)	7,364	26,260	38,458	100	6,000	15,000	30,000	200,000
Sum of savings plan recommendations (EUR)	10,717	258.2	672.7	25	40	80	200	2,500
% ESG preferences (voluntary)	11,273	.0963	.2951					
% ESG preferences (mandatory)	6,977	.0586	.2349					

D. Post-advice account activity

# investments	18,250	1.552	0	0	0	0	1	7
Sum of investments	18,250	24,364	0	0	0	0	500	101,350
thereof related to one-time investments	2,211	25,446	25	100	5,000	11,000	25,000	120,000
thereof related to savings-plan investments	4,147	662.7	25	25	40	75	200	2,541
Ratio of Following (%)	18,250	.5527	0	0	0	0	1	1.25

Notes: This table reports summary statistics for the full sample of 18,250 in-person advisory meetings, including client demographics, advisor characteristics, meeting-level recommendation data, and post-advice investment behavior. Monetary values are in euros. ESG preferences refer to whether clients indicated a sustainability preference during the KYC process.

Advisors were, on average, 36 years old—significantly younger than their clients. Half of the advisors in the sample were male. Each advisor served an average of 85 clients and conducted 124 meetings over the observation period. In each meeting, advisors made an average of 2.3 investment recommendations, corresponding to an average recommended volume of €13,330.

Following these meetings, the average client followed 0.8 of the recommendations, investing an average of €6,586. The average follow-through ratio—defined as the proportion of the recommended euro amount actually invested—was 34.5%, indicating a substantial gap between advice and execution.

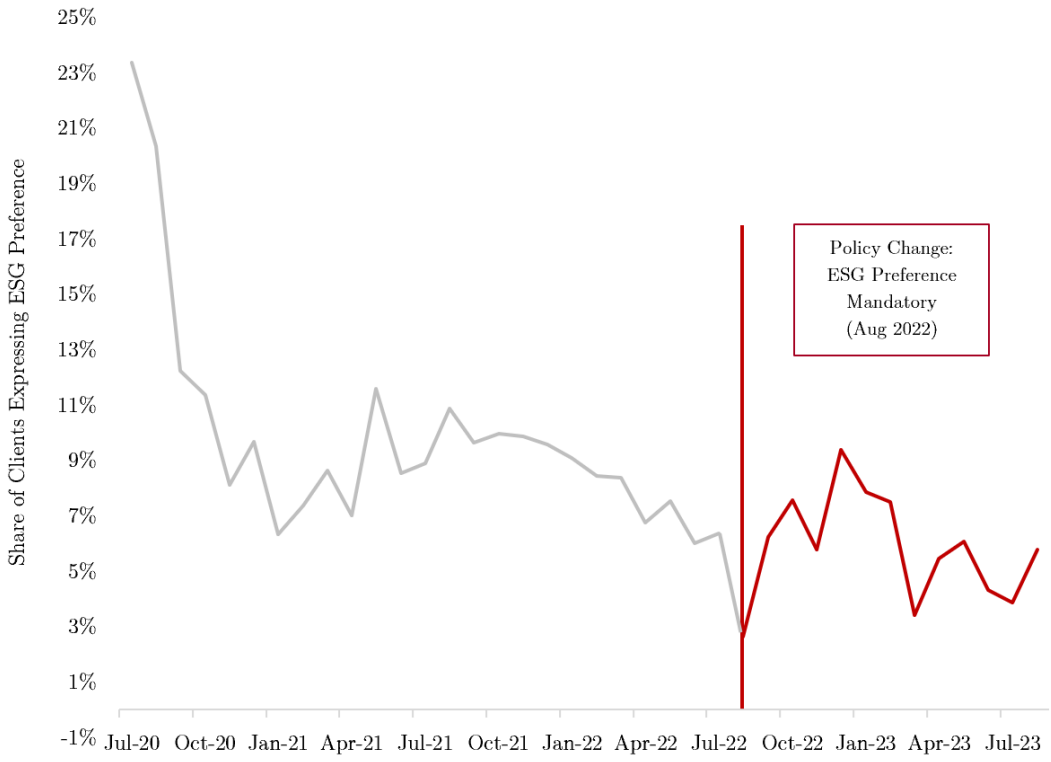
5.2. Uptake and client response patterns

Our bank began voluntarily eliciting clients' sustainability preferences as early as July 2020. Prior to the mandatory implementation date of August 2, 2022, clients were simply asked whether they wished for sustainable products to be considered in their investment recommendations.

Figure 1 plots the share of clients expressing a preference for ESG investments over the observation period. In the early stages, up to 23% of clients indicated a desire for ESG-compliant investment recommendations. However, this early interest

declined sharply and subsequently stabilized at a significantly lower level. Specifically, during the voluntary phase of preference elicitation, 9.6% of clients expressed an ESG preference, whereas this share dropped to 5.9% following the regulatory mandate under the MiFID II amendment.

Figure 1: Clients' sustainability preferences July 2020 - August 2023



Notes: This figure presents the average elicited sustainability preferences of clients from July 2020 to August 2023. The red line marks the onset of mandatory sustainability suitability assessments, as mandated by MiFID II, which commenced in August 2022.

Table 2 reports the results of a t-test comparing the mean preference rates between the voluntary and mandatory phases. The observed decline of 3.7 percentage points—equivalent to a 39% relative reduction—is both economically meaningful and statistically highly significant.

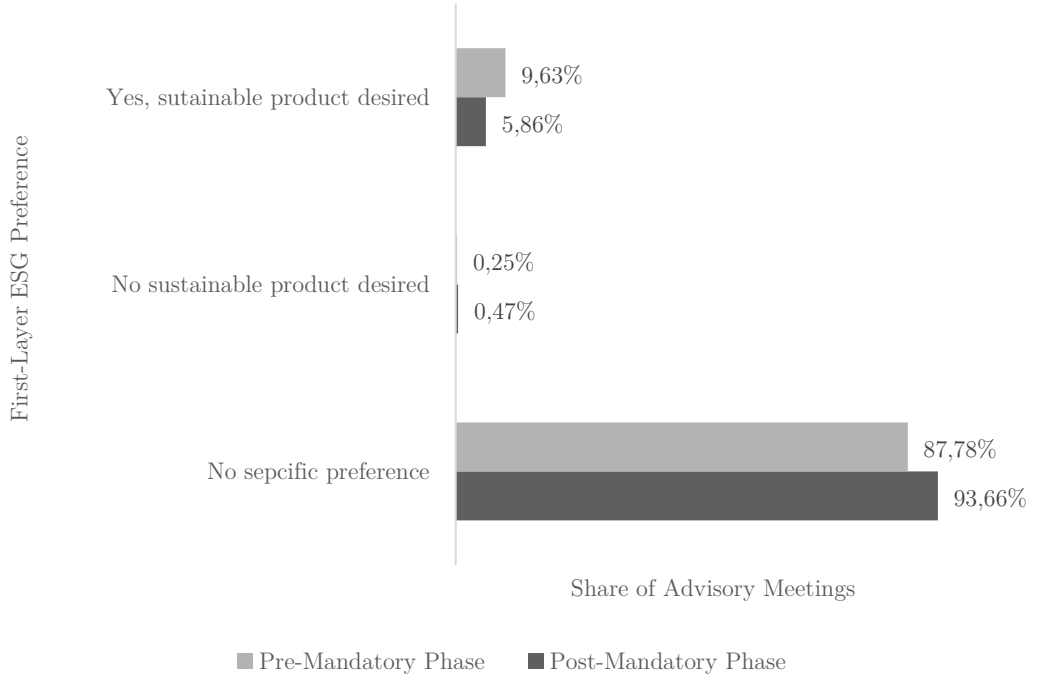
Table 1: ESG Preference Before and After MiFID II amendment

	N	Mean	*t*-statistic	*p*-value
Voluntary Phase (pre August 2022)	11,273	.0963		
Mandatory Phase (post August 2022)	6,977	.0586		
Difference		.0377	9.048	0.000***

Notes: This table reports the results of a t-test comparing the average share of clients expressing ESG preferences before and after the introduction of the mandatory preference elicitation under MiFID II. Reported are sample sizes, means, the difference in means, the corresponding *t*-statistic, and the *p*-value. Significance levels: * p < 0.10, ** p < 0.05, *** p < 0.01.

While the share of clients actively expressing a preference for sustainable products decreased from 9.6% to 5.9% across the two phases, the proportion of clients indicating no specific preference increased markedly, from 87.8% to 93.7%. This shift reflects a clear trend toward more neutral or non-committal responses in the mandatory disclosure regime.

Figure 2: First-Layer ESG Assessment



Notes: This figure shows the distribution of client responses to the first-layer ESG preference question, separately for the voluntary phase (before August 2022) and the mandatory phase (since August 2022) of ESG preference elicitation under MiFID II.

Figure 2 visualizes the corresponding data. In both the voluntary and mandatory phases, fewer than 0.5% of clients explicitly rejected sustainable investment products, indicating that outright opposition to ESG-compliant options remained negligible throughout the period under review.

5.3. Category-level sustainability preferences

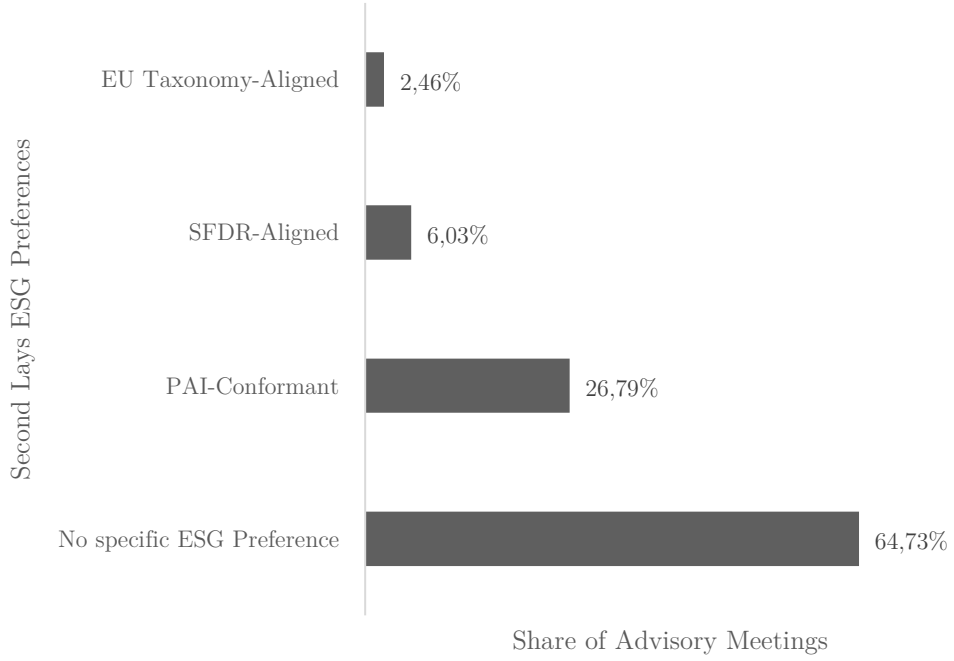
During the voluntary phase, our bank asked clients a single, high-level question: whether they wished for sustainable products to be considered in their investment strategy. We refer to this initial step as the first-layer ESG assessment. With the introduction of the regulatory obligation under the MiFID II amendment, the scope of the preference query was significantly expanded. Advisors have since been required not only to inquire whether clients wish to consider sustainable investments, but also to assess the specific nature of those preferences. In line with the revised framework, clients indicating sustainability preferences next select the specific features of the investment product in a second-layer ESG assessment. Choice options are based on the product features defined in section 2.2, i.e.:

i. EU Taxonomy-aligned funds
ii. SFDR-aligned funds
iii. Funds which consider PAIs
iv. No specific ESG preference required when selecting recommended funds

Figure 3 displays the frequency distribution of second-layer ESG preferences. Notably, 64.7% of sampled clients chose not to specify their preferences beyond the initial level, opting instead for a general, non-specific ESG inclination. The second most frequently selected option was a preference for products that consider PAIs. Only 6.0% of clients explicitly expressed a preference for "light green" (Article 8) or "dark green" (Article 9) funds under the SFDR. The particularly low selection rate for EU Taxonomy-aligned products (2.5%) may, in part, be attributed to the

limited current scope of the Taxonomy, which to date addresses only environmental objectives. A dedicated social taxonomy remains under discussion, while governance criteria have yet to be formally incorporated into the regulatory framework.

Figure 3: Second-Layer ESG Assessment

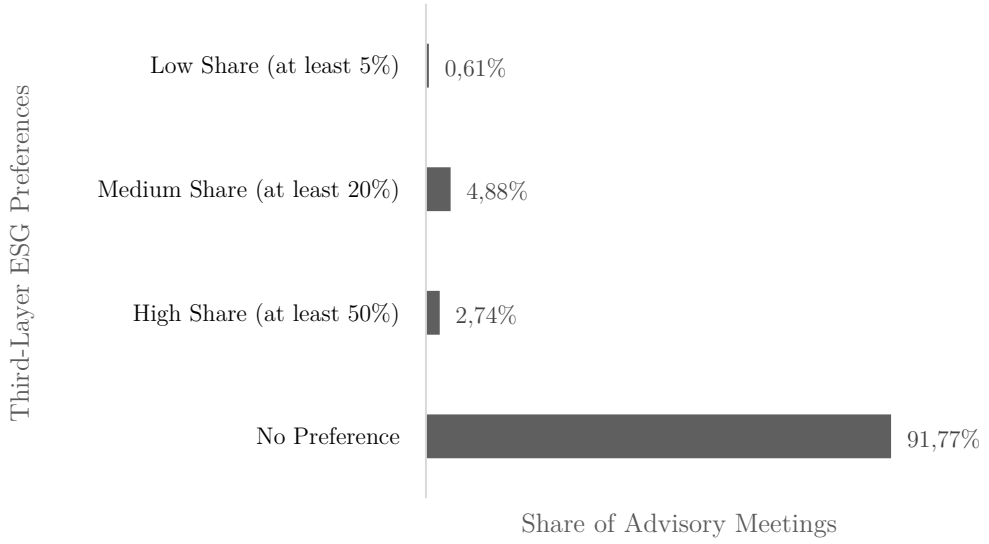


Notes: This figure presents the distribution of second-layer ESG preferences among clients who indicated a general sustainability preference during the advisory process. These data were only collected after the MiFID II amendment came into force in August 2022, when eliciting ESG preferences became mandatory. At this stage, clients were asked to specify the type of sustainability characteristic they wished to prioritize—such as alignment with the EU Taxonomy, SFDR-defined sustainable investments, or consideration of PAIs.

Since the implementation of mandatory ESG preference elicitation in August 2022, the advisory process has been further expanded to incorporate an additional level of granularity: clients are now asked whether they wish to specify a minimum proportion of their portfolio that should fulfill their stated sustainability preferences. This step aims to ensure that the sustainability component of recommended products is substantive rather than symbolic.

Figure 4 illustrates the distribution of client responses to this third layer of the assessment. An overwhelming majority—91.8%—chose not to define a minimum proportion, suggesting either limited awareness of the implications of such thresholds or a low willingness to enforce binding sustainability criteria. Among those who did express a preference, 0.6% requested a low share of sustainable investments, while 4.9% opted for a minimum share of at least 20%. A smaller subgroup, 2.7% of clients, specified a high threshold of at least 50% ESG alignment in their portfolio.

Figure 4: Third-Layer ESG Assessment



Notes: This figure presents the distribution of third-layer ESG preferences among clients who indicated a general sustainability preference during the advisory process. These data were only collected after the MiFID II amendment came into force in August 2022, when eliciting ESG preferences became mandatory. At this stage, clients were also asked to specify the minimum proportion of their investment that should meet their stated sustainability criteria.

Each of these layers should, in principle, carry specific implications for the advisory process. A positive response at the first layer is intended to exclude all financial instruments that do not meet any sustainability criteria—this typically includes products that are neither EU Taxonomy-aligned, nor SFDR-classified

(Article 8 or 9), nor take into account Principal Adverse Impacts. At the second layer, if a client selects one or more of the three ESG categories, the recommendation set should be limited to products matching the chosen criteria. Likewise, if a client specifies a minimum ESG share at the third layer, this threshold is expected to be reflected at the portfolio level. These restrictions are largely enforced by the bank's advisory software and are not meant to be overridden without explicit and documented client consent. In this way, each affirmative response should progressively narrow the set of eligible investment options, thereby promoting alignment between stated preferences and recommended products.

5.4. The cross-section of sustainability preferences

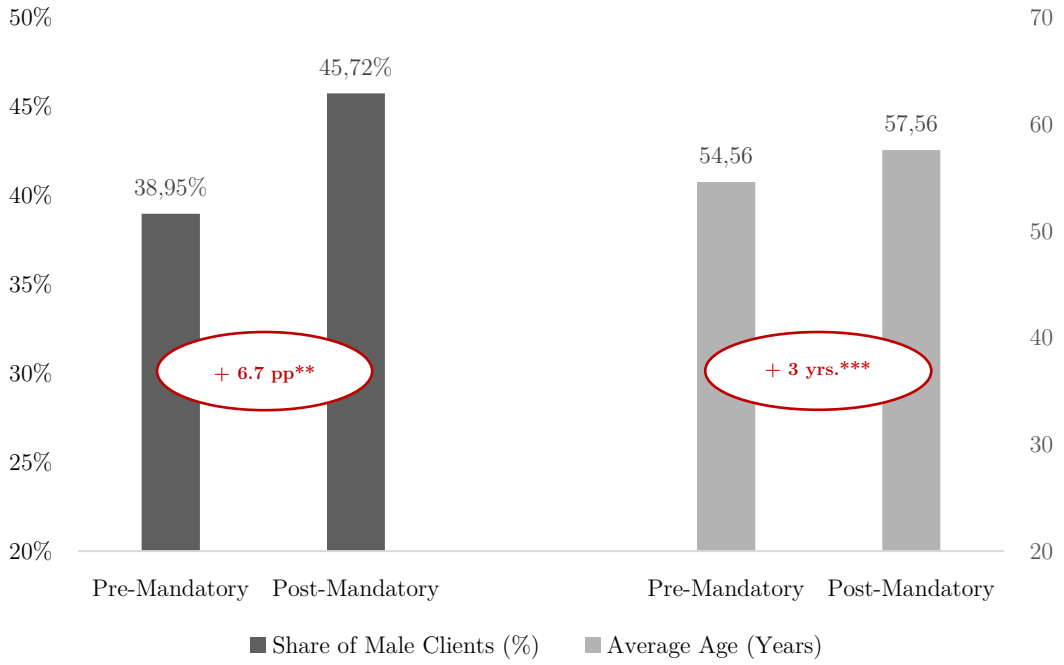
Next, we examine whether and to what extent ESG preferences vary across client subgroups.

Figure 5 presents the distribution of ESG preferences by client gender and age. During the voluntary phase, sustainability preferences were disproportionately expressed by female clients: 61% of those indicating an ESG preference were women. Following the regulatory change, however, this gender imbalance diminished. The share of male clients opting for sustainable investments increased by 7 percentage points to 46%, indicating a more gender-balanced distribution of ESG preferences in the post-mandatory phase. These gender differences are statistically significant, as confirmed by the t-tests reported in Table 3.

Age differences were also notable. Clients with ESG preferences were, on average, older than the overall client population. In the voluntary phase, their mean age was 54.6 years, compared to an average of 53.1 years in the general client base. After the regulatory change, the mean age of ESG-preferring clients rose further to 57.6 years, reinforcing the pattern that sustainability preferences were more

prevalent among older investors. These age differences are likewise statistically significant (see Table 3).

Figure 5: Client Gender and Age by Regulatory Phase



Notes: This figure presents the share of male clients and average client age, separately shown for the voluntary and mandatory phase of ESG preference elicitation. Asterisks indicate statistical significance **** p<.01, ** p<.05, * p<.1*). Corresponding t-test results are reported in Table 4.

Beyond socio-demographic characteristics, we also analyze ESG preference patterns across client segments. The bank differentiates among three categories of retail clients—basic financial advice, advanced financial advice, and private banking—based primarily on the level of investable assets and the corresponding advisory model.

Figure 6 depicts the evolution of ESG preferences across these segments. Across all three groups, the share of clients expressing a sustainability preference declined following the MiFID II amendment. The decrease was most pronounced in the private banking segment, where the proportion fell by 7.69 percentage points

Table 2: Age and Gender Distribution of ESG Clients by Regulatory Phase

	N	Mean	*t*-statistic	*p*-value
Age ESG Clients Voluntary Phase (pre August2022)	1,086	54.56		
Age ESG Clients Mandatory Phase (post August 2022)	409	57.56		
Difference		-.0677	-2.378	.0175**
Gender ESG Clients Voluntary Phase (pre August2022)	1,086	.3895		
Gender ESG Clients Mandatory Phase (post August 2022)	409	.4572		
Difference		-3.007	-3.124	.0018***

Notes: This table reports the results of two-sample t-tests comparing the gender composition and average age of ESG clients before (voluntary phase) and after (mandatory phase) the introduction of the sustainability preference elicitation under MiFID II. Reported are sample sizes, group means, mean differences, as well as the corresponding t-statistics and p-values. Significance levels: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

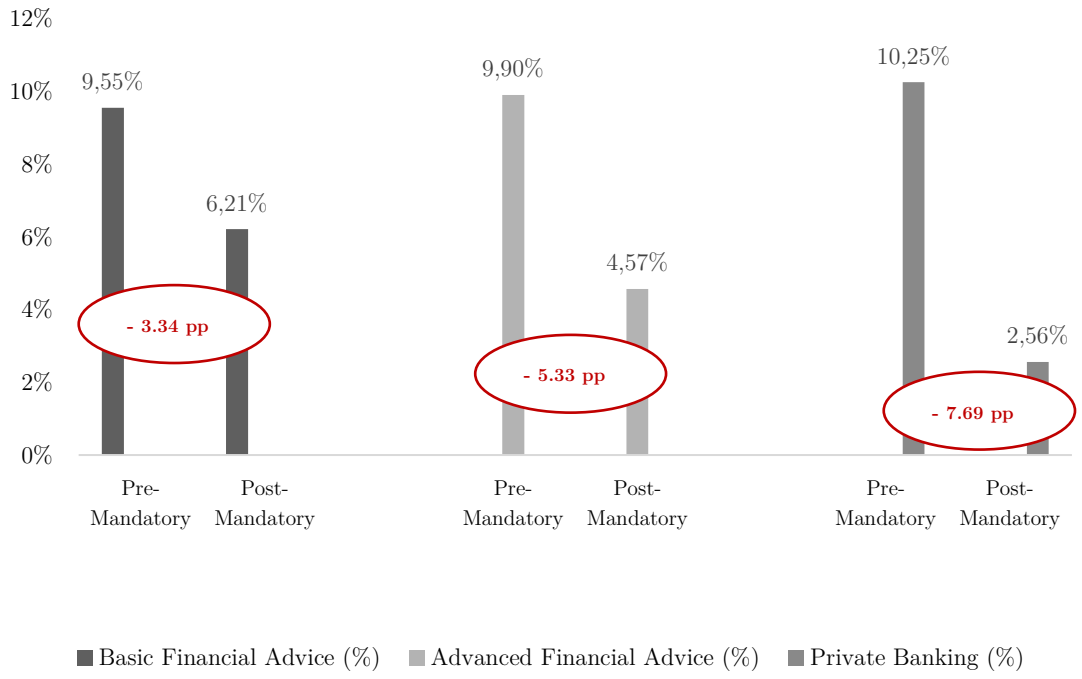
to just 2.56%. In the basic and advanced advice categories, the share declined by 3.34 and 5.33 percentage points, respectively.

5.5. Investment recommendations

Having analyzed clients' sustainability preferences and their variation across demographic groups, we now turn to the investment advice provided during the advisory meetings under review. Specifically, we examine the share of green investment recommendations—defined as products classified as Article 8 or Article 9 funds under the Sustainable Finance Disclosure Regulation (SFDR), available from 2021 onwards. Our analysis focuses exclusively on fund recommendations, as the classification of sustainability characteristics for other asset classes remains unreliable. For fund recommendations made prior to the introduction of formal SFDR classifications, we identify "green" funds based on their names. Specifically, we consider a

fund to be sustainability-oriented if its name includes keywords such as "nachhaltig" (sustainable), "Umwelt" (environment), "ESG", "carbon", or "warming". This keyword-based approach provides a practical proxy for sustainability focus in the absence of regulatory labeling. We flag such funds using a binary indicator variable that equals 1 if any of these terms appear in the fund name.

Figure 6: ESG Preferences Before and After MiFID II Mandate

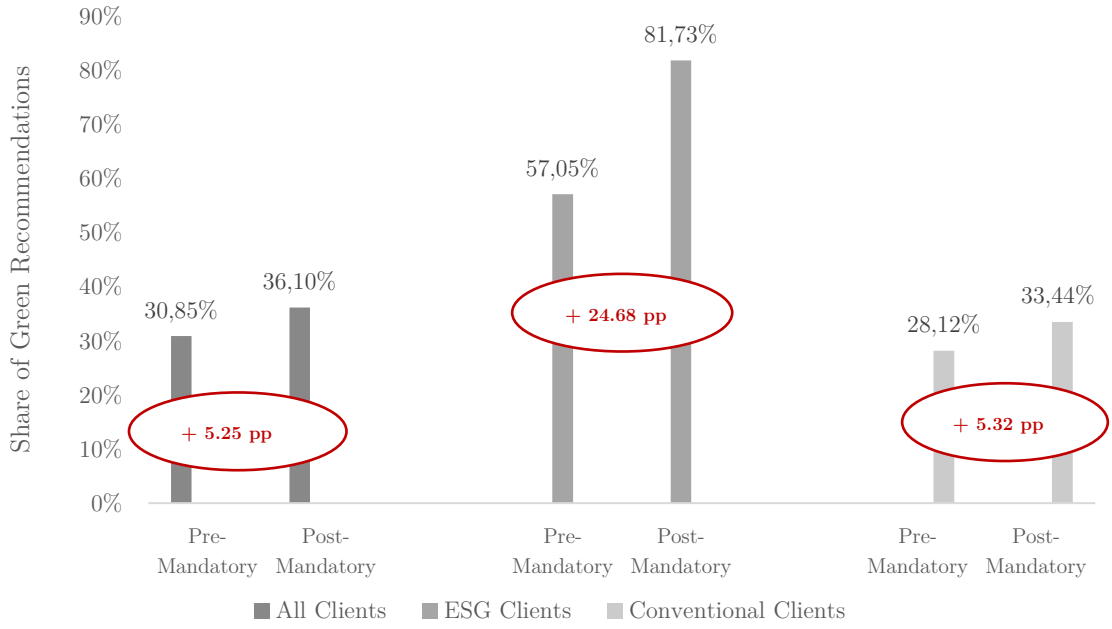


Notes: This figure displays the share of clients within each segment who expressed an ESG preference during the advisory process. Values indicate the proportion of ESG-preferring clients relative to the total number of clients in each segment.

Figure 7 displays the distribution of green fund recommendations, distinguishing between two client groups: ESG clients—those who explicitly requested sustainability considerations in their investment strategy—and conventional clients without a stated ESG preference. Across both groups, we observe an increase in the share of green fund recommendations from the pre-mandatory to the mandatory phase of ESG preference elicitation. As expected, this increase is more pronounced

among ESG clients, for whom the share of green fund recommendations rose by 24.7 percentage points. Notably, clients without an explicit ESG preference also experienced a substantial rise, with green recommendations reaching 33.4% during the mandatory phase.

Figure 7: Share of Green Investment Recommendations Before and After Mandatory ESG Preference Elicitation



Notes: This figure displays the share of green investment recommendations—defined as either Article 8/9 funds (post-March 2021) or ESG-sounding products (pre-SFDR)—before and after the mandatory elicitation of sustainability preferences under MiFID II. Results are shown separately for all clients, for those who expressed an ESG preference, and for those who did not.

To formally test these descriptive patterns, we estimate an ordinary least squares (OLS) regression model in which the dependent variable is the share of green fund recommendations made during an advisory meeting. Key explanatory variables include a dummy for whether the client expressed an ESG preference, a dummy for whether the meeting occurred during the mandatory phase, and an interaction term capturing the combined effect of ESG preference and the regulatory mandate.

Table 3: Determinants of Green Investment Recommendations

	% Green Investment Recommendations		
	(1)	(2)	(3)
ESG	.2893***	.2688***	.3009***
	(.0139)	(.0140)	(.0121)
Mandatory Phase	.0532***	.0467***	.0059
	(.0071)	(.0069)	(.0225)
ESG × Mandatory Phase	.1936***	.2013***	.1495***
	(.0256)	(.0256)	(.0254)
Client Male		-.0127**	-.0128**
		(.0061)	(.0057)
Client Age		.0026***	.0015***
		(.0002)	(.0002)
Advanced Financial Advice		.0111	.0011
		(.0085)	(.0124)
Private Banking		.0263	.0027
		(.0222)	(.0328)
Client Income (ln)		.0061***	.0049***
		(.0016)	(.0015)
Client Total Assets (ln)		.0062***	.0043***
		(.0016)	(.0007)
Client Risk Tolerance		-.0390***	-.0241***
		(.0044)	(.0042)
Constant	.2812	.1811	.2272
	(.0036)	(.0216)	(.0215)
Advisor FEs	NO	NO	YES
Time FEs	NO	NO	YES
Observations	15,404	15,404	15,400
R-squared	.0617	.1004	.2444

Notes: This table reports OLS regression results explaining the share of green fund investment recommendations at the client-meeting level. The key independent variables are the client's stated ESG preference (ESG), a dummy indicating the mandatory phase of preference elicitation, and their interaction. Model (1) includes no controls. Model (2) adds client demographics and financial characteristics. Model (3) further includes fixed effects for advisor and calendar quarter. Robust standard errors are used throughout, clustered at the advisor level in model (3). Robust standard errors are in parentheses, *** p<.01, ** p<.05, * p<.1

Table 4 presents the regression results. Across all model specifications, clients who expressed an ESG preference received a significantly higher share of green recommendations. This effect is both economically substantial and statistically robust, with coefficients ranging from 0.2688 to 0.3009, depending on the inclusion of

control variables and fixed effects. In Models (1) and (2), we also observe a small but statistically significant increase in green recommendations for clients without an ESG preference during the mandatory phase. However, this baseline effect disappears once advisor and time fixed effects are introduced in Model (3), suggesting that the earlier observed increase may have been driven by advisor-specific or time-specific factors rather than the regulatory change per se.

Crucially, the interaction term between ESG preference and the mandatory phase is positive and statistically significant across all model specifications. We include this interaction term because it allows us to test directly whether the effect of the mandatory phase differs between ESG and non-ESG clients, rather than assuming a uniform shift across all clients.

This indicates that the effect of ESG preference on green recommendations was amplified following the introduction of the regulatory requirement. Specifically, ESG-preferring clients received approximately 27 to 30 percentage points more green recommendations during the voluntary phase, and around 45 percentage points more during the mandatory phase (when combining main and interaction effects). These findings suggest that the alignment between client preferences and product recommendations improved under the new regulatory regime. Finally, the inclusion of client-level controls and fixed effects significantly enhances model fit, with the R-squared increasing from 6.17% in specification (1) to 24.44% in specification (3).

5.6. Post-advice account activity

Finally, we investigate whether and to what extent clients implement the investment recommendations provided during advisory meetings, with a particular focus on green investment products. Following the approach of Stolper and Walter (2018), we construct a meeting-specific Ratio of Following (ROF) as our primary

outcome variable. The ROF is defined as the proportion of recommended investments that the client subsequently executes. Crucially, this measure captures only the extent to which clients follow the specific recommendations given during the meeting; it excludes any unrelated investment activity by the client.

As noted in the descriptive statistics presented in Section 3.1, the average ROF in our sample is 34.5%, indicating that approximately one-third of the recommended investment value is actually implemented by clients. We use this metric as the dependent variable in a series of ordinary least squares (OLS) regressions explaining implementation behavior at the client-meeting level.

Table 5 reports the regression results. Our key explanatory variables include the share of green recommendations, a binary variable indicating whether the client expressed an ESG preference, and an interaction term between these two variables. We also examine whether implementation patterns differ between the voluntary and mandatory phases of ESG preference elicitation under MiFID II. Specification (1) presents baseline estimates without controls, specification (2) incorporates client demographics and financial characteristics, and specification (3) adds advisor and calendar quarter fixed effects.

The results consistently indicate that the share of green recommendations has no statistically significant effect on implementation across all model specifications. This finding suggests that a higher volume of green recommendations does not increase the likelihood of client follow-through. Similarly, clients who express an ESG preference do not demonstrate higher implementation rates, nor do they respond positively to an increased share of green products.

Moreover, the interaction term between ESG preference and green share is not statistically significant and even turns slightly negative in the fully specified model. This implies that ESG-preferring clients do not implement recommendations more readily when the proportion of green products rises. Interestingly, we observe

Table 4: Implementation of Recommendations

	Ratio of Following		
	(1)	(2)	(3)
Green Share	-.0155	-.0089	.0026
	(.0132)	(.0135)	(.0167)
ESG	-.0023	.0069	.0293
	(.0281)	(.0281)	(.0319)
Green Share × ESG	.0038	-.0069	-.0338
	(.0368)	(.0369)	(.0419)
Mandatory Phase	-.0434***	-.0428***	-.0277
	(.0100)	(.0101)	(.0326)
Mandatory Phase × ESG	-.0686**	-.0620*	-.0752**
	(.0331)	(.0331)	(.0302)
Client Male		-.0092	-.0075
		(.0092)	(.0088)
Client Age		.0006**	.0012*
		(.0026)	(.0003)
Client Income (ln)		.0006	.0012
		(.0012)	(.0023)
Client Total Assets (ln)		.0051***	.0045***
		(.0012)	(.001)
Client Risk Tolerance		.0446***	.0451***
		(.0062)	(.0069)
Advanced Financial Advice		-.0391***	-.0230
		(.0114)	(.0161)
Private Banking		-.1503***	-.0083
		(.0226)	(.0362)
# recommendations			-.0071***
			(.0026)
Constant	.3857	.1792	.1787
	(.0072)	(.0320)	(.0390)
Advisor FEs	NO	NO	YES
Time FEs	NO	NO	YES
# obs.	15,404	15,404	15,400
R-squared	.0018	.0073	.0439

Notes: This table reports OLS regression results explaining the implementation rate of investment recommendations at the client-meeting level, measured as the share of recommended products that were actually purchased ("Ratio of Following"). Key explanatory variables include the share of green recommendations (Green Share), a dummy for whether the client expressed an ESG preference (ESG), and their interaction. The models also assess whether implementation patterns changed after the introduction of mandatory ESG preference elicitation under MiFID II. Model (1) includes no controls. Model (2) adds client demographics and financial characteristics. Model (3) further includes fixed effects for advisor and calendar quarter. Robust standard errors are in parentheses, *** p<.01, ** p<.05, * p<.1.

a significant decline in the average ROF during the mandatory phase, particularly among clients with expressed sustainability preferences.

6. Discussion

In July 2023, the European Securities and Markets Authority (ESMA) launched a comprehensive Call for Evidence to evaluate the initial implementation and market impact of Delegated Regulation (EU) 2021/1253. The objective was to assess how various market participants operationalize the regulatory requirements, identify practical challenges, gauge client understanding, evaluate data adequacy, and determine the overall suitability of the framework in aligning financial advice with the EU's sustainability agenda. The consultation attracted diverse stakeholders, including major financial institutions, banking associations, advisory networks, asset managers, insurers, research bodies, and civil society organizations.

Our empirical analysis of client sustainability preferences, advisory behaviors, and investment implementation offers nuanced insights that closely align with, and help contextualize, the concerns and observations raised by stakeholders in ESMA's 2023 Call for Evidence.

A recurring theme was the disconnect between regulatory definitions of sustainability preferences and retail investors' actual expectations and comprehension. Key industry associations—such as the German Banking Industry Committee, the Italian Banking Association, and the French Banking Association—criticized the overly technical nature of the three sustainability categories (Taxonomy-aligned, SFDR-compliant sustainable investments, and Principal Adverse Impact considerations). Many clients reportedly struggle to meaningfully differentiate these categories, leading to disengagement, default generic responses, or omission of preference selection. The feedback revealed two major issues of the current implementation of Delegated Regulation (EU) 2021/1253.

Stakeholders widely agree that there is a significant disconnect between regulatory sustainability categories and how retail clients understand or express their preferences. Clients tend to think in broad values like climate action or human rights rather than technical terms such as "Taxonomy alignment" or "PAI consideration." This mismatch leads to inefficiencies, as advisors spend time clarifying categories, but clients often give vague or all-encompassing answers, undermining the effectiveness of suitability assessments. The complexity frustrates both clients and advisors, sometimes damaging trust and reducing engagement with sustainable products. Product scarcity, especially of Taxonomy-aligned or Article 9 funds, further hampers acting on preferences. Some firms experiment with simplified questionnaires and thematic filters to improve engagement, though these raise regulatory and compliance concerns. Stakeholders consistently call for clearer supervisory guidance, streamlined templates, and less granular preference capture to avoid the process becoming a mere formality without real client value. In parallel, the Commission has proposed simplification on the issuer-data side (e.g., CSRD "stop-the-clock" and elements of the Omnibus I package), acknowledging that better upstream disclosures are a precondition for usable retail templates and more effective preference mapping in advice.

A second critical concern is the limited availability of financial products that align with specific sustainability preferences, especially Taxonomy-aligned and SFDR-compliant investments. This scarcity is most acute outside the SFDR scope—such as equities and bonds—where ESG disclosures are often incomplete or inconsistent, complicating suitability assessments and increasing advisor burden. Firms rely on various ESG scoring methods, but the lack of harmonization leads to conflicting definitions of "sustainable," undermining comparability and client confidence. The need to document client preferences and adjustments, particularly when suitable products are lacking, adds administrative complexity and legal risk,

deterring deep sustainability discussions. Portfolio-level approaches offer operational flexibility but raise questions about transparency and accountability when abstract client goals are indirectly fulfilled. Stakeholders urge clearer guidance on handling non-SFDR assets, standardized ESG data templates, and more nuanced applications of "minimum proportion" rules. Overall, despite progress, product scarcity, data inconsistencies, and procedural challenges remain major obstacles to effective implementation.

Consistent with the stakeholder feedback emphasizing a conceptual disconnect, our data reveal a substantial share of clients—up to nearly two-thirds—who refrain from specifying detailed ESG preferences beyond a general, first-layer query. This pattern supports the stakeholder feedback reported to ESMA from industry associations and sustainable investment networks that retail clients often struggle to engage meaningfully with the regulatory distinctions among Taxonomy-aligned, SFDR-compliant, and PAI categories. The observed decline in expressed sustainability preferences following the shift from a voluntary to a mandatory elicitation regime further illustrates potential client confusion or disengagement induced by the complexity and formality of the regulatory framework.

Second, the demographic and segment-level variations in preference expression mirror stakeholder concerns regarding client heterogeneity and the challenge of tailoring advice accordingly. Our finding that ESG preference is more common among older clients and more pronounced in certain advisory tiers suggests that client values and financial literacy influence engagement with sustainability topics—a factor stakeholders noted but found difficult to address within rigid regulatory categories.

Third, from the advisory perspective, our results confirm the adaptive behavior of financial advisors noted in the ESMA feedback. Advisors tend to recommend green funds more frequently to clients who express ESG preferences, and this

alignment strengthens under the mandatory regime, indicating increased regulatory influence on advisory practice. However, the persistence of green recommendations to clients without stated ESG preferences may reflect both regulatory caution and operational inertia, highlighting the tension between compliance requirements and genuine client-centered advice underscored by stakeholders.

Fourth, and critically, our analysis of implementation – the Ratio of Following – shows that even when green recommendations are made, clients implement only about one-third of advised investments, with no significant increase attributable to higher shares of green products or expressed ESG preferences. This empirical result echoes stakeholder reports of client frustration and potential skepticism when sustainability preferences do not translate into meaningful portfolio outcomes, often due to product scarcity, transparency issues, or advisory limitations.

Finally, the operational and administrative burdens described by stakeholders resonate with our observations of client disengagement and advisor adjustments. The need for clearer supervisory guidance, standardized templates, and more intuitive preference elicitation processes articulated by ESMA respondents finds empirical support in the mixed uptake and execution patterns we observe. Our data suggest that without simplification and improved product availability, the current regulatory framework risks becoming a procedural formality lacking substantive impact—a core concern voiced repeatedly in the consultation.

In summary, our empirical findings provide quantitative backing to the qualitative stakeholder feedback gathered by ESMA. They highlight the challenges of aligning technical regulatory constructs with client understanding and behavior, the adaptive yet constrained responses of advisors, and the critical importance of enhancing product supply and supervisory clarity. Together, these insights underscore the necessity for ongoing refinement of the sustainability preference regime to

achieve its intended objective: embedding meaningful, client-centered sustainability considerations into retail investment advice.

7. Conclusion and outlook

In this paper, we assess whether MiFID II's mandatory sustainability preference elicitation has achieved its regulatory objective of steering retail capital toward sustainable investments. While the EU's broader sustainable finance agenda envisions households as a key contributor to the Green Deal's investment needs, our evidence shows that the translation of regulatory intent into actual investor behavior remains limited. Analyzing more than 18,000 advisory meetings at a German savings bank, we find that the introduction of mandatory ESG preference elicitation has not increased clients' expression of sustainability preferences; rather, preference rates declined markedly after the regulatory shift. Only a small minority of clients engaged with the detailed ESG categories required under MiFID II, and more than 90% refrained from specifying a minimum ESG portfolio share.

On the advisor side, the regulatory change led to a higher share of green fund recommendations across all clients, and particularly among those who expressed ESG preferences. Yet this increased alignment at the recommendation stage did not meaningfully affect investment behavior. Clients with stated ESG preferences were no more likely to implement green recommendations, and overall implementation rates even declined in the mandatory phase. These findings echo recent evidence from mystery-shopping studies, which document that sustainability preferences are often not properly elicited and that recommended products frequently fail to match the stated preferences.

Taken together, our results cast doubt on whether the current regulatory design—built on highly technical ESG categories and formalized preference elicitation—can effectively bridge the gap between investor intentions, advisory practices,

and actual investment decisions. The evidence suggests a persistent behavioral disconnect and raises important questions about the practical effectiveness of the sustainability preference framework as a tool for advancing the EU's sustainable finance objectives. Our findings highlight several important avenues for future research that emerge directly from the observed gap between stated ESG preferences, advisory recommendations, and actual investment behavior. First, the persistent preference–implementation gap—clients express sustainability preferences and receive more green recommendations, yet do not implement them at higher rates—calls for deeper examination of the behavioral mechanisms underlying this disconnect. Qualitative interviews, survey experiments, and targeted nudges could help identify whether inertia, limited comprehension, low trust in ESG labels, or perceived product complexity drive this pattern.

Second, the results suggest that advisor influence may meaningfully shape how sustainability preferences are elicited, recorded, and operationalized. Building on evidence from risk-profiling research, future work should examine whether advisors' own beliefs, heuristics, or communication styles co-determine ESG preferences in practice, and how training, incentives, or digital guidance tools might reduce noise or bias in the elicitation process.

Third, the limited use of the detailed MiFID II preference layers underscores the need to study how questionnaire design and ESG literacy affect preference articulation. Experimental work comparing technical, regulatory framings with more intuitive, value-based prompts could reveal how to elicit more meaningful and stable sustainability preferences from retail clients, and how comprehension affects downstream recommendation and implementation behavior.

Finally, the regulatory and market context itself warrants further investigation. Cross-country or cross-institutional comparisons could illuminate how differences in disclosure quality, product availability, and regulatory design influence the

alignment between preferences and portfolio outcomes. As regulators consider simplifying the preference framework and improving ESG disclosures, future research should evaluate whether such reforms enhance client engagement and reduce the current procedural-compliance character of the regime.

Taken together, these research directions offer fertile ground for understanding how sustainability preferences can be elicited and implemented in a way that is both behaviorally realistic and aligned with the EU's sustainable finance objectives.

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