JM FINN

Regulatory update MiFID II

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2018 sees the introduction of some of the widest-reaching reforms to financial markets to date.

MiFID II has received a degree of coverage in the financial press, but mostly wrapped up in discussions around the future of financial services in a post-Brexit world. The fact is, MiFID II is taking place in January 2018 and financial services providers will have to comply, whether they like it or not.

Overview

The Markets in Financial Instruments Directive (MiFID) is the cornerstone of the EU's legislation of financial markets that has been in place since November 2007 and seeks to improve the competitiveness of financial markets by creating a single market for investment services and activities and to ensure a high degree of harmonised protection for investors. The initial directive set out the expectation for conduct of business, authorisation requirements, regulatory reporting, trade transparency and rules on the admission of financial instruments to trading.

A revised version of MiFID, known as MiFID II, was adopted by the European Parliament in April 2014. This builds on the rules already in place and in light of the financial crisis is designed to improve the functioning of financial markets making them more efficient, resilient and transparent. The directive will be transposed into national law of the Member States in July of this year and applies as of 3rd January 2018.

> "Despite the complexity of these rules, they are made with the intent of being in the best interests of investors, so if they help improve upon our clients' high regard for us, that's a positive in my view."
>
> *Steven Sussman, CEO, JM Finn & Co*

MiFID II Key Points

- Inducements
- Best execution
- Suitability
- Client reporting
- Clock Synchronisation
- Costs and charges
- Product service and governance
- Transaction reporting
- Recording of telephone communications

At JM Finn we have been working closely with the regulators, industry bodies and our product providers to ensure we will be in a position to adopt these new rules prior to the deadline. Our aim is to make any changes as seamless as possible for our clients, however there may be circumstances where your investment manager requires additional information from you to help us meet these new requirements.

Further information will be forthcoming as to how the changes highlighted overleaf might affect you.

We have tried to summarise the changes by grouping them together here:

Inducements

Historically external research was sometimes paid for by clients together with trading costs. These two costs now need to be "unbundled" as part of the increased focus on transparency and to ensure that any potential con icts of interest from these arrangements are avoided. Additionally, rebates to intermediaries were banned as part of the UK's RDR (Retail Distribution Review) of 2012 and now Europe has followed suit.

Best execution

Not a new concept but transformational for some markets. The aim is to promote market efficiency by driving client orders to those execution venues that offer the best results.

Suitability

Requirements for understanding a client's demands and needs and ensuring that investments recommended to clients are suitable for them have been significantly enhanced.

Client reporting

Changes to the way investment managers report to clients will be introduced, resulting in more frequent and more detailed reports being sent to clients.

Clock Synchronisation

The increase in high frequency trading means that in some circumstances clocks have to be accurate to milliseconds, which requires taking a time feed from the National Physical Laboratory.

Costs and charges

A more detailed breakdown of both indirect and direct costs incurred by a client need to be sent on an annual basis, to provide a total cost of ownership.

Product service and governance

As part of the distribution chain for investment products, for example an investment fund, we will have to provide data to the manufacturer for them to monitor and avoid mis-selling.

Transaction reporting

The amount of detail we have to provide for each and every transaction we undertake on behalf of a client increases dramatically. We will also have to identify who any decision is made by.

Recording of telephone communications

All communications with clients need to be recorded and retained for up to 7 years.

For further information on how any of these changes might affect you, please contact your JM Finn investment manager.

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