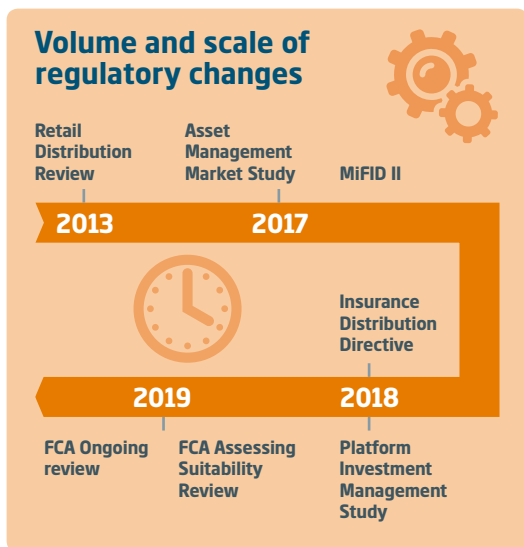


# MiFID II (and MiFIR) – impact on the investment and advice markets

Platforms provide consumers with an unprecedented ability to both access investment markets and customise their long-term financial plans. The MiFID II and MiFIR regulations bring welcome transparency and clarity to help advisers evidence the quality and appropriateness of their client investment propositions. We believe platforms are a key strategic enabler in removing complexity and helping advisers deliver better scalable and sustainable investment outcomes for their clients.



### What is MiFID II?

MiFID II (Markets in Financial Instruments Directive)

### Why is it being introduced?

- ▶ To strengthen investor confidence
- ▶ Increase the level of investor protection for both retail and professional clients
- ▶ Address organisational deficiencies and excessive risk-taking or lack of control by participants
- ▶ Increase market transparency and competition
- ▶ Improve supervisory oversight and increase coordination at EU level

### When does it take effect?

- ▶ Compliance is required by 03/01/2018

### Outsourced investment solutions

- ▶ DFMs
- ▶ DFM MPS
- ▶ Risk-based funds
- ▶ Other solutions and a wider fund range

### Consider:

- ▶ Reduced operational footprint and ability to react quickly to changes in the market
- ▶ Adviser 'same side of the table' as client
- ▶ Access market – leading capability
- ▶ Greater purchasing power of larger institutions
- ▶ Able to access a wider range of investment products

### Adviser-managed solutions

- ▶ Fund picking
- ▶ Individual model portfolios
- ▶ Bulk models

### Consider:

- ▶ Increasing regulation and disclosure, with responsibility for fund level target market assessment
- ▶ Need for processes to be clearly documented and consistent
- ▶ Ability to bespoke to individual client needs
- ▶ Administrative complexity to manage portfolio rebalancing at scale

### In-house discretionary solutions

- ▶ Adviser with discretionary permissions
- ▶ Dedicated unit
- ▶ CF30 qualified

### Consider:

- ▶ Cost of employing dedicated investment professionals
- ▶ Able to levy a discrete fee for investment services
- ▶ Operationally efficient if implemented well
- ▶ Investment services can be offered to third parties, such as other advice firms
- ▶ Professional and bespoke client service

## Key Topics

<h3>Legal Entity Identifier (LEI)</h3> <p>LEI will be required by legal entities when carrying out transactions within Exchange Traded Instruments, such as Exchange Traded Funds (ETFs). Designed to create a global reference data system that uniquely identifies every legal entity or structure. You can apply for a LEI via the London Stock Exchange, there is an initial and on-going cost for this.</p>	<h3>National Identifier (NI)</h3> <p>There is a requirement to capture the identification of the traders (or algorithms) involved in the decision and execution process of a transaction within Exchange Traded Instruments. Whether an individual or a group of people make the decision to trade, the firm must report the NI of one person considered to have primary responsibility for the transaction.</p>	<h3>Recording communications</h3> <p>MiFID II delegates that firms undertaking MiFID II business must capture, record all electronic communications including landline and mobile calls that intend to lead to a transaction for a period of 5 years (currently 6 months). This includes face-to-face meetings, with guidelines on what should be included in the record/documentation of the meeting. Article 3 exempt firms will be able to choose whether to record relevant calls or to create a written record of them.</p>	<h3>Product Governance</h3> <p>Management need to ensure effective controls and oversight in place. Review products regularly to ensure they are still available. Firms need to – review investment committee terms of reference and documentation, including how they identify and define target market. Ensure process in place for advisers to understand product suitability. Advisers need to understand the product (at fund level) and target market for which the manufacturer has said it is likely to be suitable for and any groups for whom it won't be. Need to ensure distribution strategy matches needs of target market. May need to provide product providers with information on sales and results of product reviews.</p>	<h3>Knowledge and Competence</h3> <p>Non advising individuals who deal directly with clients now in the scope of knowledge and experience assessments (some exemptions apply). Relevant individuals to have appropriate qualifications and experience otherwise to be supervised for a max of 4 years. Minimum experience timescales – 6 months. Recruitments and T&amp;C procedures will need to be updated to take account of new rules.</p>	<h3>Client Suitability</h3> <p>Many best practice areas will become regulation. Know your client and risk tolerance. Maintaining adequate and up-to-date information for on-going suitability assessments. Where the client does not give full disclosure – firms need to ensure that they have enough to assess the clients ability to understand and financially bear the relevant risks of the investment.</p>	<h3>Client Disclosure</h3> <p>Should represent how the firm satisfies the conditions for independent advice and the factors taken into consideration in selecting products by: Confirming to the client how and when the periodic assessment of suitability will take place. Including information on costs and charges, that are supplied in good time before providing the service. An itemised breakdown of the aggregate information if asked for. Providing aggregated information on total costs at least once a year.</p>
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“Advisers are beginning to question how these new regulations will impact them both from a compliance standpoint and on a day to day basis.”

**Jenny Davidson**  
Head of Platform Investment Solutions

## How should your platform support you?

### Compliance or excellence

#### Product Governance

- ▶ Full transparency on investment choice, including target market, risks, costs and complexity of products
- ▶ Making MiFID II instrument level details available to allow advisers to more easily meet new suitability process requirements
- ▶ Providing MI on behalf of advisers to product manufacturers to support their target market evidence reviews
- ▶ Identifying non-advised business and complex products to reduce risks of retail customers investing in

#### Reporting

- ▶ Full transparency on costs and charges
- ▶ Aggregated disclosure of all charges relating to the investment service - £ and % with a breakdown available on request – presale and on-going
- ▶ 10% leveraged investment drop notifications
- ▶ Reports to support Discretionary Fund Managers with their governance requirements
- ▶ DFM model portfolio factsheets
- ▶ Audit trail of transaction and client reporting available from the platform

#### Discretionary Portfolio

- ▶ Producing quarterly client statements (monthly if leveraged portfolios)
- ▶ 10% DFM portfolio drop tracking and notification available
- ▶ Reports to support DFMs to meet their regulatory requirements and risk processes
- ▶ DFM model portfolio factsheet
- ▶ DFM fee fully segregated from AC
- ▶ Only clean & discounted share classes available on platform (no rebates)

#### Execution

- ▶ Widening scope of existing transaction reporting to FCA, including underlying clients national identifier (NI)
- ▶ Requirement to capture Legal Entity Identifier and NI for clients trading in ETIs (must be in place to make a trade)
- ▶ Updating contract notes and statements to meet new requirements
- ▶ Complying with end to end best execution and client order handling policy requirements
- ▶ Improved reporting on best execution, providing clients on an annual basis with a list of the top 5 execution venues

## Meeting the requirements - an action plan

### Comprehensive support available



- ✓ Reviewed how the independence definition, investment committee processes, target market and client segmentation requirement will impact your proposition?
- ✓ Reviewed and updated your initial and on-going client disclosure documents? Including terms of business, engagement letters, suitability reports and review packs.
- ✓ Decided how you will meet both the recording and suitability requirements?
- ✓ Requested an LEI if you need one to trade in applicable investments (Exchange Traded Instruments) from 3 January 2018.
- ✓ Confirmed who has responsibility for suitability and reporting requirements where you outsource?
- ✓ Reviewed your senior management arrangements and compliance function processes (including conflicts of interest, remuneration and complaints management)?
- ✓ Reviewed the knowledge and competency requirements for all staff, including those not directly in an advice role?
- ✓ Applied for the “structured deposit” permissions, free of charge before January, if you intend to use these products with your clients from January 2018?



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