

MiFID II

State of play and the road ahead

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Topics for today from a Wealth Management distribution perspective

Staying on course

- Target Markets (TM) and the EMT
- Ex-ante Costs & Charges (C&C)
- Automated digital advice and investment guides



Thin ice

- Inducements and the proportionality requirement
- The impact of the PRIIPs connection
 - C&C methodologies
 - The little issue concerning corporate bonds



Uncharted territory

- Ex-post C&C
- TM reporting
- The killing of the inducements regime?



Target market - Emergence and use of the EMT



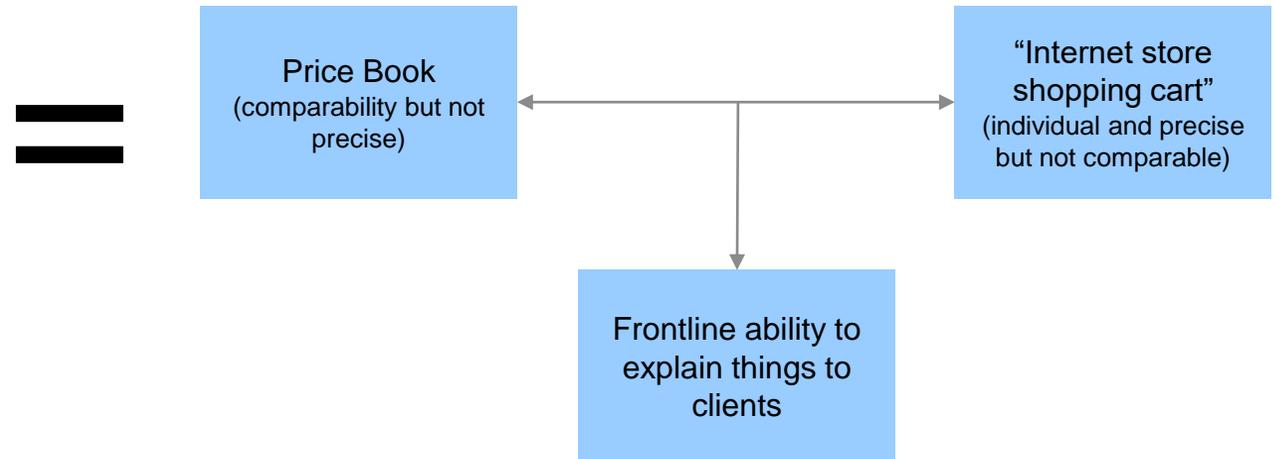
EUROPEAN MIFID CORRESPONDENCE TEMPLATE - EMT V1.0 to V2.0					
Disclaimer: This template aims at explaining how generating an EMT V2 with an EMT V1. Obviously some data will be blank. The use of this correspondence template is not compulsory. It is free of use, intellectual property and copyright. For any question, please contact first your association, then the EWG coordinator : Ghislain Perisse (ghislain.perisse@schroders.com)					
2018 07 11 EUROPEAN WORKING GROUP MIFID CORRESPONDENCE TEMPLATE V1.0 to V2.0					
HUM	EMT V2.0 DATA	EMT V1.0 DATA or proxy	DEFINITION	CODIFICATION	
EMT Version					
1	00001_EMT_Version	V1 00001	Used Version of the EMT - V1 (2nd August 2015) or V2	V1 or V2	
2	00002_Fin_Creation_Date_and_Time	V1 00002 - 00:00:00	Date and Time of the creation of the EMT file	YYYYMMDD hh:mm:ss ISO 8601	
General Financial Instrument information					
3	00010_Financial_Instrument_Identifiering_Data	V1 00010	Identification of the financial instrument	Use the following priority: - ISO 6166 code of ISIN when available - Other recognized codes (e.g. CUSIP, Bloomberg Ticker, Reuters RIC) - Code attributed by the underwriting, when the options above are not available. Code must be unique and kept consistent over time. One of the options in the following closed list to be used: 1 - ISO 6166 for ISIN code 2 - CUSIP (The Committee on National Securities Identification Procedures number assigned by the CUSIP Service Bureau for US and Canadian companies) 3 - SEDOL (Stock Exchange Daily Official List for the London Stock Exchange) 4 - WKN (Wertpapier Kenn-Nummer, the alphanumeric German identification number) 5 - Bloomberg Ticker (Bloomberg letters code that identify a company) (see note) 6 - RIC (The Bloomberg Global ID) 7 - Reuters RIC (Reuters instrument code) 8 - FIC (Financial Instrument Global Identifier) 9 - Other code by members of the Association of National Banking Agencies 99 - Code attributed by the underwriting	
4	00020_Type_Or_Identifiering_Code_For_The_Financial_Instrument	V1 00020	Codification chosen to identify the financial instrument	1 - ISO 6166 for ISIN code 2 - CUSIP (The Committee on National Securities Identification Procedures number assigned by the CUSIP Service Bureau for US and Canadian companies) 3 - SEDOL (Stock Exchange Daily Official List for the London Stock Exchange) 4 - WKN (Wertpapier Kenn-Nummer, the alphanumeric German identification number) 5 - Bloomberg Ticker (Bloomberg letters code that identify a company) (see note) 6 - RIC (The Bloomberg Global ID) 7 - Reuters RIC (Reuters instrument code) 8 - FIC (Financial Instrument Global Identifier) 9 - Other code by members of the Association of National Banking Agencies 99 - Code attributed by the underwriting	
5	00030_Financial_Instrument_Name	V1 00030	Name of the financial instrument	Alphanumeric (max 255)	
6	00040_Financial_Instrument_Currency	V1 00040	Denomination currency of the financial instrument	Code ISO 4217	
7	00045_Financial_Instrument_Performance_Fee	N, # V1 07140 is set to 99.99, else Y	Does the financial instrument have a performance fee feature?	Y/N	
8	00047_Financial_Instrument_Distribution_Or_Cash	Y, # V1 0530 is set to Y, else N	Does the financial instrument distribute income in the form of cash to the investor?	Y/N	
9	00050_General_Reference_Date	V1 00050	Date to which the General data and Target Market definition within the EMT refer	YYYYMMDD ISO 8601	
10	00060_Financial_Instrument_Legal_Structure	V1 00060	Structured Securities or Structured Fund or UCITS or Non UCITS or UCITS Money Market Funds or Non UCITS Money Market Funds or Exchange Traded Commodities	S or SF or U or NU or MM or NM or ETC	
11	00065_Maturity_Date	V1 00065	Date of Maturity	YYYYMMDD ISO 8601	
12	00070_Financial_Instrument_Issuer_Name	V1 00070	Name of issuer of the financial instrument. The one who is responsible for the financial instrument agreement(s) (issuer)	Alphanumeric	
13	00073_Financial_Instrument_Issuer_LEI	blank	Legal Entity Identifier, LEI of the issuer of the financial instrument	Alphanumeric	
14	00074_Financial_Instrument_Issuer_Email	blank	Contact entry point for communication with the manufacturer to either provide feedback reporting or to retrieve details on how to provide feedback reporting		
15	00075_Financial_Instrument_Issuer_Product_Governance_Procedure	A for banks	A = Product governance procedure pursuant to MIFID II B = Product governance procedure compliant to MIFID II		

- Quick journey from perplexity to a structured data format
- Regulators' realisation that TM is a massive data game
- Important clarifications from ESMA
 - Ok to assess TM in relation to investment services provided
 - Selling outside of TM for the purpose of diversification or hedging when applying a portfolio approach
- Sudden impact of "informed" UCITS
- The question of whether TM should be displayed to clients or not?
- EMT 2.0 as a natural next step and hopefully increased synchronisation between manufacturers, distributors and data-hubs going forward

The impact of the ex-ante C&C



- Huge discussions about content and structure +
- Regulators idea of ability to compare prices but freedom to operate +
- The situation that UCITS contains a different C&C regime
- The fact that different clients have different needs and wishes +
- Data quality issues related to the EMT data flow +
- Tons of IT work +
- Transaction costs “appearing out of nowhere”



Automated digital advice and investment guides



Sparguiden

Kom igång med fonderna direkt i mobilappen

I mobilappen kan du enkelt komma igång med ditt fondsparande på några minuter. Genom att prova dig fram med risk och spartid väljer du sedan den fond som passar bäst. I inloggat läge väljer du Spara och därefter Sparguiden.

Se film om Sparguiden i mobilappen.
Längd 0:49 min

Portföljgeneratorn

Skapa en femstjärnig fondportfölj med bara några klick

Logga in för att skapa din fondportfölj | Tjuvrika utan att logga in

Femstjärnig fondportfölj

Skapa en fondportfölj med högsta möjliga Morningstar-rating till lägsta möjliga avgift.

Sprid dina risker

Få en bra riskspridning genom en fördelning på olika marknader och branscher.

Anpassa och håll koll

Välj en färdig portfölj eller skräddarsy din egen. Perfekt för dig som vill ha hjälp att komma igång men sen själv dra i trådarna.

Aviva-backed robo-adviser launches ethical portfolios*

Comments [Post Comment](#)
By [Sandra Heistrubers](#) 17 August 2018

UK-based robo-adviser Wealthify has added a range of ethical portfolios to its digital investment management offering in response to client demand.

PRIVAT > SPARANDE OCH INVESTERINGAR > INVESTERINGAR > SPARROBOTEN NORA

Digital sparanderådgivning

Det ska vara lätt att spara. Vår sparrobot Nora finns här för dig som snabbt och enkelt vill komma igång med ett smart fondsparande. Det tar bara några minuter.

[Logga in och sätt igång!](#)

Spareveileder

Till hovedside sparing og investering

Med spareveilederen gir vi deg ulike sparealternativer basert på tidshorisont og ønsket risiko. Ring oss gjerne på 915 04800 hvis du ønsker personlig sparerådgivning. Start sparingen allerede i dag!

Fast månedlig beløp: kr

Startbeløp: kr

Spareperiode: år

Velg din risikoprofil: Lav Middels Høy

Alternativ 1 | Alternativ 2

Forventet resultat av din sparing om 10 år er **201.000**

- New requirements and political pressure lead to new client segmentation, value propositions and attempts at simplification
- More advanced and easy-to-access technology drives different behaviour and client expectations
- Pretty much all Nordic players are moving in this direction
- Some of the questions we face (follow-up from Nov 2016)
 - The ability to differentiate between a general recommendation and a personal recommendation
 - Lack of a formalised Nordic view of simplified investment advice
 - Possibilities for following up on clients' investments – the conundrum of whether periodic suitability equals ongoing investment advice
 - How do you exclude certain assets from e.g. traditional face-to-face investment advice and remain within the boundaries of ESMA Q&As concerning clients unwilling to fully disclose all assets and liabilities?

Inducements, quality enhancements (QE) and the proportionality requirement



- Proportionality as a starting point is subjective
 - The more inducements a customer pays, the more “value” should be offered
 - When thinking in terms of basis point fees on AuM, firms need to consider the absolute amounts
 - Proportionality does not necessarily equals cheap services or products
 - Indicates a minimum service level but no upper limits
- What we think that we know about regulators’ expectations
 - The services may be directed towards a group of clients and does not therefore have to be specific to an individual client
 - Firms should be able to show that the services offered are creating value in practice, not just in theory, and that the services are/will be used to a reasonable degree
 - Need to be able to document that clients in general receive a QE service, i.e. not on individual client level
- The situation at present
 - Difficult to find a practical clarification of quality or quantity – what is a fair market price of a given service?
 - Service differentiation needs to be both meaningful for the customer and practically feasible
 - The QE services need to cut across investment services
 - To some extent your own solutions will be dependent on how other market players motivate their QE based solutions
 - We will only really know after local FSAs’ enquiries and reports

Temaundersøgelse om provisionsforbuddets konsekvenser

*”Finanstilsynets undersøgelse viser, at forbuddet har haft en række konsekvenser for fondsmarkedet:

- **Formidlingsprovisionssatsen i de nuværende clean fonde er faldet** fra et formuevægtet gennemsnit på 0,52 pct. til 0 pct. Dermed er der fjernet formidlingsprovisioner i disse fonde for et beløb på knap 1,6 mia. kr. årligt.
- Efter provisionsforbuddet er porteføljeplejeordninger mindre udbredte end tidligere. Den formue, som detailkunder har investeret via **porteføljeplejeordninger, er gennemsnitligt faldet med 15 pct.**
- Efter provisionsforbuddet er **anden investeringservice**, som ikke er omfattet af provisionsforbuddet, **mere udbredt end tidligere**. ”Anden investeringservice” dækker især over investeringer foretaget på baggrund af investeringsrådgivning eller direkte handel via netbanken (execution only-handler).
- Hvis der tages højde for moms- og estimerede skatteeffekter, er der dog **ikke tale om et omkostningsfald for kunderne samlet set**”

The impact of the PRIIPs connection



“Important pieces of legislation such as PRIIPS or MIFID II increased the level of information on costs that financial institutions must provide to consumers.”*

Brussels delays Priips review***

[Comments](#) [Post Comment](#)
By [Siobhan Riding](#) 30 July 2018

“We believe that a level of urgency is justified and we ask the [European supervisory authorities] and the European Commission to take swift action in order to stop systematic misinformation of investors and avoid further consumer detriment. The inclusion of market movements is distorting the figures and transaction costs disclosed to investors will, in many cases, be either overestimated or underestimated”**

Some facts which represent the current confusing client reality:

- UCITS C&C without transaction costs displayed on fund information pages and in fact sheets
- MiFID II C&C including explicit transaction costs should be displayed when clients are actually buying funds
- The MiFID II C&C are now to a certain extent based on PRIIPs data based on ESMA clarifications – ref. implicit transactions costs

Corporate bonds

- ❖ Commission letter April 2018 → scope not exactly clear
- ❖ Market players taking a conservative approach, limiting products to professional clients
- ❖ Non-professional clients provide a large part of liquidity in the secondary market → drop in liquidity

7 *Welcome speech, Joint ESAs Consumer Protection Day 2018 22.06.2018 – Lisbon, Steven Majoor, Chair Joint Committee of the ESAs European Securities and Markets Authority
**IGNITES Europe - Efama ups pressure on Priips with evidence of 'misleading' KIDs, 29.06.2018, quote from Peter de Proft, director general of EFAMA
*** IGNITES Europe

Ex-post C&C



- Discussions about content and structure, although at a more informed level +
- Firms' choices when it comes to aggregation and itemisation +
- Data timing issues related to the EMT data flow +
- Regulators idea of ability to compare prices vs. freedom to operate +
- Clients actual ability to compare given various rebate levels

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- More transparency for sure. Potentially triggering:
 - Client confusion → A flood of practical questions to the C&C as such
 - Upset clients → Questions about value for money

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- A pressing need to prepare the frontline staff
- A pressure test to a firm's value propositions and business model
- A continued focus on C&C from the regulators

“Enhancing transparency on costs and, when relevant, performance is needed in Europe especially in the current low interest context.”*

Mifid II: firms review cost methods amid FCA scrutiny**

[Comments](#) [Post Comment](#)
By [Siobhan Riding](#) 14 August 2018

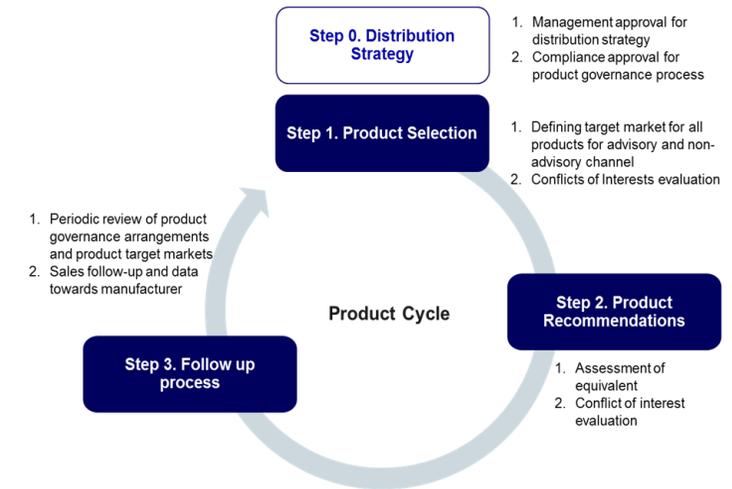
BlackRock blames slower industry inflows on Mifid II**

[Comments](#) [Post Comment](#)
By [Ed Moisson](#) 3 September 2018

TM reporting



- The industry has taken one thing at the time and there is no reason to panic until there is a reason to panic
- In itself it will be a quality test of the TM implementation
- What standard to use, what level of detail, which data points?
- When can we have an industry standard in place, and can local markets afford to wait?
- Different manufacturers expecting different things and some expecting nothing at all



The killing of the inducements regime



Do you think it will happen?

When do you think it will happen?

EU driven or locally driven?

Nordea

Thank you!

Isak Danielsson

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