CAZENOVE
CAPITAL MANAGEMENT

WHAT YOU NEED TO KNOW ABOUT MiFID II

Tom Graves, Head of Regulatory Change, provides an update on what we can expect from the new rules and regulations of MiFID

WHAT IS MiFID?

The Markets in Financial Instruments Directive (MiFID) is a European Directive which was implemented on 1st November 2007. MiFID affects how firms carrying on investment business and ancillary activities organise their internal systems and controls, as well as how they conduct business with their customers both in and across Europe. The key objective of this initiative was to integrate Europe's financial markets, enhance investor protection and attract new investors to the EU capital markets.

SO WHAT IS MiFID II?

MiFID II is a fundamental review and enhancement of the previous directive with a renewed focus on investor protection for clients and market transparency. Firms must implement the required enhancements by 3rd January 2018.

At face value, the impact on UK firms looks fairly modest, as, since 2007, our UK regulator (the Financial Conduct Authority) has been very active in the investor protection areas covered by MiFID II including:

- Governance and organisational structures
- Product governance
- Independence
- Suitability of advice and due diligence
- Appropriateness
- Costs and charges
- Conflicts of interest
- Safeguarding of client assets

SUITABILITY AND APPROPRIATENESS

MiFID required investments to be categorised as non-complex or complex. Currently, firms will need to consider the complexity of investments when recommending them or buying them on behalf of clients. The key difference is that many more investments will be categorised as complex.
For clients purchasing without advice, financial organisations need to document that the client has sufficient knowledge to understand the investments that they purchase (known as "appropriateness").
The impact of more investments being categorised as complex will increase the number of occasions when "appropriateness" needs to be assessed.

COSTS AND CHARGES

For portfolio management, the key change is (in addition to the cost of the service provided by the firm providing the portfolio management service) the firm must now illustrate and show the costs of the underlying investments within the portfolio. At the start of the relationship, assumptions on investment returns will need to be made and the effect of the total costs will need to be illustrated. Furthermore, at the end of a reporting period the actual total costs will need to be disclosed.

REGULATORY REPORTING

In addition to investor protection requirements, financial organisations are required to report trades by the close of business the following working day to the regulator. These reports are to assist the regulatory authorities to identify market abuse such as insider trading. Therefore, both the scope of instruments to be reported and the depth of information will dramatically increase. One key impact for entity clients (for example investment companies and larger trusts) is that, unless they are only invested in open-ended collective vehicles, they will need to obtain a Legal Identifier Number. Without this number financial institutions will not be able to trade on behalf of clients.

INDUSTRY IMPLICATIONS

Whilst the UK regulatory regime is advanced in the areas impacted, the volume of work required and associated cost should not be underestimated. The UK rule book is being re-written and firms need to conduct detailed analysis. Client agreements will need to be updated with additional information, and increased disclosures will need to be provided to clients. Financial organisations will be required to exchange more information with both their counterparties and their regulators. The increased information disclosures and exchanges will require firms to significantly upgrade their IT systems in several areas. d

The impact to Cazenove Capital and our clients

Our firm is not immune to the impact of MiFID II on the industry. We are, however, well positioned as we are of a sufficient size to effectively manage the changes; we started planning early and have ensured adequate resource is in place to manage the challenges. Over the next 12 months we will communicate the changes that will affect our clients from January 2018 onwards. These changes will include:

1. Valuations must be issued quarterly rather than every six months
2. We will formally notify you if your portfolio falls 10% in a quarter
3. Our website will detail information relating to our best execution policy