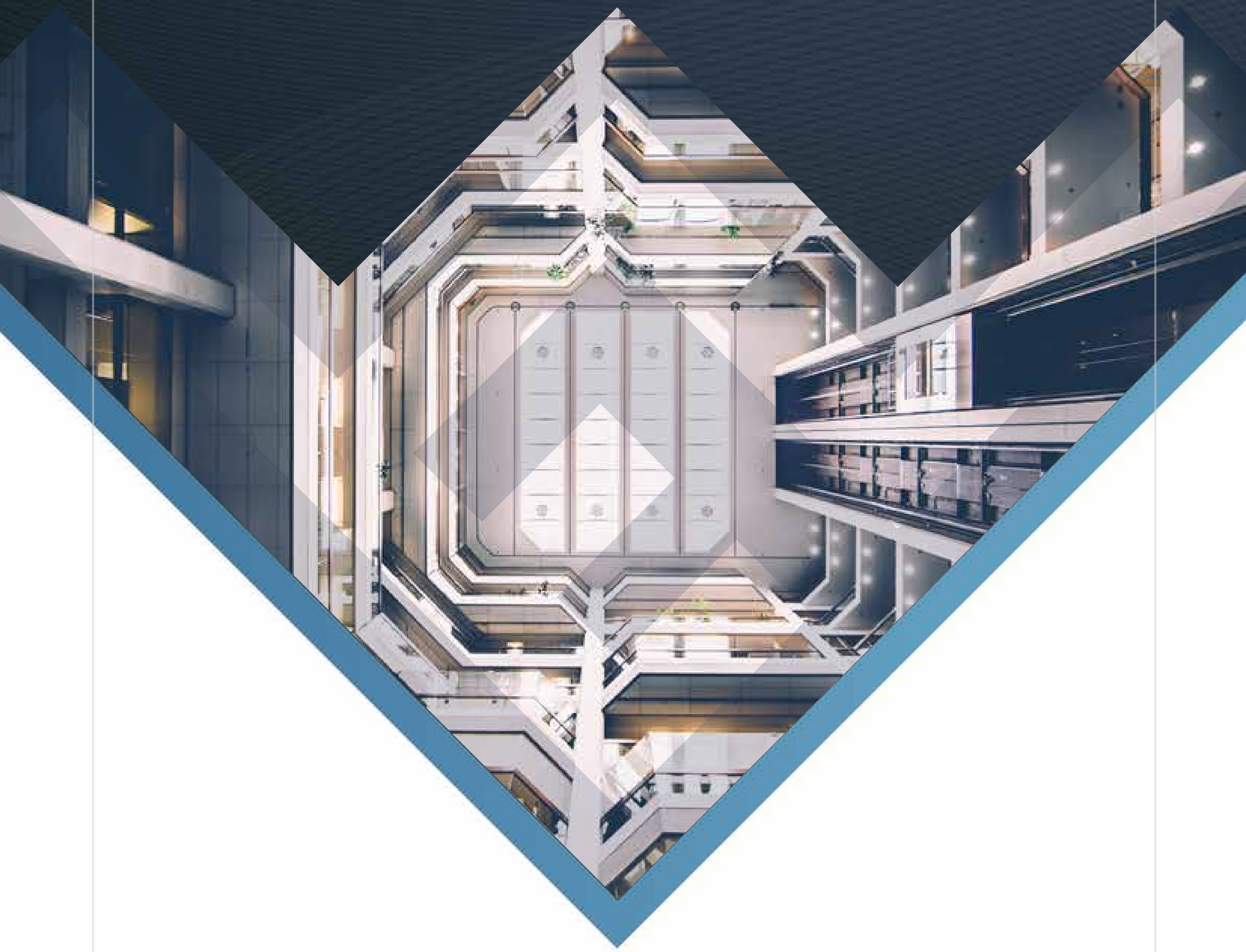
CONVENE

WHITE PAPER

EVERYTHING YOU NEED TO KNOW ABOUT MiFID II AND WHO IT IMPACTS



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The January 2018 deadline for compliance with MiFID II, as the second installment of the European Union's colossal Markets in Financial Instruments Directive legislation is collectively known, is rapidly approaching. For many in the global investment services industry, it is crunch time in terms of understanding and preparing for one of the most comprehensive regulatory overlays since the 2008 global financial crisis. It's a complicated topic that has a number of implications for all involved in the corporate access landscape. To help Corporate Access teams, IR professionals and Portfolio Managers navigate the upcoming changes we will be releasing a series of papers that will examine what MiFID II means for Corporate Access; the likely impact on Investor Relations teams and finally how the evaluation of Corporate Access and research services by the buy side is likely to evolve. As a starting point though, this paper will look at what MiFID II actually is, the goals of the regulations and who they impact.

Broadly speaking, MiFID is a far-reaching series of directives designed to increase transparency, coordinate regulation, improve compliance and boost supervision of financial institutions across the EU. The goals are laudable – increased market transparency and more investor protection – but MiFID II regulations, are extremely complex and will be extraordinarily expensive to implement.

Who is impacted? Everyone, really – although the directive is driven by European regulators, elements of MiFID II apply to both a wide range of EU and non-EU institutions, and touch just about every facet of a financial institution's business. Indeed, even IROs, who are not directly involved with MiFID II's operational and compliance requirements, will still benefit from having a good understanding of the rules as they will undoubtedly have a significant long-term impact on investor behavior and will over time alter how corporate access is organized and consumed.

Geographically, companies authorized in the European Union to provide investment advice, trading or portfolio management services will be subject to the new rules but as would be expected, in increasingly globalized capital markets, it is impossible to contain regulations within geo-graphic boundaries. So, even companies domiciled outside the EU but which market financial products into the region or transact with firms or customers covered by MiFID II are also subject to the rules.

There are some exceptions – insurance companies, collective investment schemes and pension plans, for instance, are exempt from some MiFID II requirements. But generally speaking, sell-side banks, broker-dealers, and asset managers are all directly affected.

On the sell side, one of the largest departures from the status quo is the new requirements on the payment of investment research. Since time eternal, asset managers have paid for sell side research through trading commissions, effectively bundling the payment of the two services together. Investment research was provided gratis in return for the asset manager placing trades with the research provider under the implicit understanding that the commission essentially underwrote the cost of the research.

However, under MiFID II, that quid-pro-quo arrangement goes away as the regulators characterize investment research as an impermissible non-monetary benefit.
Both buy and sell side firms will now have to break out research costs as a separate line item. Asset managers, will be required to budget, track and report separately for trading and research costs, as well as demonstrate knowledge about the "value" of the research consumed. This "unbundling" of commissions and research will result in asset managers either having to absorb the cost of the research themselves (impacting profit margins) or by passing the cost onto fund investors via higher management fees. This single change will undoubtedly drive a behavioral transformation in how asset managers consume and evaluate research and is something we will examine in more detail in subsequent papers in this series.

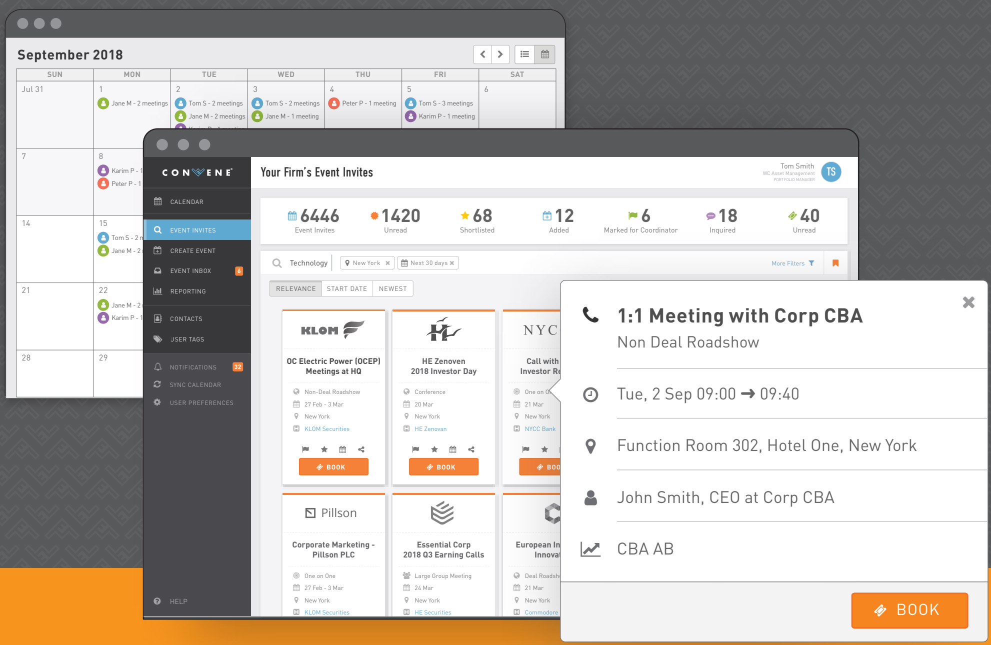
For the sell side, the change is more complex. In addition to separating research and commissions, the sell side must also unbundle a menu of related services – calls with analysts, corporate access, conferences, etc. – and monitor who receives what, for how much, and when. In other words, the sell side now has responsibility for adequately communicating the value of the services provided, demonstrate that they weren't provided for free and also ensure that the client is fully aware of the value of the benefits received.

Although the rule changes on the payment of research and treatment of corporate access are significant, the vast majority of MiFID II is concerned with increasing transparency in trading execution, with a heavy focus on the role of trade reporting. On the buy-side, asset managers will have to provide enhanced, order, trade and transaction reporting on an expanded list of assets with the reporting rules requiring more than 60 different pieces of data per trade, up from 23. This combined with additional rules surrounding the sale of financial products and services, marketing practices and other investor protections amount to a considerable reporting burden. For obvious reasons, compliance with such complicated, granular requirements is a daunting and expensive task for even the largest institutions.

As is clear, MiFID II has the potential to revolutionize many of the practices that have been standard within the financial industry for generations and in our next installment we will focus more specifically on what MiFID II means for Corporate Access and how both buy and sell side firms are adapting.

ABOUT WECONVENE

WeConvene is a global, independently owned web-based platform that automates corporate access consumption and evaluation for the investment community. Events large and small directly impact investment strategies and WeConvene provides value to buy-side, sell-side and corporate organizations by enabling efficient discovery, booking and tracking of meetings.



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