

## MiFID II summary

### Introduction

We have received a lot of queries about how we plan to implement the requirements of the second Markets in Financial Instruments Directive (MiFID II). This document aims to answer some of the most common questions, and explain the key points that you need to be aware of.

We have been engaging with industry bodies and participating in working groups to ensure that we are able to adopt industry standards and best practice where possible. We will continue to do this as working practices across the industry are established and our solutions develop.

All the following information relates to our provision of the Funds & Shares Service. If you or your clients use a third party investment provider, including any of our SIPP panel investment partners, you should approach that provider directly to understand how MiFID II may affect the products, services and information they provide to you and your clients.

This update is based on our current understanding of MiFID II and the associated legislation. It should not be relied upon as a definitive statement of fact in relation to the requirements of MiFID II or your regulatory responsibilities. We strongly recommend that you review the FCA Policy Statement (PS 17/4) and other technical guidance in order to understand the impact of MiFID II on your business.

### Product governance

The wide-ranging product governance requirements in MiFID II include changes to the way information, including details of costs and charges, is disclosed to customers. This particular topic is covered separately below.

### Target market assessment

Distributors of financial products, including platforms, are now being asked to assess how compatible financial instruments are with the needs of the customers they are targeting.

As part of this process we are required to report any identified sales outside of the stated target market to product manufacturers (fund groups etc). It is possible that your firm, as the end distributor, may also be contacted by fund manufacturers as they look to identify sales outside of their defined target markets.

We are working with our data providers to expand the current investment information and research that we provide. The aim is to deliver additional details about the identified target market for the investment solutions that we make available, so that you can then assess how well these fit with your clients' objectives.

### Suitability and appropriateness – complex instruments

MiFID II will broaden the universe of collective investments and individual instruments that are considered to be 'complex'. Currently, it is understood that any non-UCITS collective investment could be considered complex, as could a number of other instruments that are not currently captured.

As a result of this, we are reviewing our approach to complex instruments to ensure that we continue to support the right universe of investments for your clients in a risk-controlled and proportionate manner. We will continue to flag investments that are considered to be complex, and we are currently liaising with both fund groups and data providers to make sure we can provide you with this information.

### Client statements

Firms that hold financial instruments or cash for clients are required to send statements to those clients on at least a quarterly basis. We will continue to make these statements available to you and your clients online.

The statements will include details of the instruments and cash held for each client, along with a market value of each instrument (or estimated value where the market value is not available).

## Disclosing costs and charges

Additional disclosure requirements have been introduced to both the pre-sale and post-sale phases, with the pre-sale disclosures applying to the purchase of wrappers (i.e. opening SIPPs, ISAs and GIAs) and to the purchase of individual qualifying investments. Our SIPP illustration tool will be updated to cover our charges for all SIPP investment options (but not necessarily the charges of any third party investment provider).

We will continue to provide tools and information to help you fulfil the pre-sale disclosure requirements. This will include making sure that our illustration tools are compliant, and we will also provide access to data and documents via the Research Centre for Funds & Shares Service clients.

We are currently enhancing our reporting to ensure that we can meet the post-sale cost disclosure requirements. The first reportable period ends in December 2018, with the first annual report due in January 2019. We will share more information with you on this as our plans develop.

## Transaction reporting

We will continue to undertake all transaction reporting for trades on the Funds & Shares Service as we currently do, and we will not be imposing any additional charges for meeting these requirements. Please note though that AJ Bell is not responsible for transaction reporting for assets held outside of the Funds & Shares Service.

For all advisory and execution-only trades we will have to report the customer as the decision-maker, quoting their National Insurance Number (or an equivalent National Client Identifier) to identify them.

To ensure that we can fulfil our transaction reporting requirements, we may need to capture additional information from some clients, including details of nationality. We will contact you shortly if this is the case.

If the customer is a non-natural person (e.g. a Trust), then the entity must apply for a Legal Entity Identifier (LEI), which we will require in order to report transactions. This also applies to trades placed on a discretionary basis, where the managing firm must provide their LEI for transaction reporting.

More information on Legal Entity Identifiers (LEIs) is available [here](#). If you believe that either your firm or any of your clients may require an LEI, we strongly recommend that you start the process as soon as possible, as there may be delays in obtaining these from the issuing bodies.

If you will need to provide an LEI for any client accounts, we must receive it by 1 December 2017 in order to fulfil our transaction reporting obligations and guarantee that our records are updated by 3 January 2018.

## Reporting a 10% depreciation of discretionary portfolios and leveraged instruments

There is a new requirement to notify customers the same day if any of their discretionary managed portfolios or individual leveraged instruments drops in value by 10% or more, when measured over a quarterly period for portfolios, or the holding period for leveraged instruments. We intend to deliver this reporting for our Managed Portfolio Service (MPS) and any leveraged instruments held via you, as their adviser, so that you can pass this on to your clients.

We are currently exploring the best ways to help you meet this requirement if you are managing a client's account on a discretionary basis. We will provide more information on this in due course.

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