



MiFID II Investor Protection

Make sure your firm is ready for MiFID II compliance

Rely on SIX to meet product governance obligations, efficiently match your client base to your investment universe and keep your client advisory processes compliant.

By 3 January 2018, investment firms and credit institutions that perform investment services and activities are required to comply with MiFID II directives. Product governance guidelines will introduce new challenges for sell- and buy-side investment firms, in terms of generating, collecting and processing financial data to satisfy these requirements.

Supporting compliance with high-quality data

Under MiFID II, the scope of financial instruments has been extended to cover most asset classes for non-equity instruments such as bonds, structured finance products, emission allowances and derivatives. This has a massive impact on how suitable investment instruments are provided to investors and on the appropriateness and suitability testing required as part of the advisory process.

An industry-proofed MiFID II service package

SIX will support clients in their compliance efforts with a data offering that addresses MiFID II investor protection requirements. The SIX MiFID II service has been designed after proactively engaging with key industry stakeholders to refine requirements and produce the content needed for the 2018 deadline.

Our MiFID II service for investor protection not only supports the customer advisory process with content for product suitability and appropriateness testing but also delivers the full range of content required for target market assessment.

Key benefits of working with SIX

- Easily carry out appropriateness and suitability testing within your advisory process by using complex/non-complex classification of financial instruments
- Accurately assess product suitability with comprehensive target market criteria and cost breakdown on instrument level
- Comply with obligations to inform clients with valuation monitoring of leveraged instruments
- Simplify data processing with a single high performance interface for the complete investor protection content required for MiFID II
- Carry out target market assessment in a lean and efficient way thanks to on-going monitoring of regulatory developments from all regulatory bodies (ESMA and National Competent Authorities)

Product governance – know your issuer

EEA manufacturers are required to define the target market for the financial instruments they issue.

In addition to target market definitions, ESMA's governance rules also mandate that related costs, inherent risks and tax implications relevant to the investor be considered during the entire advisory process.

ESMA's product governance obligations can be summarized as follows:

Manufacturers

- Maintain, operate and review product approval process for each financial instrument before it is marketed or distributed to clients
- Identify a target market for each product i.e. which type of person is it suitable for

Distributors

- Understand the target market identified for each product
- Make arrangements to obtain all appropriate information on the product
- Ensure that the product's characteristics, the target market's objectives, and the intended distribution strategy are compatible

Instrument classification

Alongside the target market assessment, accurate and comprehensive instrument classification creates a major concern for firms. These include markers such as "complex"/"non-complex" as well as leveraged instruments.

For example, the "leveraged instrument" flag is needed so investment firms can apply the appropriate logic to notify investors when the instrument's initial value depreciates by 10%, and each time another 10% threshold is reached thereafter.

SIX Financial Information's instrument classification will support the establishment of correct client advisory processes.

The challenge of MiFID II investor protection

To protect retail and professional investors, ESMA advocates good conduct from firms that sell financial instruments or advise investors. Firms must treat their customers in a fair and transparent way. Investors' interests should be at the center of business models and corporate culture.

This means investment firms must match the client's investment profile with suitable products. Under MiFID II rules, firms must assess their clients' needs, objectives, knowledge and experience, risk appetite and ability to bear loss during the advisory process.

Only matching products may be offered during the advisory process and institutions must put rigorous processes in place to profile clients accurately. Otherwise, firms risk non-compliance with MiFID II rules governing product suitability and investor protection.

SIX supports firms by providing the data necessary to ensure the advisory process is MiFID II compliant. Investment firms can rely on SIX data to carry out product suitability assessments, ensuring that advisors only offer products suitable for the investor's needs.

Key investor protection data sets

- Complex/non-complex classification
- Target market content on instrument level over all asset classes in scope of MiFID II
- Cost breakdown
- Leveraged instrument market
- Best Trading Venue
- Trading suspensions published by trading venues
- Instrument reference data including ISIN, CFI & FISN

SIX and MiFID II

SIX Financial Information also supports its clients with a MiFID II service for transparency, transaction and reference data reporting. Find out more at: six-financial-information.com/mifid

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For more information, please contact your local SIX Financial Information office and a representative will be happy to assist you.

SIX Financial Information Ltd
Pfingstweidstrasse 110
P.O. Box
CH-8021 Zurich
T + 41 58 399 5111

Canada + 1 416 915 4121
Denmark + 45 33 411 111
Finland + 358 207 334 043
Hong Kong + 852 2971 0388
Ireland + 353 1 213 0722

Japan + 81 3 3808 2271
Luxembourg + 352 261 161
Norway + 47 23 326 620
Singapore + 65 6338 3808
Sweden + 46 8 5861 6300

UK + 44 20 7550 5000
USA + 1 203 353 8100

sales.global@six-financial-information.com
www.six-financial-information.com