

What will **MiFID II** mean for your clients with **Rathbones**?



We are committing significant resources to prepare our business and our clients for MiFID II. This summary tells you about the changes and what action we are taking. We look forward to working with our valued professional advisers to make the transition as smooth as possible.

Reforming European financial markets

In response to the 2008 financial crisis, the European Union committed to improving the way in which it regulates the operation of financial markets within its jurisdiction – aiming to strengthen investor protection and increase financial market transparency. Regardless of Brexit negotiations, the Financial Conduct Authority (FCA) has already committed to complying with the resulting MiFID II legislation.

With MiFID II due to come into effect on 3 January 2018, we are devoting much of 2017 to working with clients to ensure the following key changes have been successfully implemented ahead of the deadline.

How are we ensuring investment solutions are suitable for the client's needs?

MiFID II requirement

The renewed focus on correctly servicing client needs and ensuring portfolios are suitable to meet client objectives will also include the need to assess the impact of costs. This process will place particular importance on demonstrating the full, transparent costs of managing a portfolio.

There is a requirement to complete an 'assessment of the suitability of the recommendations given [to the client] at least annually'.

There will also be a requirement to provide new clients with a breakdown of anticipated charges in advance of providing investment services.

Our solution

On cost disclosure, Rathbones will include a quarterly cost summary in client periodic reports (valuations) showing all charges associated with the management of the portfolio such as investment management fees, dealing commission, transaction taxes, product transaction charges and ongoing product charges (e.g. direct unit trust costs). On an annual basis we will report the cumulative effect that these have on the performance of the portfolio.

In addition, prior to bringing a new client on board, we will notify them of the estimated 'ex-ante' charges likely to be incurred on their portfolio in the first year.

How will we achieve best execution for clients?

MiFID II requirement

MiFID II mandates firms to take 'all sufficient steps' to achieve best execution for their clients. This applies to all asset classes.

The regulation mandates that clients are informed of any research charges applied to their portfolios, including those that are implicit in the execution rate provided by brokers.

Our solution

To demonstrate best execution, we will publish on our website the top five brokers used to execute transactions.

This will not directly affect our clients because we do not pass research costs onto our clients.

How will we meet the requirement for increased client communications?

MiFID II requirement

An increase in the level and frequency of client communication will be the most tangible effect of MiFID II. It will be mandatory for client valuation packs to be issued on a quarterly basis.

In addition, all firms will also be required to inform clients, within 24 hours, if the overall value of the portfolio, as evaluated at the beginning of each reporting period, depreciates by 10% and, thereafter, at multiples of 10%.

Our solution

We are fully committed to making sure that this increase in communication has a beneficial impact on clients. We are in the process of streamlining the notification processes that will be used to deliver this information. We would also like to remind you of the availability of soft copy periodic reports via Rathbones Online.

Performance of portfolios will be monitored daily. Should a portfolio depreciate by more than 10% since the last valuation was produced, an email (or letter if no email exists) will be sent to the client (or appointed representative) the business day following the depreciation. All clients will switch to quarterly valuations from 31 March 2018 which will be despatched in the same method as clients have currently selected.

You may have some further questions regarding client communications...

Has the FCA said anything about charging for quarterly reporting?

No, pricing is up to the Discretionary Fund Manager. We will not charge more as a result of moving all clients to quarterly valuations.

What is the rationale for the numbers – why quarterly reports and why 10%?

This is what has been decided by ESMA (European Securities and Markets Authority) for Europe.

How does the 10% drop work when in drawdown, or when contributions are being made during the quarter?

The calculations exclude contributions and withdrawals made during the quarter.

Does the 10% drop apply to the total wealth or per account?

There is no fixed rule, so for consistency, we will use the same format as in a client valuation report. We believe that is how clients are used to viewing their portfolios.

How will the requirement for increased transaction reporting be met?

MiFID II requirement

To enhance market transparency and combat market abuse, MiFID II mandates all financial institutions to increase the amount of information they report to the London Stock Exchange (LSE) on a daily basis. This covers every transaction made on a regulated exchange.

Our solution

While we already hold the majority of this data for our client base, there will be a requirement to update or review data records with some clients over the next six months in order to ensure we have a National Identifier record.

If, in the unlikely event, we find that we don't have some of the information below and have examined all records, we will contact clients for it. The National Identifier for individual clients will be one of the following data items depending on their nationality:

- National insurance number
- Passport number
- Tax identification number
- If none of the above are available, a combination consisting of first name, surname, date of birth and nationality.

Will there be any standardising of the identification of market participants?

MiFID II requirement

To further combat market abuse, MiFID II will classify all charities, trusts (excluding bare trusts) companies and pensions (excluding SIPPs) as legal entities. For reporting purposes, all entities will need to be identified by a Legal Entity Identifier (LEI) code.

Issued by the London Stock Exchange (LSE), these 20-digit reference numbers provide a unique, internationally recognised means of connecting entities to activity on regulated financial exchanges.

Registering for an LEI directly with the LSE will cost £115 plus VAT.

Our solution

We have written to the 8,000+ clients affected by this regulation to notify them of the change.

Each entity is responsible for acquiring their own LEI. Anyone who fails to register ahead of the 3 January 2018 cut off will be unable to deal on their account.

We will offer a free registration service for clients on our standard fee-only tariff. For clients on other tariffs, this service will be offered at a discounted rate of £50 plus VAT.

For new trusts post 3 January, we will have an LEI client instruction form as part of the account opening pack. This form will allow the entity to pass on their existing LEI or select how they want the LEI to be obtained.

How do the rules cater for packaged retail and insurance-based investment products (PRIIPs)?

MiFID II requirement

This is a change which only affects clients who do not use a discretionary service and who buy PRIIPs (collective funds).

Our solution

We already send out Key Investor Information Documents (KIIDs) for some of the UCITS products we purchase. In the future we will be required to send out a Key Information Document (KID) to our clients for a wider range of products under PRIIPs prior to any purchase, e.g. VCTs and investment trusts. This will be handled by our investment managers.

In addition, before investing in a PRIIP, and supplementing the KID, we will provide non-discretionary clients with an 'ex-ante' product charges disclosure. This will show the commission (if applicable) and annual investment management fee and product charges (OCF) of that particular investment.

What do the rules say about acting in the best interests of the client over the product lifecycle?

MiFID II requirement

Manufacturers and distributors of products, i.e. securities or funds, must act in the best interest of the client throughout the lifecycle of those products.

Our solution

Both product manufacturers and distributors now need to consider 'target market' for new products and services, then monitor, through appropriate data, how products are being distributed in line with the target market. This will not directly affect clients. For these purposes, our funds company (Rathbone Unit Trust Management) is classified as a manufacturer and the discretionary investment management arm (Rathbone Investment Management) is a distributor.

How is research affected by MiFID II?

MiFID II requirement

In future research must be paid for via a direct payment rather than via commission.


Our solution

We have absorbed the cost of research for many years and thus are well placed to handle MiFID II research requirements.

For more information, please contact our intermediary services desk on 020 7399 0399, email ifaservices@rathbones.com or for more information, please visit rathbones.com/financial-advisers

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 Rathbone Brothers Plc

Important information

This document outlines our responses relating to the main themes of MiFID II and their impact on us as a discretionary manager and in turn your clients. The final policy statement setting out the final rules for the FCA's implementation of MiFID II is available to download at fca.org.uk

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