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No Time To Wait - Start Preparing Now For MiFID 2

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Following an onslaught of regulation in recent years, many managers had dared to hope the worst might be over. Yet with the significantly revamped Markets in Financial Instruments Directive (MiFID II), a piece of European Union legislation covering financial services, now looming, it seems the real work is only just beginning. This article examines what is at stake for wealth managers. The authors are Benjamin Lucas, director, wealth and asset management at EY, the global professional services firm, and Uner Nabi, executive director, wealth and asset management, EY. The views of guest contributors aren't necessarily shared by this publication and readers are invited to respond. They can contact the editor at tom.burroughes@wealthbriefing.com

While the ultimate aims of MiFID II - investor protection and transparency - are of course laudable, many firms are seeing this as yet another compliance obligation with limited real-world benefit and significant real cost. For anyone who has looked at the requirements coming in, it is clear there will be operational, process, data and systems implications. But more broadly, design of investment products and distribution will be business areas that will experience real impact.

One area of particular concern for wealth and asset managers is inducements, particularly for those distributing across different countries. This potentially influences the product shelf, distribution arrangements, costs, and revenues. Even in the UK, where we have all lived through the Retail Distribution Review programme of reforms, there could be implications, as there seems to be no hint of the grandfathering provisions that RDR had.

As a result, wealth managers specifically will need to consider:

-- An assessment of their independent or non-independent status;

-- Quality enhancement evidencing requirements in order to receive and keep inducements for non-independents, and

-- Disclosure requirements.

Many wealth managers have understandably been holding off acting to implement any changes until there was more clarity around the requirements. Whilst there is little sense in moving too early, there are now a number of areas for which we can be reasonably certain of the impact, and as such we are now seeing firms start to respond.

There is clarity around much of the consumer protection requirements. Take, for example, the obligations on the distributor. The requirements in this area may now be viewed with some certainty and firms should prepare themselves accordingly. How much of a change this will require will depend on the specific circumstances of each firm. Similarly, the increased suitability and appropriateness obligations are clear and we are already witnessing firms assessing the additional work they have to do to become compliant. In contrast to this, there are areas where inducements requirements remain uncertain as MiFID II sets the minimum standards but not all countries have made their implementation approach clear. Some countries are expected to follow the UK and Netherlands' approach of complete bans whilst others will limit the ban to independents as required by MiFID II.

The coverage of inducements is wide. For example, for managers who currently execute client portfolio orders through bundled commissions and use this to pay for research, there are considerable cost and process implications. There are various increased transparency obligations. One example is transaction reporting where firms will have to capture and report significantly more data.

Understandably, many firms are seeing MiFID II as just another hurdle in a long list of regulatory obligations the European Union is putting in the path of the wealth management industry. For those that are able to see past the initial short-term pain and react effectively to the changing landscape, the opportunity is significant.

As the fundamental drivers of the wealth and asset management industry remain strong across Europe (in particular in countries which have larger, older and wealthier populations) the firms that are able to navigate this change effectively will reap the rewards.

In our view there will be two key elements to this success:

1) It is essential that managers do sufficient work to gain a sound understanding of the impacts and what it means for their business, and

2) The timing of the response. Good timing is essential: acting too early risks significant rework, project fatigue and wasted spend, but acting too late puts at risk being able to make the necessary operational and process changes in time, and being at the back of the queue for advice, support and potentially even missing the prescribed deadlines.

At this point in time, although it might be easy to view any benefits as being a long way down the line, it is important for firms to start working out the detail. MiFID II is here to stay and delaying will only mean not knowing how your business needs to change to survive and thrive in a post-MiFID II environment.