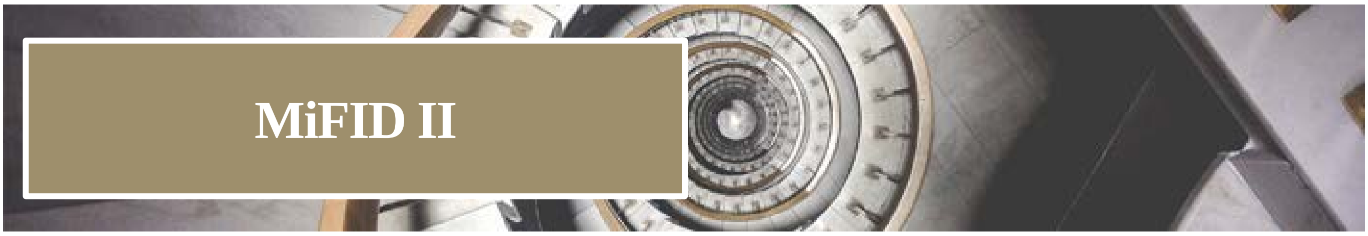

MiFID II

Greater transparency and investor protection with wide-ranging consequences

Introduction

Few areas of investment firms' activities or operations will remain untouched by MiFID II. This includes how they trade, how they develop new products, how they communicate with clients, counterparties and regulators and how they are organised.

The new regime is expected to cause significant change in support of greater investor protection and transparency.

Overview

The revised Markets in Financial Instruments Directive (MIFID2) and its attendant regulation (MiFIR) (together MiFID II) extend the scope of its 2007 predecessor – in areas including investor protection, transparency and regulation of over-the-counter markets – and introduce a range of measures which seek to address issues raised by the global financial crisis.

The broad scope of MiFID II means it will have wide-ranging effects across financial markets in Europe and will also impact non-EEA firms that offer investment services into the EEA. Broadly, MiFID II's new rules focus on the following areas:

- Governance and organisational requirements of regulated firms
- Investor protection
- Trading Rules
- Enhanced Regulatory Powers

MiFID II will impact asset owners that appoint regulated firms to manage their assets, as well as sell-side firms, market infrastructure operators and other financial markets service providers. In the longer-term, the measures introduced under MiFID II could precipitate substantial changes to investment markets in Europe, driven by the new data and reporting standards and the ability to passport services.

Key Milestones

2017	2018	2019	2020
Q1 EP and Council approval on Delegated Acts and RTS FCA publishes policy statements in March and July July MiFID2 due to be transposed into national law by Members States by 3 July 2017	January MiFID II comes into effect on 3 January 2018 Q2 ESMA anticipates its Financial Instruments Reference Data System (FIRDS) project will become operational		March EC due to deliver report to EP and Council on functioning of certain elements of MiFID

BNY MELLON

What are the changes being introduced?

MiFID II entail far-reaching changes in a wide range of areas of investment activity, requiring many users and providers of investment services to conduct operational and strategic reviews of their existing businesses.

The scale and complexity of the reform programme is reflected in the 12 month delay to the original implementation timetable, pushing back the start date for compliance with MiFID II to 3 January 2018.

Broadly, the new MiFID II regime can be viewed as follows:

Key changes under MiFID II	
Governance and organisation	• MiFID II introduces new product governance requirements applicable to product manufacturers and distributors • Use of disclosure as a way of managing a firm's conflicts of interest with its clients or as between its clients will be limited under MiFID II
Investor protection	• More conduct of business obligations will be owed to professional clients and eligible counterparties will receive a higher level of regulatory protections under MIFID II • Information will need to be provided to clients in relation to firms' costs, charges and inducements and in relation to their transactions • New inducement rules will impose very onerous restrictions on independent advisors and portfolio managers (including in relation to research provided to portfolio managers by brokers) • Revised duty of best execution will require firms to disclose on an annual basis the top five execution venues used for each class of financial instrument • Anticipated that the new requirements will result in changes being made to terms of business, client agreements and confirmations
Trade reporting	• MiFID II extends existing pre- and post-trade transparency requirements beyond equities to include other 'equity' like instruments (e.g. exchange-traded funds) and non-equity instruments (e.g. bonds and structured finance products) • Scope of transaction reporting (to national regulators) is significantly extended under MiFID II in terms of reportable instruments and the data that must be reported (with many more data fields, including Legal Entity Identifiers) • Transaction reports may now be submitted directly to a competent authority by an investment firm, sent via an Approved Reporting Mechanism (ARM) or submitted by the trading venue through which the transaction was completed
Trading	• In an effort to control speculative commodities trading, MiFID II allows commodity position limits to be imposed, with position details being reported to the trading venue on a daily basis • MiFID II prohibits OTC trading in equities listed on a regulated market or traded on a trading venue and requires trading to be carried out on a regulated market, MTF or systematic internaliser or an equivalent non-EU venue
Regulatory powers	• MiFID II introduces additional regulatory powers, including new product intervention powers

How does this impact BNY Mellon Products & Services?

An all-encompassing regulation like MiFID II cannot fail to have an impact on BNY Mellon Products & Services, with adjustments required across asset servicing, custody, transfer agency and related services. Moreover, we are actively engaged in multiple client change projects, for example:

- providing information to support compliance;
- enabling greater trade cost transparency and best execution disclosures;
- facilitating changes to distribution agreements, share classes, product and client documentation; and
- supporting post-trade and transaction reporting data requirements, including delegated reporting

What is BNY Mellon doing to address MiFID II?

MiFID II is one of the most significant and far reaching regulatory change initiatives faced by the financial services industry in recent years with its breadth and depth touching all parts of the investments lifecycle.

BNY Mellon has mobilised a significant multi-disciplinary enterprise wide group of professionals to support and deliver its MiFID II programme. We recognise the need to ensure the MiFID II readiness of our own business models, legal entities and activities as well as the need to support our clients with their deliverables.

We continue to advocate and engage key stakeholders where there are areas of regulatory uncertainty in order to facilitate timely implementation of MiFID II.

BNY Mellon is ensuring close coordination with key stakeholders including our peers, engagement in industry fora and continued dialogue with regulatory bodies.

For further information please contact your Relationship Manager

bnymellon.com

9/2017

BNY MELLON