

# Where is your firm?

Application of the MiFID regulations in your business

Getting started  Integrating MiFID



- Analysed the major impact areas of the Directive
- Took action to understand the impact on the business and the likely cost of compliance
- Reviewed strategic impacts with Senior Management

- Rigorous assessment of impact at strategic and operational level
- Project plans in place including resource and cost implications
- Front, middle and back office to engage with all relevant changes for products and operations
- Senior management confident that project plans are achievable by 1 November 2007

- Integrated implementation plan owned by senior management
- Working through detail in an integrated fashion across the business adapting to resource needs
- Experts engaged where appropriate
- Audit of programme, testing systems and controls to ensure compliance

MiFID programmes need a proportionate, sensible approach to ensure compliance.



# MiFID: It's going to change the business landscape\*

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# MiFID

It's going to change the business landscape\*



\*connectedthinking

# MiFID has arrived

Implementation of the Markets in Financial Instruments Directive (MiFID) has been underway for sometime now. The Directive will come into force on 1 November 2007. It is one of the corner stones of the European Union's (EU) strategy to establish pan European capital markets and it replaces and expands upon the Investment Services Directive.

The impact of MiFID is far reaching as it encompasses not only products and asset classes that have not been subject to regulation before but it also introduces changes to the existing regulatory environment across the EU.

Specific requirements continue to emerge although some of Europe's regulators are more advanced in their thinking than others. Nevertheless much work has already been completed and there is a substantial degree of clarity about the requirements with ever increasing levels of detail being provided, particularly by the UK's Financial Services Authority.

Most institutions have now initiated projects to assess the impact on their business and the resources required to deliver compliance with MiFID, although some have made more progress than others.

## Major business changes

- Three new client classification definitions affecting protections, processes and existing business models
- Changing requirements in relation to Best Execution and Order Management
- OTC business is changing through increased transparency requirements in liquid equities
- New requirements on what information should be retained and for how long
- New conflicts regime
- New outsourcing regime
- New cross border regime
- Shift towards proprietary trading
- Stock Exchanges facing increased competition

# How will MiFID impact your business?

Area of MiFID	Potential Level of Impact					MiFID Challenges
	Investment Bank	Treasury Function within Bank	Asset Management	Retail Bank	Private Banking/Wealth Management	
Client classification	●	●	●	●	●	<ul style="list-style-type: none"> <li>Significant classification/re-classification exercise – knock on impact on services/activities and systems and controls that will be required</li> </ul>
Investment advice	●	●	●	●	●	<ul style="list-style-type: none"> <li>Potential for competitive differentiation</li> <li>Data capture and record keeping</li> <li>Continue to provide existing products/services?</li> <li>New controls necessary for non-complex products</li> </ul>
Order management	●	●	●	●	●	<ul style="list-style-type: none"> <li>Best Execution solutions to be devised</li> <li>Data/record-keeping requirements</li> <li>Differences according to clients and financial instruments</li> </ul>
Pre-trade transparency	●	●	●	●	●	<ul style="list-style-type: none"> <li>Determining whether you are (and/or want to be a) systematic internaliser</li> <li>Data publication development and control (Project Boat)</li> </ul>
Post-trade transparency	●	●	●	●	●	<ul style="list-style-type: none"> <li>IT enabling infrastructure, communications platforms and data monitoring</li> </ul>
Transaction reporting	●	●	●	●	●	<ul style="list-style-type: none"> <li>New reporting requirements BUT firms can avoid most of the consequences of transaction reporting by ensuring that regulated markets/MTFs are responsible for submitting transaction reports</li> </ul>
Client reporting	●	●	●	●	●	<ul style="list-style-type: none"> <li>IT enabling infrastructure, communications platforms and data monitoring</li> </ul>
Cross-border	●	●	●	●	●	<ul style="list-style-type: none"> <li>Level playing field of regulatory requirements</li> <li>Reconsideration of target markets and products offered</li> <li>Is existing organisational structure the most efficient, or can a more efficient structure be achieved by simply passporting into the target member state?</li> </ul>
Record-keeping	●	●	●	●	●	<ul style="list-style-type: none"> <li>Arrangements and procedures regarding the timing and content of confirmations and client statements</li> <li>IT enabling infrastructure and durable mediums</li> </ul>
Client assets	●	●	●	●	●	<ul style="list-style-type: none"> <li>New policies for selection/appointment of counterparties, particularly in relation to overseas third parties</li> <li>Operational risk management with respect to the approaches taken with third parties</li> </ul>
Conflicts of interest	●	●	●	●	●	<ul style="list-style-type: none"> <li>Reviewing existing conflicts procedures and controls, mapping conflicts and potential conflicts on a cross-organisational basis</li> <li>Limits reliance on disclosure as a means of managing conflicts of interest</li> </ul>
Organisational requirements	●	●	●	●	●	<ul style="list-style-type: none"> <li>Establishing/revising codes of ethics/policies for expected employee behaviour and compliance standards</li> <li>Compliance policies/manuals to reflect MiFID requirements by type of business</li> <li>Need to consider overlap with Basel II/CRD risk management</li> </ul>
Outsourcing	●	●	●	●	●	<ul style="list-style-type: none"> <li>Requirements relating to third country service providers may at best be complicated, or at worst restrict outsourcing possibilities</li> <li>Bringing outsourcing into the Risk framework</li> </ul>

Key: ● Significant change ● Some change ● Minimal/no change

# How PwC can help

## Where are you on MiFID?

## How PricewaterhouseCoopers can help

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We want to take advantage of the strategic opportunities MiFID offers

We can work with you to review the opportunities presented by MiFID for:

- Reviewing or renewing your business model based on the potential costs/benefits MiFID will bring
  - Strategic change
  - Process improvement
  - Controls optimisation
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We have begun implementing our response to MiFID

We can support you through:

- Working with you to review and consolidate the MiFID project plans
  - Checking for completeness so that you are confident that you have captured all aspects of MiFID
  - Providing project management experts and support to help with the running of your project
  - Providing expert input and advice where needed
  - Provide resources to assist with MiFID implementation
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We have a gap analysis but are not feeling confident about the way forward

We can work with you at a group or divisional level to review your gap analysis to check that it:

- Contains all relevant business lines and products
  - Is complete in its understanding of the scope of MiFID
  - Has a realistic project plan
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We have not yet started on MiFID

If you have been waiting for further regulatory guidance or believe that it will be easy to implement MiFID you are behind your peers. We can:

- Run workshops with relevant parts of the business on MiFID
  - Develop heat maps to help you understand the main impact areas
  - Work with you to develop a gap/impact analysis on MiFID
  - Develop project plans based on the impact analysis
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