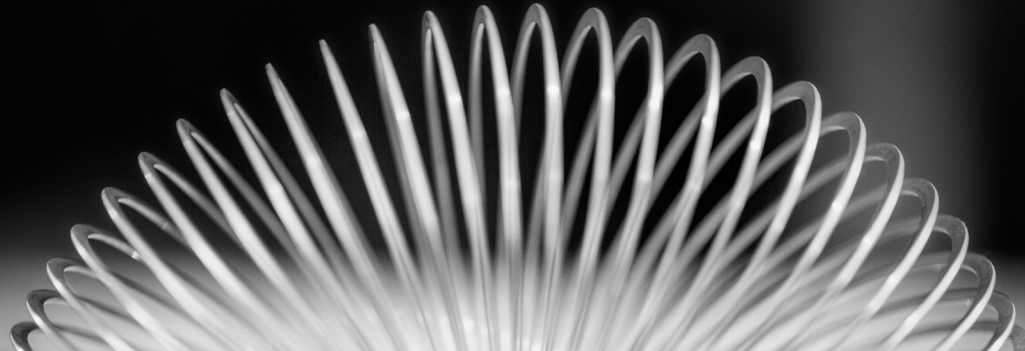




SIX Flex®

# MiFID II Investor Protection

Make Sure Your Firm Is MiFID II Compliant



## **Challenge**

Under the MiFID II regime, 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 investment instruments are provided to investors together with the appropriateness and suitability testing required as part of the advisory process.

## **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 Product Governance Guidelines also require that related costs, inherent risks and tax implications of the financial instrument advised to the investor are to be disclosed during the entire advisory process. ESMA's product governance obligations can be summarized as follows:

## Manufacturers

- Define the distribution strategy of the product.
- Identify a target market for each product i.e. to which type of investor the financial instrument is suitable for.

## Distributors

- Understand the target market identified by the manufacturer for each product.
- Make arrangements to obtain and disclose all appropriate information on the investment product.
- Ensure that the investment 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 classifications are creating a major challenge for firms. These include markers such as “complex”/“non-complex” as well as “leveraged instruments”.

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

### **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 investment 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 and later monitor clients accurately. Otherwise, firms risk non-compliance with MiFID II rules governing product suitability and investor protection.

#### **Primary Audience**

Private Banking, Wealth Management and Client Advisory, Solution Providers like Portfolio Management Systems and core banking software providers.

#### **Common Use Cases**

Front Office, Advisory – Point of Sale, carry out suitability assessments between clients' profile and suitable investment universe.

#### **Available Content**

SIX sources target market criteria and costs and charges information from more than 350 suppliers (directly from manufacturers or aggregators mandated by manufacturers) based on the EMT (European MiFID Template).

SIX additionally provides "complex"/"non-complex" classifications, leveraged instrument and PRIIP scope indicators for more than seven million active instruments.

#### **Features and Associated Benefits**

- 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 about costs & charges or tax implications for example.
- Support the notification obligation of investors by identifying leveraged products.
- Identify instruments for which a PRIIP-KID has to be provided to retail clients.
- Identify the Best Trading Venue on instrument level in the best interest for the investor.
- Identify investment firms that are authorized by the National Competent Authorities (NCAs) within the EU to provide financial services.
- Integrate our MiFID II investor protection data into your database by using standard identifiers such as ISIN, FISN, CFI, LEI and MIC.

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