



WAVERTON

INVESTMENT MANAGEMENT

MIFID II: OPPORTUNITY OR OBSTACLE?

With only two months to go until the introduction of MiFID II, we are taking the opportunity to alert our advisers to the multiple components of the new regulations, and how Waverton's services will be adapted to address them. (The introduction of MiFID II in the UK is being enforced by our own regulator and adopted into UK Law by the FCA).

MiFID II is almost certainly the biggest regulatory change that the financial services industry has ever seen. It is focussed on investor protection and therefore has a particular impact on the wealth management sector. A key principle of MiFID II is that clients with the least knowledge and experience of investment are given the highest level of protection.

There are numerous impacts of MiFID II to professional advisers and their clients – and to their relationships with the discretionary fund managers that support them.

**Waverton welcomes MiFID II
- believing that the controls
and transparency being
introduced will benefit clients
and enhance the reputation of
our industry**

CLIENT REPORTING AND SUITABILITY

- 1. Full disclosure of all costs and charges**

Under MiFID II, all firms will need to provide explicit reporting of all costs and charges associated with providing an investment service. This may be consolidated, but a detailed breakdown can be provided annually upon request. The deadline for this annual reporting is 2019, but clients may request it at any time, so data must start to be collected from the start of 2018. Projected cost and charges data also needs to be provided as part of the client marketing and acquisition process, together with the likely impact of these on investment performance. The operating costs of funds (OCF) needs to be included in the disclosure of costs. This is currently the most challenging aspect of this MiFID II component, because such data is not centrally available. A number of service providers are developing utility services to address this.

Subject to the above, Waverton are ready to track and report all costs and charges associated with providing our service.
- 2. 10% fall in valuation reporting**

Firms will be required to notify clients in a timely manner (within 24 hours of identification) when the overall value of their portfolio falls by 10% within a single reporting period, as well as any subsequent 10% drops. This calculation includes cash withdrawals by the client. Responsibility of informing the client is dependent upon whether it is Waverton or a Platform who hold the clients assets.

We are working out systems and procedures, alongside service providers such as Platforms, that will enable us to alert clients and their advisers in these circumstances.
- 3. Suitability and appropriateness**

MiFID II carries forward the RDR suitability requirements and in a number of areas makes them more stringent for investment firms and advisers

Procedurally this will involve more frequent suitability assessments, and being in a position to communicate suitability reports to clients

Other key activities include:

 - Assessing suitability of bundled products and services
 - Ensuring client information is complete and up to date
 - Documenting rationale for switching investments

When assessing appropriateness, the firm must determine whether the client has the necessary experience and knowledge in order to understand the risks involved in relation to the product or service provided. Under MiFID II, the range of products considered to be complex is wider, thus more appropriateness assessments will be carried out.

PORTFOLIO MANAGEMENT AND GOVERNANCE

- 1. Removal of inducements**

MiFID II prevents portfolio management firms and any organisation providing independent advice from accepting any inducement from third party service organisations. The highest priority consequence of this is that our broker counterparties will be removing the charge for research that is embedded in their commissions. Waverton will be covering this cost. Advisers who use external research in the process of making investment recommendations or decisions for their clients will need to make the most appropriate decision for themselves.

2. Transaction Reporting

Transaction Reporting requires market participants to report daily to the regulator all transactions involving a change in beneficial ownership. The purpose is primarily to aid the regulators in identifying perpetrators of market abuse. Under the MiFID II regime this has been extended to increase transparency and a wider number of firms and instruments are included. Waverton now falls within this and our preparations for participation are well advanced. We will be reporting a lot of information about the transactions, including the underlying decision maker behind the trade to the regulator. In the case of charities, companies, and trusts, Legal Entity Identifiers (LEIs) numbers are required for all clients. Advisers must be sure to obtain LEIs for their clients, who fall into these categories.

If Waverton do not have an LEI number before 3rd January, trades will not be undertaken on the clients portfolio.

3. Product governance

MiFID II brings significant changes to product governance with a clear differentiation between what is required of product manufacturers and product distributors. In summary, both categories of operation will need to clearly assess and describe the target market for their product. This will include identifying the type of investor, their knowledge and experience and their risk profile (with more emphasis on their capacity for loss). MiFID Templates (EMTs) are evolving for this information and a number of service providers are developing platforms to assist in the market wide dissemination of these. The changes to product distribution will be especially relevant to our advisor clients. For distributors, it will be necessary to assess actual sales against the manufacturers target market specification, and identifying and highlighting mismatch situations. Overall, greater documentation of procedures and governance will be necessary, together with more stringent, forward looking stress testing of new and existing products.

Waverton have put together this information for our funds and will be making them available to the advisers and platforms that distribute our products. Please contact us to get more specific information on this.

4. Best Execution

The Best Execution rules set out the obligations on firms when executing orders for clients. MiFID I has required firms to take 'all reasonable steps' to obtain the best possible result in the execution of an order for a client. MiFID II enhances this requirement, requiring firms to take 'all sufficient steps' to obtain the best possible result.

MiFID II introduces the additional requirement that firms must summarise and make public (for each class of financial instrument) the top five execution venues where they executed client orders in the preceding year, on an annual basis.

Waverton has put in place all the systems platforms and procedures needed to comply with Best Execution.

5. Agreements

There will be some changes to future Waverton agreements to reflect MiFID II requirements and associated changes to Terms and Conditions.

At this stage we do not believe that this will require us to update existing agreements, but we are keeping this under review.

CONTACT US

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