

MiFID

Presentation for Securities & Investment Institute Greek Branch

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Part 1 – Overview of MiFID

Part 2 – Economic Consequences

**Part 3 – Client Categorization and
Marketing**



Part 1 – Overview of MiFID



MiFID



MiFID was conceived for the noble purpose of opening up Europe's Capital Markets by improving price transparency of traded financial instruments while making it easier to execute trades across borders.



Financial Times



MiFID



Alarm over financial instruments directive

EU plans attacked by banks and
investment firms



Financial Times



MiFID

What is the scope and impact of MiFID

- **A broad range of requirements**
 - best execution, pre- and post-trade transparency, client disclosure and reporting...
- **Affecting most areas of a firm**
 - senior management, managers, client services, trading, custody...
- **Affecting many types of buy-side and sell-side firm**
 - Traditional and electronic exchanges, banks, asset managers, issuers, brokers, systematic internalisers...



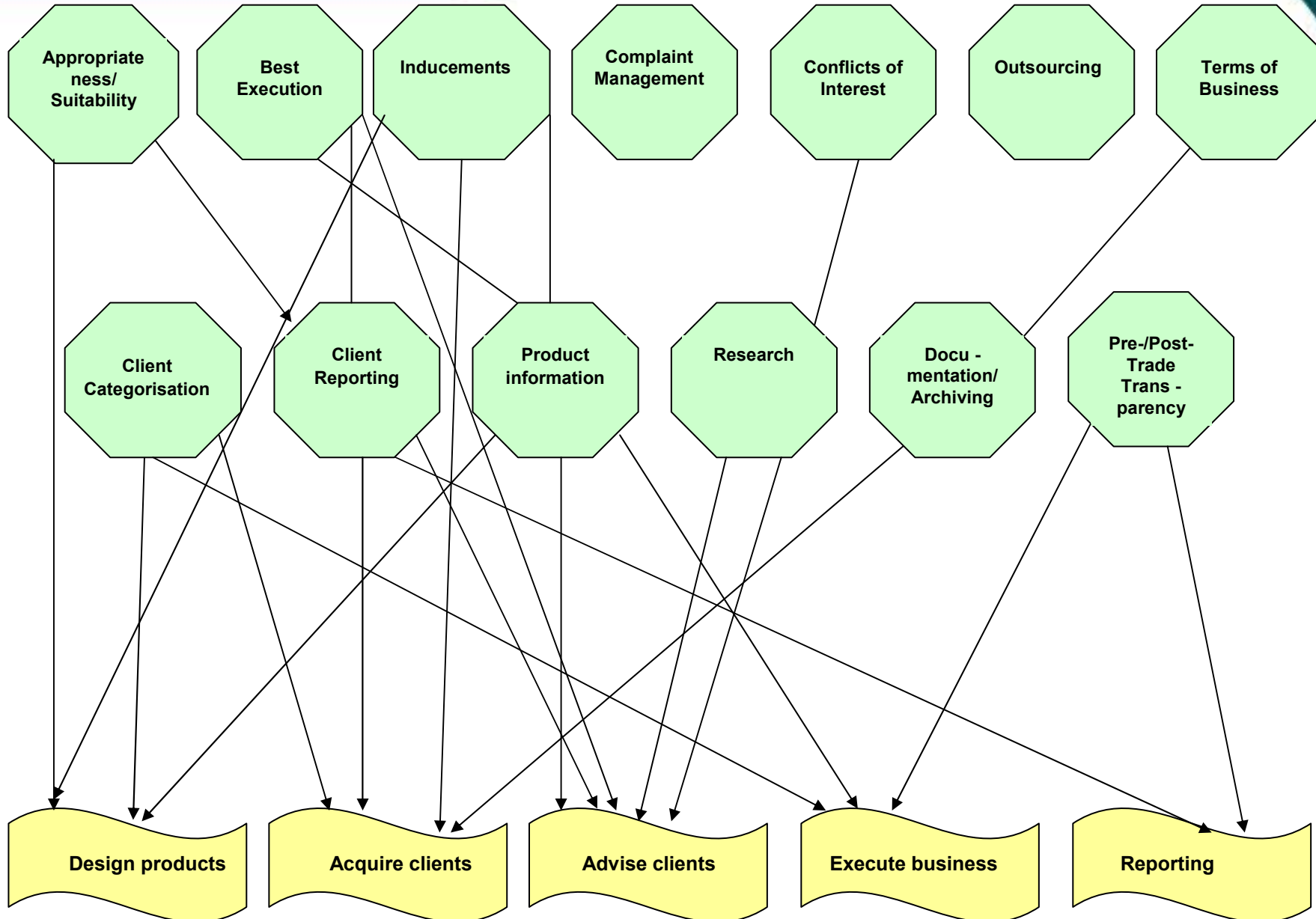
MiFID

What is the scope and impact of MiFID? (Cont.)

- **Most financial instruments are within scope**
 - equities, fixed interest, derivatives, stock lending, OTC trading...
 - Commodities
- **The impact of MiFID will vary**
 - between firms (depending how well prepared they are)
 - between lines of business (some more affected than others)
 - and between jurisdictions (depending on current national market practice, relative to the level playing field of EEA-wide MiFID)



MiFID





MiFID and other changes

Part 2 Economic Impact

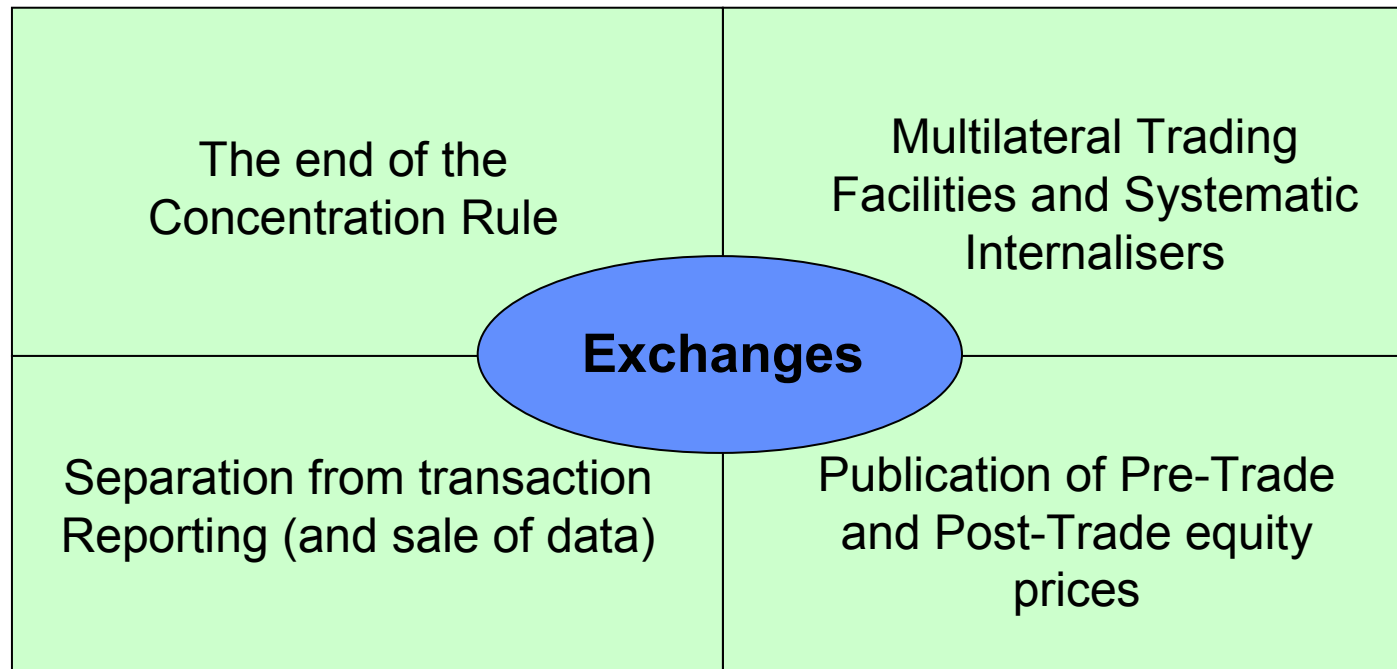


So how will MiFID change the Market?

- New style markets(Multilateral Trading Facilities and Systematic Internalizers) put on equal footing to traditional exchanges
- Emergence of new liquidity pools (Project Turquoise, Chi-x etc)
- McCreevy's drive to reduce cross-border trading costs
- New transaction reporting competition (LSE and Reuters)
- Link to ECB's eurosecurities settlements system initiative
- Link to EU Commission's review of distribution of UCITS and alternative funds
- Exchange consolidation and separation of clearing from trading
BUT
- How much is due to technology change eg alorghimic trading?



Markets



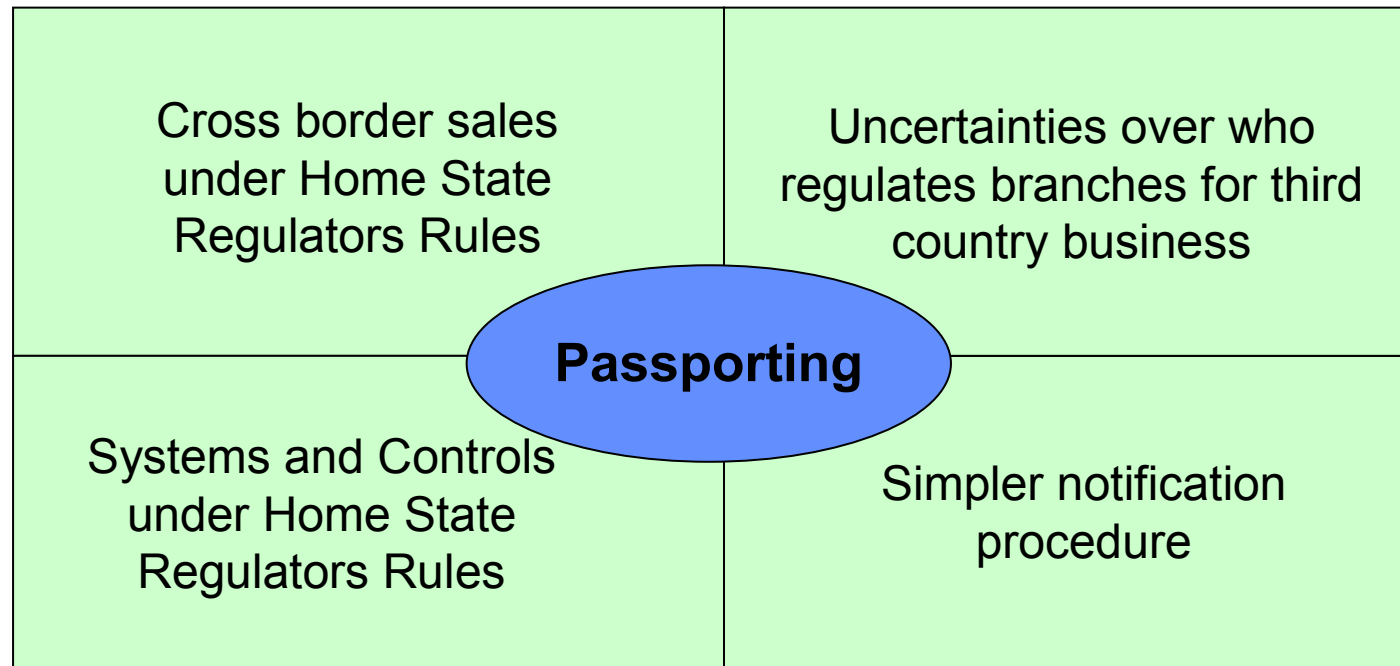


Markets - Example

- There is a Client Order for a UK equity
- Currently main market is LSE and Plus Markets
- Firm can choose which to use
- In future Firm's Execution Policy will look at these and electronic order matching systems e.g. Chi-x, and, if traded outside UK, at other exchanges and markets



Cross-border services and branches under MiFID



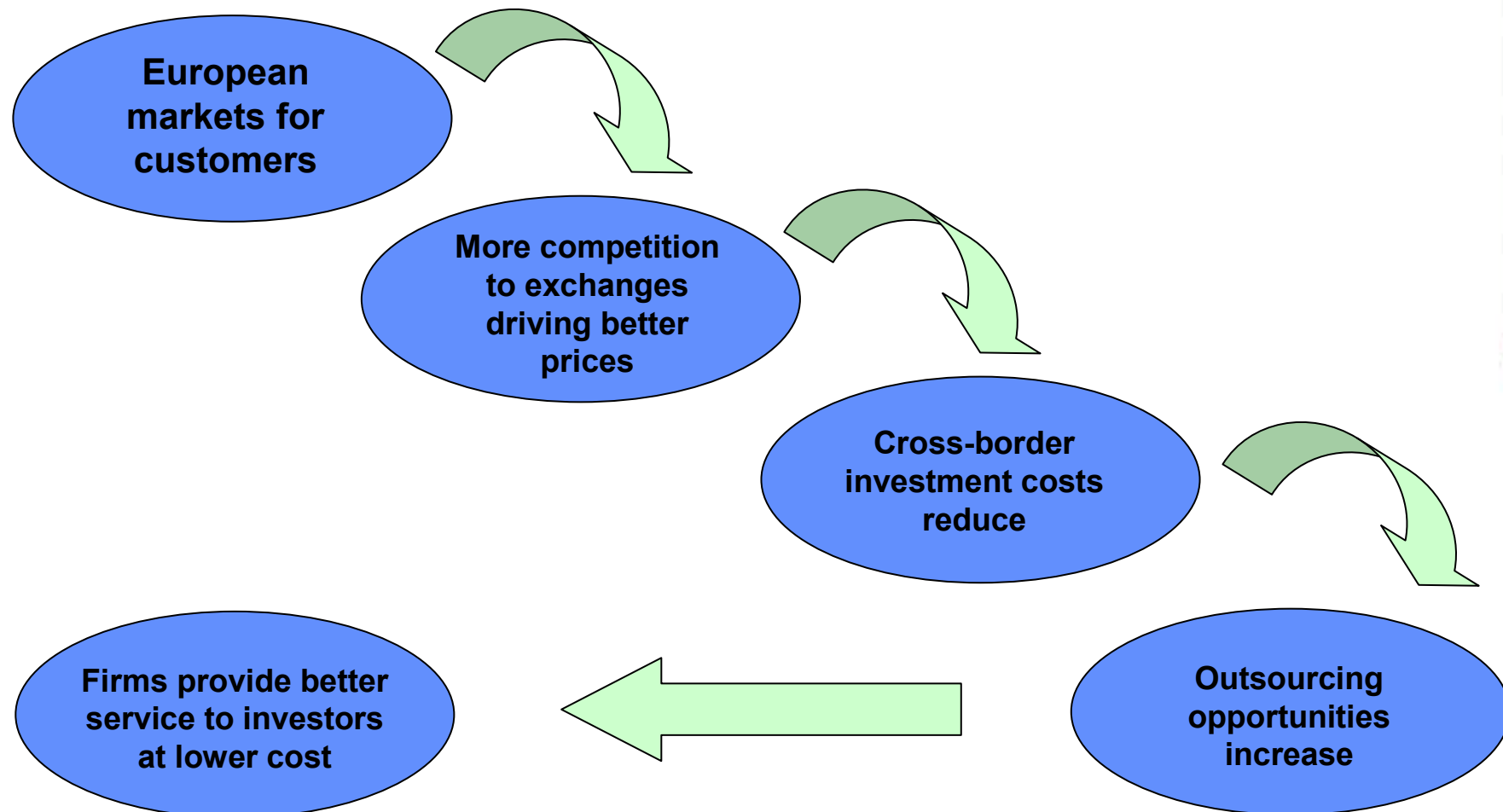


Cross-border services and branches under MiFID - Example

- Greek Firm solicits business from individuals resident in Rumania
- Currently difficult because Rumanian Conduct of Business Rules may restrict sales to the “public” by non-Rumanian regulated Firms
- In future cross-border sales can be made under Greek COB Rules and not local rules
- Sales by Rumanian Branch still under local rules. Unclear whose rules apply to branch’s third country sales e.g. Bulgaria



The Possible Impact of MiFID





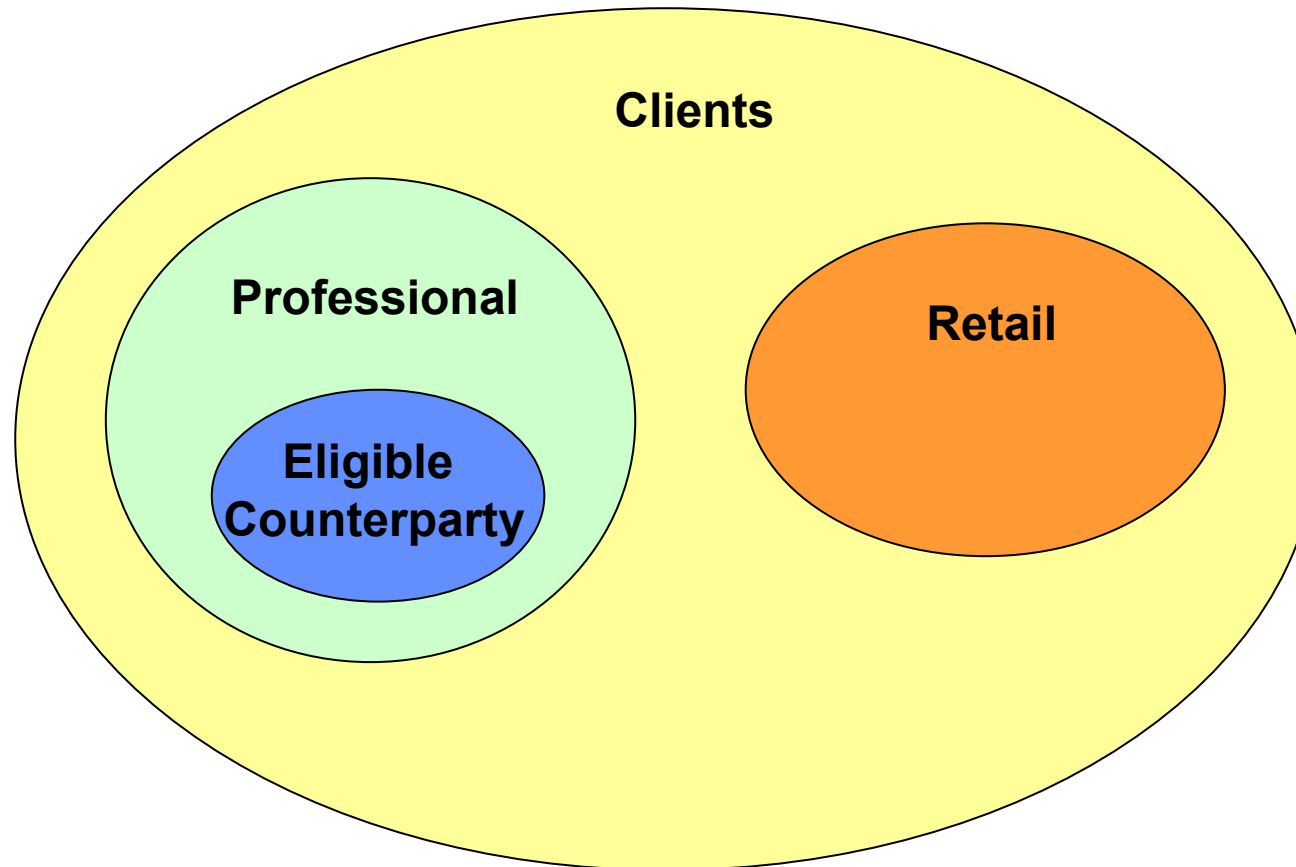
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Part 3 MiFID



Who are Clients



Note: References to clients and to professional clients include eligible counterparties



Clients Under MiFID

	Philosophy	Examples	Duties of Firms
Eligible Counterparties	Professional Financial Firms do not need any protection	Banks, brokers, investment managers, insurance companies	<ul style="list-style-type: none">•Conflicts of interest•Clients limit order
Professional Clients	Non-regulated companies etc need some protection	All the above and large corporates and expert investors	<ul style="list-style-type: none">•Suitability (limited)•Fair Communication•Best Execution•Conflicts of interest
Retail Clients	Need full investor protection	Individual and small corporates	<ul style="list-style-type: none">•Suitability and Appropriateness•Fair Communications•Best Execution•Conflicts of interest



What is the Duty of Suitability to a Professional Client?

“Where a firm provides an investment service to a **professional client** it shall be **entitled to assume** that, in relation to the **products**....for which it is so **classified**, the client has the necessary level of **knowledge and experience** for the purposes of paragraph 1(c).” (MiFID Level 2 Article 35(2))

Note: Paragraph 1(c) refers to the client understanding the risks in the transaction.



Relationships with Clients

- Have the firm's communications to the client been fair, clear and not misleading?
- Has the firm acted in accordance with its inducements and conflicts policy?
- Has the firm acted honestly, fairly and professionally and in the best interests of the client (Retail clients only)?



The Challenge and Opportunity of MiFID



The clear cost of implementation of MiFID will only prove justified if firms take the opportunities generated to raise revenues.



John Tiner, Chief Executive of the FSA - May 2007