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SALE OF FINANCIAL PRODUCTS: THE IMPACT OF MIFID II

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THE FINANCIAL INSTRUMENTS MARKETS DIRECTIVE, STRENGTHENS PROTECTIONS FOR CUSTOMERS WHO SEEK ADVICE ON SUBSCRIBING TO FINANCIAL PRODUCTS.

FÉDÉRATION BANCAIRE FRANÇAISE

UNDERSTANDING MIFID II SALES RULES

The MiFID II directive, which overhauls the original 2004 MiFID directive, increases protection for retail investors by reinforcing the existing ambition that professionals should be selling the **right product**, to the **right customer** at the **right price**. It came into force on 3 January 2018.

Customer always at the center of the process

Customer's expectations on how their savings should be allocated are central to the banker's processes. These expectations tend to develop as customers go through different life stages. Therefore, **a prior interview with the customer** is essential to:

- → identify their projects and their longer or shorter term investment horizon;
- → define their needs for a precautionary liquid buffer over the medium and long terms and secure savings;
- → determine which part of their resources could be invested in financial products subject to MiFID II regulation.

OVER **4,893** BILLION €
OF HOUSEHOLD SAVINGS IN FRANCE
IN Q2 2017
/ Source: Bank of France/

An enhanced advisory role with customers

Since the transposition of MiFID I, bankers have a **"duty to advise"**. They must make sure, before giving any investment advice, that the product being offered suits the needs and aims of the customer and their knowledge and experience of financial markets and products. In addition to this, there are also AMF and ACPR recommendations on the conditions for marketing UCITS, structured AIFs and complex EMTNs.

MiFID II strengthens these advisory rules by adding an obligation for the banker, before selling any financial products:

- → to determine for each financial product a theoretical **targeted clientele** who can subscribe;
- → to refine their understanding of the customer's capacity to **bear losses** and **risk tolerance**.

A longer questionnaire for investment advice

Before receiving any investment advice, customers must answer a **questionnaire** to define their aims, needs and risk profile.

The questions on risk tolerance and capacity to bear losses have been expanded. The questionnaire is likely to be longer and felt to be more intrusive than in the past.

If customers refuse to answer the banker cannot provide investment advice. The answers provided will influence the range of products that can be offered.

Test for no-advice investment

If customers wish to invest in complex products without the advice of a banker, they must take **a test** to assess **their knowledge and experience** of the products concerned in light of the requirements for investing in the product's targeted market.

Any refusal of answers or partial answers will not validate a sufficient level of knowledge and experience, and therefore subscribe to the product concerned. In this case, the bank issues a **«warning notice»** to the customer as to the fact that he subscribes to this product under his sole responsibility.

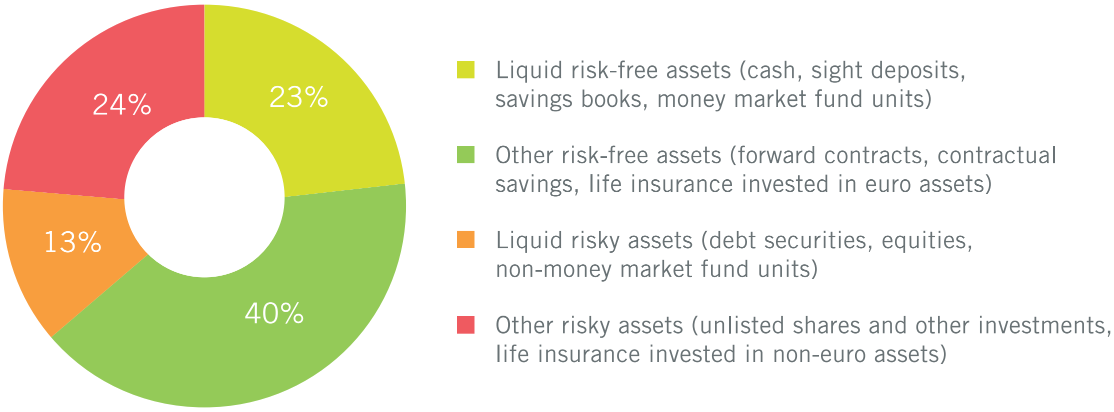
Expanded customer information

Before subscribing to any product or service, customers will get "ex-ante" information on **all related products or services costs**.

They will also get similar "ex-post" information after a set period to explain the actual costs involved.

Distribution of household financial investments in France, Q2 2017

Source : Bank of France, Household savings and assets



MIFID II, A BRAKE ON PRODUCTIVE INVESTMENT?

Investor protection rules oblige the banker to identify a theoretical targeted clientele for each financial product and the customer's risk profile ahead of any marketing. The application of these overlapping filters reduces **the number of potentially eligible customers** for riskier financial products, particularly those designed to finance SMEs. The new regulations will therefore restrict the scope for promoting these investment products to all customers.

POSSIBILITIES FOR DEVELOPING PRODUCTIVE INVESTMENT

While MiFID II may limit the scope for channelling savings to companies, the banking profession has nonetheless identified a number of ways to develop productive investment:

→ identify more carefully the expectations and needs of those customers whose risk profile suggests they have **the risk appetite for these products**, and identify those eligible for promotion of financial products invested in SMEs;

→ more systematically enhance and **develop diversification of assets** held by such customers in **investment products** such as PEAs, PEA-PMEs, life insurance, securities accounts.

The MiFID II directive on video

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