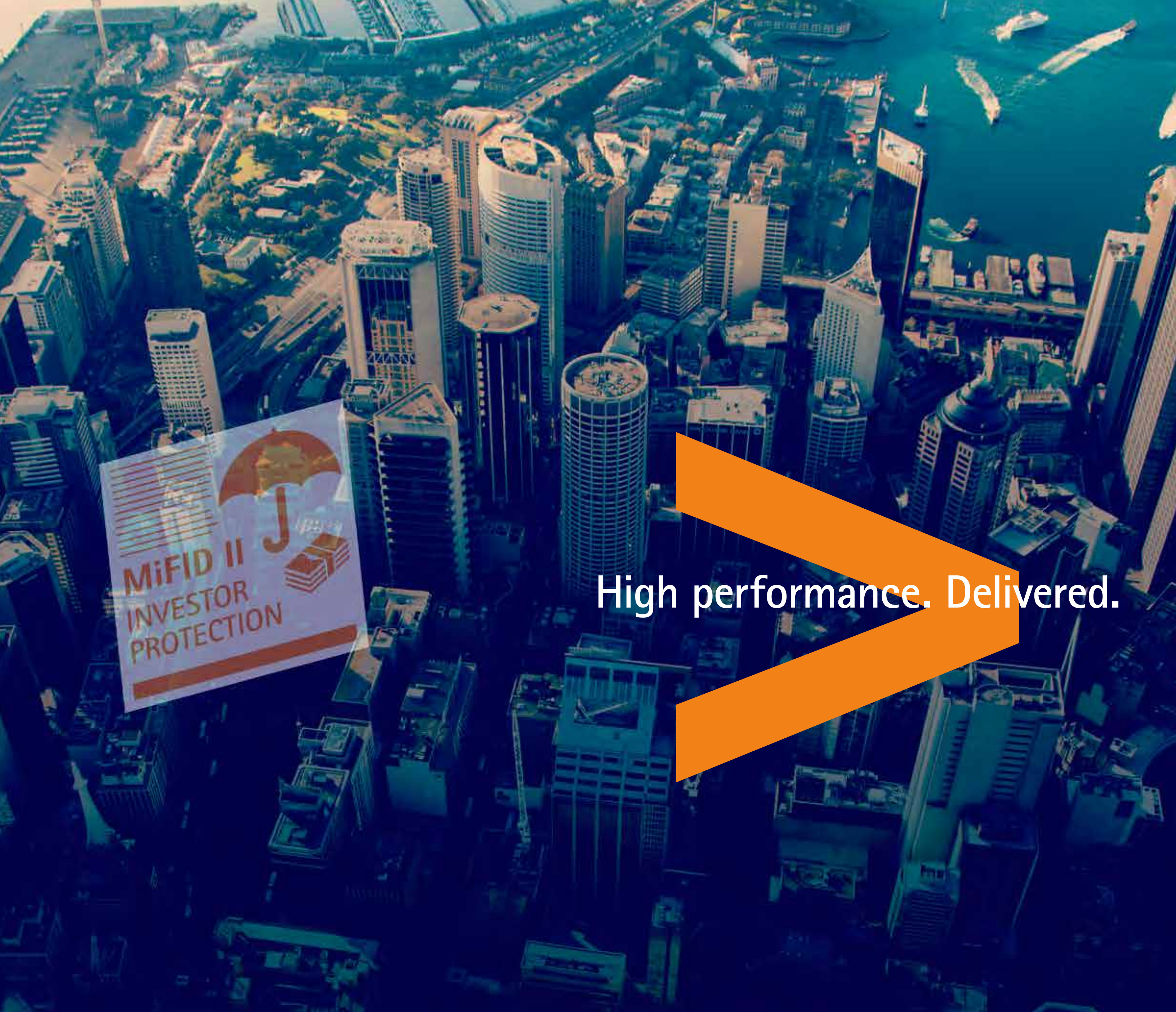

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Markets in Financial Instruments Directive II (MiFID II)

Turning Regulatory Challenges into Business Opportunities

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Introduction

The regulatory environment surrounding banks and other investment firms globally is characterized by stringent, very complex, highly uncertain, often multiple and — at times — conflicting regulations. In addition to causing a huge increase in the costs of compliance (both one-off and recurring), some of these regulatory changes — reflecting the experiences of the financial crisis — have affected the business models of these firms, cutting into their revenue streams.

Depending upon the type of investment firm, changes brought about by Markets in Financial Instruments Directive II (MiFID II) and Markets in Financial Instruments Regulations (MiFIR), will have operational impacts and a direct impact on sources of revenue such as fees, inducements and distribution of products.[1] With other related regulations such as Basel III, Capital Requirements Directive (CRD) IV, Capital Requirements Regulation (CRR), Dodd-Frank, European Market Infrastructure Regulation (EMIR), and Market Abuse Directive/Market Abuse Regulation going into effect, we believe investment firms need a comprehensive and holistic approach to regulatory transformation.

MiFID II and MiFIR in our view represent both, a considerable challenge and a significant opportunity, for firms to improve their organization and their way of doing business. The regulations are extensive and very complex, presenting three major hurdles:

Provisions for investor protection

Provisions for investor protection covering the entire lifecycle of investment products and services; our opinion is that this will require firms to reshape their business models and cope with major new demands.

Provisions for pre- and post-trade transparency

Provisions for pre- and post-trade transparency strengthen and extend the trading and disclosure requirements for all forms of trading and all asset classes. Our perspective is that companies need to take appropriate steps to master the greater transparency requirements demanded by MiFID II/MiFIR.

Provisions for internal organization set-up and risk control

Provisions for internal organization set-up and risk control give more weight to risk control and the firm's supporting internal control function. From our observations, an enhanced Risk Control Framework can be implemented for regulatory compliance.

While MiFID II/MiFIR pose compliance challenges, our experience, and our research findings, indicate that a well-designed and well-executed implementation project can support regulatory compliance and may also deliver significant benefits for the business.

The Cornerstones of MiFID II

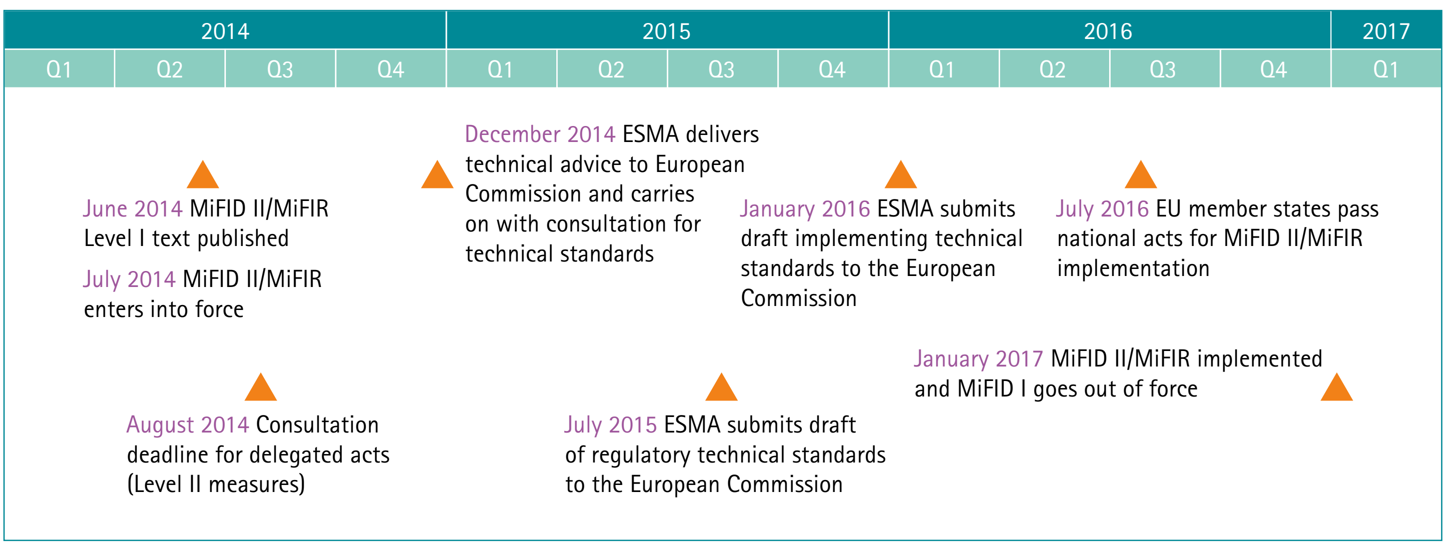
Overview

MiFID II/MiFIR[2] is an EU regulatory framework consisting of a revised directive (MiFID II) and a new regulation (MiFIR) aimed at increasing investor protection by creating a more efficient, risk-aware and transparent market for investment services and activities. This initiative has been described as the "biggest overhaul of financial markets regulation in the EU for a decade"[3] and provides a significant extension of the previous MiFID regulation with a broader regulatory scope and more stringent rules for investment firms — such as banks and other providers of investment services — as well as for regulated markets and data reporting services providers.

The final text of both the revised directive and the regulation came into force in July 2014. These so-called Level 1 texts define the main requirements and obligations of MiFID II. The European Commission has requested the European Securities and Markets Authority (ESMA) and the European Banking Authority (EBA) to work on delegated and implementing acts that provide details on the meaning of the Level 1 requirements. ESMA has already started its work on this Level 2 phase with the release of a discussion and consultation paper.[4]

The first compilation of technical advice is expected to be delivered to the European Commission for adoption in Q4 2014. The full regulatory impact for investment firms is expected to begin in 2017, after the transposition of the provisions into national law by EU member states and Switzerland.[4] Despite the two-year implementation period – as seen in Figure 1 below — the burden on investments firms is significant, as MiFID II has wide implications for their operating and business conduct models.

Figure 1: Timetable for MiFID II Implementation



Source: Accenture, December 2014

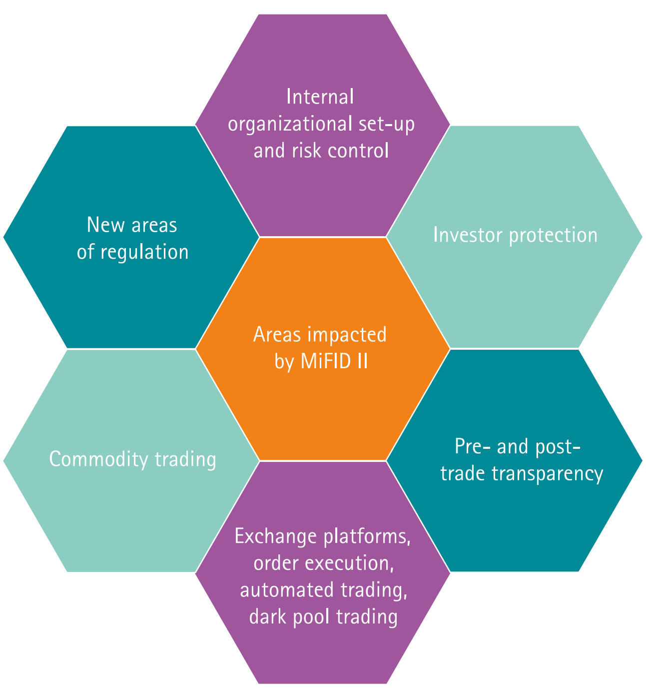
Scope and Key Impact Areas

As we see in Figure 2, MiFID II provides, in our opinion, a comprehensive framework for the provision of investment services (such as brokerage, investment advice, portfolio management, and underwriting) in financial instruments as well as revised rules for business execution in regulated markets.

The regulation covers a broad range of activities and makes changes to existing MiFID I provisions as well as new rules in a number of areas including:[2]

- Investor protection – There are stricter rules taking into account the type of services (for example, whether independent advice is provided, or whether orders are executed) and the classification of clients, with the intention of increasing protection for retail clients. Structured deposits are included within the MiFID II scope and will need to comply with the appropriate business conduct rules. In addition, national supervisory bodies become entitled to ban or limit the sale of certain instruments.
- Pre- and post-trade transparency for all forms of organized trading – The rules include complex pre- and post-trade requirements for both equity and non-equity markets, as well as the extension of the systematic internalizer (SI)[5] concept to non-equity instruments. Under MiFID II all multilateral systems (regulated markets, multilateral trading facilities (MTFs) and organized trading facilities (OTFs) are subject to the same pre- and post-trade transparency requirements. As is the case with reporting of full trade data on swaps to swap data repositories under Title VII of Dodd-Frank Act, the regulation also emphasizes the need for transaction reporting to supervisors via trading venues or Approved Reporting Mechanisms (ARMs) such as trade repositories.
- Exchange platforms, order execution, automated trading using computer algorithms, dark pool trading — Under MiFID II a new type of venue is introduced: the OTF. These OTFs can be used for trading in bonds, structured finance products, emission allowances and derivatives. In addition, stricter rules are imposed to control algorithmic trading and dark pool trading.
- Internal organizational set-up and risk control – As MiFID II is designed to strengthen the internal governance and risk oversight processes. Proof of qualification and expertise from senior management is called for, as well as more involvement in operational risk management and compliance activities.
- Commodity trading — Under MiFID II, supervisory bodies will impose position limits for commodity derivatives. There are also reporting requirements to national regulators for commodity derivative positions. This is similar to reporting of physical commodity swaps under Title VII of the Dodd-Frank Act, to enable regulators to set and monitor position limits with a view to preventing market manipulation.
- Scope Extension – The original MiFID scope covered equities only; MiFID II also covers emission certificates, structured deposits, commodities and high frequency trading (HFT).

Figure 2: Areas Affected by MiFID II



Source: Accenture, December 2014

In our judgment, the level of complexity for implementing MiFID II provisions will differ depending on the type of investment firm (for example, investment banks, asset managers, or retail banks), the market environment, the current operational setup, and how efficiently each market player uses the transition period to lay the internal groundwork for the new provisions and the go-live of MiFID II.

These factors will, in our opinion, determine the potential of each institution to adapt to a tough regulatory landscape and gain competitive advantage by expanding core competencies, winding down unprofitable portfolios and improving client services, and leveraging implementation synergies driven by regulations such as Dodd-Frank, EMIR and the Regulation on Wholesale Energy Market Integrity and Transparency (REMIT) across the impacted areas.

Though regulations vary widely in terms of what they seek to achieve (for example, ensuring capital adequacy versus preventing market abuse), our view is that an integrated approach to implementing them involves identifying common elements that act as factors of convergence (such as governance, policies and processes, data, analytics, monitoring and reporting), and dealing with each common element across regulations to be implemented at a global level.

For example, integrated regulatory reporting will require firms to identify incremental data requirements across changing regulations on an ongoing basis in order to integrate them into the existing data warehouse. This is the type of reasoning that led to the Basel Committee's requirement for aggregating risk data at group level for global systemically important banks.

MiFID II will, in our view, affect investment firms across all major dimensions: people, processes and technology. Implementation costs will also be incurred to incorporate the MiFID II provisions into daily business operations.

Key Challenges from MiFID II and Mitigation Actions

Three Main Challenge Areas of MiFID II

A high-level assessment of the rules on our part has identified three key challenges as shown in Figure 3 below:

Figure 3: Key MiFID Challenges

Challenge Areas of MiFID II	Drivers	High-Level Impact on the Profitability of Financial Institutions				Mainly Affected by Regulation
		Investment Banks	Retail/Private Banks	Asset Managers	Trading Venues	
1. Investor protection	Stricter rules for product design, distribution and for investment advice.	●	◑	●	◔	Investment firms with complex and multiple products.
2. Pre- and post-trade transparency	Clear rules and transparency requirements for SIs, MTFs, OTFs.	◑	◔	◑	◕	Investment firms with a high share of non-equity trading instruments.
3. Internal organizational set-up and risk control	Stricter and extended rules for compliance and risk prevention.	◑	◕	◑	◑	Investment firms (both buy and sell side) with weak compliance and risk functions.

High ● Medium ◑ Low ◔

Source: Accenture analysis, December 2014

Challenge 1: Investor Protection

MiFID II addresses the entire lifecycle of investment products and services. We believe that changes to the investor protection regime will require investment firms to review the delivery of their services and how these fit their client needs.

The main MiFID II provisions affecting investor protection are:[2]

- Stricter rules for product design and distribution (product governance). Investment firms must ensure that they have correctly assessed all factors related to the risks associated with products available for sale under the MiFID II scope; the sophistication of the market they are targeting; and their distribution strategy. Periodic reviews should be carried out to validate the suitability and performance of the products in relation to the target market. When MiFID II comes into force distribution channels will also be closely monitored by the supervisory authorities, who reserve the right to ban or limit the sale of certain products.

Dealing with issues of suitability, in this sense, is a global phenomenon. For example, the rules of the US Securities and Exchange Commission (SEC) and the US Financial Industry Regulatory Authority (FINRA) require US brokerage firms to have a reasonable basis to assess suitability of their buy or sell recommendations.[6] In the UK, the Financial Conduct Authority's (FCA's) business conduct sourcebooks mandate suitability for investment banks and mortgage firms.[6] As suitability requirements that have both business and operating model implications are relatively new, the development of key performance indicators (KPIs) to track compliance at various levels — starting at the top — is essential.

- Provisions for transparent client segmentation. Stronger focus on client classification (such as identifying professional clients, retail clients, or eligible counterparties) determines treatments in terms of information disclosure, reporting and suitability assessment. Customers need to be notified whether they receive independent investment advice or not, along with the requirements for a sufficient range of products that meet investment objectives. The investment recommendation must be driven by the product suitability to the customer needs, and suitability will be monitored even after the sale is closed.

Investment firms executing client orders must provide clients with the execution policy in sufficient detail and in clear language. In addition, they must publish the top five execution venues where they executed client orders in the preceding year, on an annual basis.

Figure 4: Effects of Rules for Investor Protection

Potential Impacts of Investor Protection Provisions (examples)	Processes and Policies	Technology	People
Product design and distribution	Amended policies for evaluation of product suitability to clients and performance analysis. Redesign of processes for product creation, distribution and performance analysis. New policies to define target markets and client segments based on for example product attributes, regulatory relevance, etc.	Implementation of IT solutions to automate product distribution based on regulatory and internal requirements (decision-based engine). Implementation of IT solutions to enhance assessment and reporting of product performance.	Train front-office staff on new policies and processes for product suitability and performance and supporting IT solutions. Train front-office staff on new policies for target markets and client segments. Certification of advisors based on necessary skills and product experience.
Recording of telephone conversations and electronic communications	New policies under consideration by EU and national data protection and compliance requirements. Design of new processes for recording, storing and retrieving telephone conversations.	Evaluation of existing systems. Technology vendor selection. Implementation of IT solutions to automatically record and store telephone conversations with clients.	Train staff on processes for recording conversations and supporting IT solutions.
Limitations of investment benefits	Revision of internal processes concerning legitimacy of inducements received, their calculations and disclosure towards clients both for independent and other investment advice.	IT implementation supporting inducement calculation and disclosure requirements both ex-ante and ex-post transactions. IT solutions informing customers about continuing inducements on a yearly basis.	Train staff on specific requirements for independent and other investment advice concerning inducements as well as disclosure requirements.

Source: Accenture, December 2014

- Limitations on investment benefits (such as kickbacks and inducements from third parties). New limits are in the works, depending on level 2 technical standards and how the new regulation is implemented in the EU member states.
- Recording of telephone conversations and electronic communications. Investment firms are required to take all reasonable steps to record and store – for a minimum of five years - relevant telephone conversations, and electronic communications relating to actual or proposed own account and client transactions. This is similar to the Dodd-Frank requirement relating to retention of telephone and electronic records for five years for derivatives and will generate complexity and high implementation costs due to multiple technical challenges – for instance, how to log customer conversations carried out from mobile devices by advisors or how to store all conversation for a longer period of time.[7]
- There are still open topics to be clarified and detailed in MiFID II such as whether the entire call or just the business-relevant part of the conversation needs to be recorded, or if a video conference with the client is treated the same way as a telephone call. The effect will be more pronounced for smaller investment firms with limited resources to invest in advanced recording technologies. In addition, data protection regulation on both the EU and national levels must be taken into account to ensure appropriate recording and storage of telephone conversations.

As seen in Figure 4, these rules for investor protection will affect all major dimensions of operations. New processes and policies need to be created – for example, for product design and distribution; people (such as client advisors) will require specific training and qualifications and innovative technologies (for instance, for recording of telephone conversations) will need to be in place for greater automation within the business model.

Mitigation of product design, distribution and investor protection requirements

Investment firms need to rethink their business models to make their products and services portfolio compliant with current and future MiFID II requirements. In our view, offering independent investment advice may become a differentiating factor and some banks might fundamentally change their fee models as a consequence of MiFID II.

Coping with all these hurdles generally calls for a "light and simplified" business model with an optimal product and services mix, transparency into customer segments and streamlined business processes. In our experience, to ease the integration of further regulatory provisions, the business model should also be adaptable and flexible.

With these needs in mind, a redesigned business model based on an automated solution can provide a feasible mitigation option. An effective approach we have seen is the set-up of decision engines for classification of customers, certification of client advisors and the automated mapping of customer segments to specific products and services.

We believe customer segmentation could be set up depending on regulatory relevance (for example, if MiFID II applies to a specific customer) and predefined customer attributes (such as domicile, experience with investment products, annual turnover, applicable tax regime[8] and others). The segment types and customer attributes are then integrated into a decision-based client status engine, which builds the segments and assigns customers to specific segments. In our experience, the client status engine must then continuously be monitored, validated and extended to incorporate new information such as regulatory changes or new business segments.

The aforementioned certification of client advisors reinforces — in a transparent manner — the skills and experience of advisors and as we have seen, can be used for the automated allocation of advisors to customer segments. Certification of advisors should be based on specific attributes such as training sessions attended, or experience with certain product categories or customer segments. We believe that changes in the certification status should be tracked over time to ensure a proper match.

In our experience, the product suitability decision engine selects only those products which fully match the requirements of a particular customer segment in terms of customer expectations, risk exposure, complexity and regulatory compliance. The engine also forms the basis for reshaping the product mix or for the design of new products.

The solution could be used as a supporting tool for the definition of a commercial policy consistent with the characteristics and needs of the customers. Indeed, a bank's choices in relation to the budget allocation strategy and the incentive system play a crucial role in the appropriate provision of investment services, as they can affect the behavior of all those involved including employees, tied agents and others.

From our perspective, the ultimate goal of the automated solution is to steer product governance towards full regulatory compliance with the provision of products and services that best meet customer needs. In addition, the automated solution can generate competitive advantages which can improve the market standing and profitability of investment firms applying this approach.

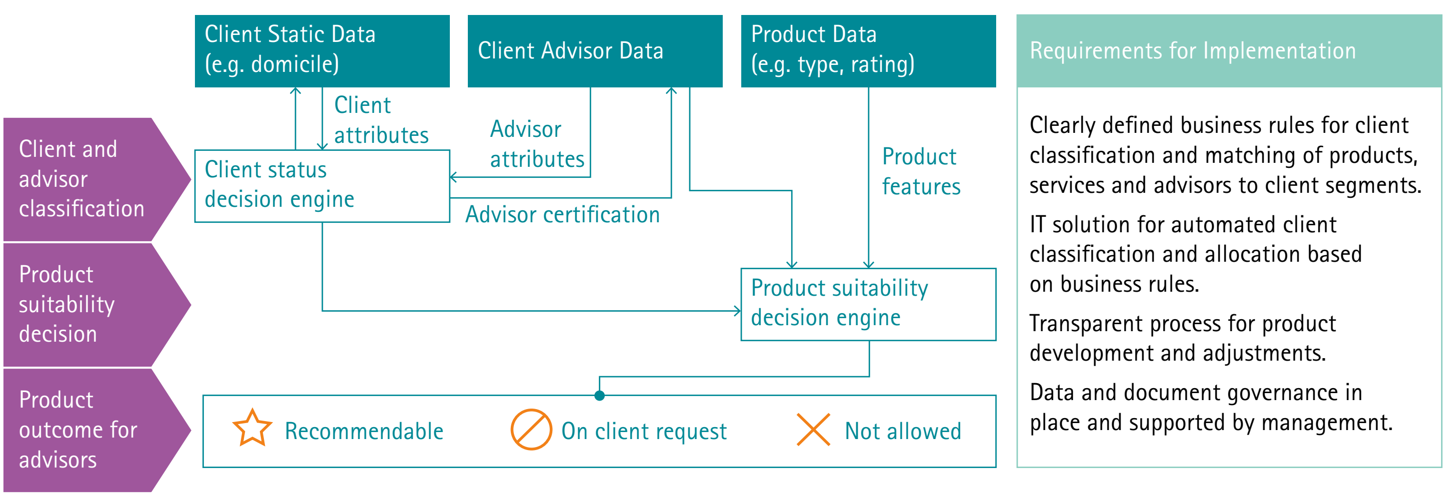
Addressing telephone recording requirements

In our view, to address the MiFID II requirement for recording of telephone conversations and other electronic communication with customers relating to transactions, investment firms have several options to evaluate:

- Internal solution — Investment firms can perform and store all recordings internally. Complying with the recording requirement would demand a deep understanding of available recording technologies and the selection and integration of the most suitable solution.
- External solution — Telephone conversations redirected to dedicated locations, such as call centers with advanced recording capabilities. These locations are operated by an external provider, who records all incoming conversations and provides the investment firms with the records in electronic format. Despite the cost savings, this option has potential disadvantages such as the quality of services provided and the possible affect on customer relationships.
- Elimination of customer order placement by telephone — The direct effect of this option would be a waiver of the recording requirements; however this might also lead to customer attrition and weaker sales performance.

In order to select an appropriate mitigation option for the recording requirement, investment firms should consider as a first step evaluating each option based on clearly defined criteria, performing cost-benefit analysis and then assessing the impact of each option in relation to the business model and performance.

Figure 5: High Level Implementation Design of Automation Solution



Source: Accenture, December 2014

Challenge 2: Pre- and Post-Trade Transparency

Post-trade transparency requirements – common to many regulations including Dodd-Frank — will affect in our view all investment firms complying with MiFID II, as they apply to all forms of trading including over-the-counter (OTC) and all asset classes (both non-equity and equity). For RMs, MTFs and OTFs, MiFIR includes uniform requirements on pre- and post-trading transparency. The spectrum of affected financial products is also extended to include "equity-like products" (such as shares, depositary receipts, exchange-traded funds (ETFs), certificates and other similar financial instruments) as well as "non-equity financial instruments" (such as bonds, structured financial products, emission allowances and derivatives).

MiFID I first introduced the concept of SIs, which were only limited to shares and not compulsory for investment firms. Until now, being classified as an SI was not considered particularly attractive; as a matter of fact only 12 banks EU-wide opted to be SIs, with no German bank among them.[9]

MiFID II now expands the SI concept to bonds, derivatives and structured finance products as well as to a broader range of equity instruments. Instead of the more qualitative criteria set in MiFID I, MiFID II establishes quantitative criteria for SI classification. According to MiFID II, SIs are investment firms that trade the defined liquid financial instrument on a frequent, systematic and substantial basis on their own account when executing client orders outside of exchanges, MTFs and OTFs.[2]

Although pre- and post- trade requirements are extended to SIs, these differ from those for regulated markets, MTFs and OTFs. They will have to make public firm quotes for the financial instruments for which they are SIs and for which there is a liquid market.

For non-equity instruments, this requirement needs only be fulfilled when the SI is asked for a quote and it agrees to provide the quote. ESMA currently consults on the detailed criteria which require investment firms to register as SIs, for example, the definition of what constitutes "frequent trading" or if the liquidity of financial instruments is defined on an ISIN (International Securities Identification Number) or asset-class basis.[10]

Since MiFID I came into force, there has been a legal obligation to report transactions, which continues under MiFID II. However, MiFIR stipulates that it is necessary to harmonize the data records to be transmitted and the method of transmission at the European level by ESMA. In our view, such harmonized data transmission would improve the quality of supervision in all European countries.

Among other things, the processes for bonds, structured products and derivatives must also be taken into account, which entail adjustments of systems and processes across several trading systems of financial services providers.

Mitigation options for systematic internalizers

Investment firms classified as SIs will need to ensure that processes and IT systems provide their clients non-discriminatory access to quotes. (An SI is allowed to decide, on the basis of their commercial policy and in a non-discriminatory way, on the clients who have access to its quotes). Firms that are engaged in trading have to continuously monitor to determine if the SI definition applies to them, and they need to notify their competent authority if they meet the definition. Operators of internal crossing systems for non-equity instruments have to check whether they fall into the category of OTFs, which is associated with trade transparency requirements as well as restrictions to keep the operator neutral. One such restriction laid down in MiFID II is the prohibition to execute orders against the firm's own account, and against operating an SI within the same legal entity as the OTF.[2]

In our view, the effects, especially on the non-equity markets such as fixed income and derivatives, will be significant, as these markets have been largely over-the-counter and dealer markets, with limited trade-by-trade transparency provided.

Since the additional data is required in the processes of more than one business area, it is necessary for firms to implement the new requirements by designing harmonized process and IT services that can be used in every business area – regardless of technologies and systems – in order to make use of synergies in data and process implementation across the entire company.

Challenge 3: Internal Organizational Set-Up and Risk Control

MiFID II provisions affect the internal organizational setup and the risk control mechanisms used by investment firms.[11] One major regulatory requirement is the strengthening of the internal control function through the higher involvement and accountability of executive members in compliance and risk activities. Risk controls should be performed both at the level of operating units and by overarching and independent functions within investment firms. Under MiFID II, we see that the scope of risk control has extended across the entire organization to allow for a more streamlined and effective risk management process.

The extended requirement for investment firms to continuously evaluate regulatory compliance with MiFID II creates a need for extended risk control procedures and measures, but also calls for a consistent risk framework to support the effectiveness and efficiency of these risk control procedures and measures. Therefore, our view is that management and/or executive members have to monitor and manage operational risk that may result in non-compliance with MiFID II. The risk management challenges of MiFID II, for example, can also be applied to trading capabilities and investor protection requirements.

The requirements on trading we believe will also have implications for trading capabilities, with a need for sound control mechanisms on limits, preferably with a high degree of automation. Risk and compliance procedures also should be implemented — even at the trading desk level — and all employees should be familiarized with these procedures. Our perspective is that responsibilities and accountabilities for risk prevention at all levels of management should be regularly verified to ensure that internal supervisory functions are in place and fully working.

We see the enhanced requirements for investor protection and product governance include processes and mechanisms for the regular review of: a) the client situation for risk appetite and risk feasibility; b) the product suitability with respect to investor objectives and constraints and MiFID compliance; and c) the quality of advisory services provided to customers. Item c) is also related to the MiFID II provision for recording of telephone conversations, as these become a valuable information source for conducting quality assessments.

Mitigating actions

In our opinion, addressing the internal risk management challenges of MiFID II calls for the design and implementation of a holistic risk control framework tailored to the size and business complexity of each investment firm. The framework should be standardized and flexible enough to enable the early identification, accurate assessment, ongoing monitoring and consistent reporting of risks. Furthermore, it should lead to a noticeable residual risk reduction of monetary and/or non-monetary losses.

In order to seek these objectives, we believe clear risk related processes, roles, responsibilities and accountabilities should be defined and anchored within the organization. Both internal (such as board members and senior management of business units) and external (such as supervisory and regulatory bodies) stakeholders must approve and commit to the scope and content of the risk control framework. Another essential success factor is the promotion and communication of a strong risk culture within all organization structures, which is fully aligned to the firm's strategy and risk profile.

The risk control framework should follow the "three lines of defense" model, encompassing functions that (1) own and manage risks, (2) oversee risks and (3) provide independent assurance.

We have seen well-defined and efficiently operated risk control frameworks — supported by innovative technology — help investment firms better manage operational risks. These frameworks can also help lower operating losses, make better decisions, reduce the volatility of financial results and improve a firm's image by enhancing customer satisfaction and trust. In our view, the risk control framework can easily be adapted to cover MiFID II and any future regulatory requirements related to the management of operational risks.


MULTILATERAL
TRADING
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ORGANIZED
TRADING
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Opportunities Arising from MiFID II

In addition to the challenges described in previous sections, there are also numerous opportunities available to investment firms throughout the analysis and implementation phases of MiFID II.

The opportunities in our view fall into five main categories:

- Improvements in the way of conducting business – These improvements can come from a stronger focus on improving the quality and method of services provided, driven by the need to comply with stricter MiFID II requirements. This can be performed through a custom tailored suite of services and/or products based on the chosen client classification, leading, in our view, to greater customer retention and increased customer satisfaction. An additional factor contributing to these improvements is greater transparency throughout the business, which can help reinforce the firm's image as a trustworthy partner for investment firms in full compliance with MiFID II.

  In the area of client service, we have seen some clients in the investment industry introducing a higher level of automation for their internal processes, which will help their client advisors reduce their manual workload and redirect their focus to the actual advisory service.

- Increase in revenues – Although financial institutions will incur costs related to the implementation and operation of MiFID II provisions, the additional revenues for investment firms can, in the medium to long term, offset the impact on profitability. In our view, the impact of MiFID II on product governance may also lead to higher revenues, as investment firms may design and distribute better client-tailored products and services with the potential to gain additional market share and higher customer penetration.

- Reduction of operational costs – We believe that MiFID II offers new opportunities for rationalization of operations and potential reductions in operating costs. The reduction in operating costs can come from the digitization of processes and workflows, avoidance of redundancies across the value chain and better use of available human, technological and financial resources.

- Strengthened risk governance and internal controls, and reduction of poor practices - Risks associated with the products and services offered by investment firms may decrease due to greater surveillance from regulatory authorities. In addition, our view is that the management bodies of investment firms should be more involved in compliance and risk management activities, which can further strengthen internal corporate governance. This may result in a lower number of risk cases and corresponding benefits for risk-aware investment firms, which fully abide by the MiFID II requirements.

- Reduction of costs for reporting infrastructure - By identifying data synergies between global reporting regulations (such as EMIR trade reporting and FCA transaction reporting), and building centralized regulatory reporting engines, we believe compliance with MiFID II helps avoid the additional effort of maintaining a decentralized reporting infrastructure. Centralized repositories can also promote data quality and data exploitation, especially for CRM (customer relationship management) and market data, which can lead to additional revenue through cross selling while reducing the risk of financial and reputation loss for investment firms.

Successfully Mastering a MiFID II Implementation

We believe that the key components for a favorable and timely implementation of MiFID II are: a clear strategic vision of the future operating model, a detailed action plan for implementation, a dedicated team of specialists, and clearly defined roles and responsibilities for execution. In addition, an "end-to-end" perspective is essential in our view, from identifying the business implications of MiFID II to analyzing the interdependencies of requirements with other global and EU regulations (such as Market Abusive Directive "MAD" II, EMIR, REMIT, Dodd-Frank and others) in order to identify synergies, to developing the implementation concepts and finally to the detailed planning of specific project tasks.

Organizations should consider tackling MiFID II implementation as a change program that can have far-reaching implications across various areas. This approach should be supported by a solid communication and training strategy aligned to reasonable regulatory compliance. Engagement from the affected business areas and executive buy-in are crucial to successfully help transform the program objectives into the conduct of everyday business.

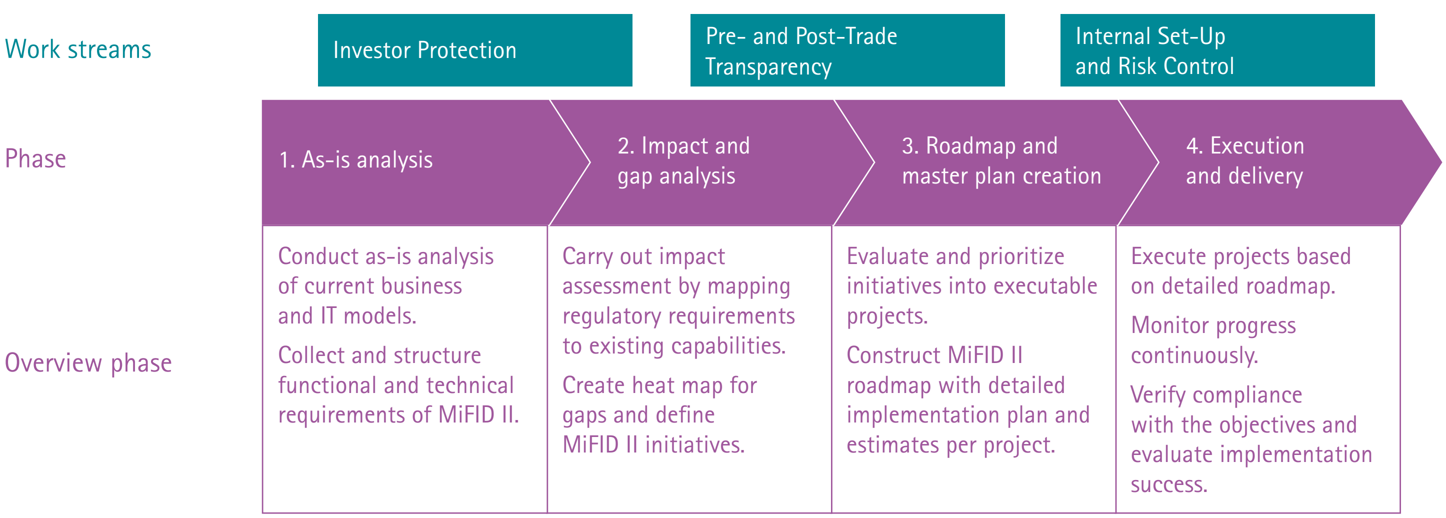
Due to the complexity of MiFID II a granular approach towards tackling the regulatory challenges is advisable, with three independent work streams in close collaboration: investor protection, pre- and post-trade transparency and internal organizational set-up and risk control. As seen in Figure 6, interdependencies, leveraging opportunities (such as similar project tasks) and integration requirements between work streams will take shape during the first two program phases ("As-is analysis" and "Impact and gap analysis").

Phase Three — "Roadmap and master plan creation" — includes consolidated regulatory initiatives across all work streams, which can then be organized into executable projects to implement all MiFID II requirements by the beginning of 2017. The creation and selection of executable projects should be based on a transparent and fact based (preferably business case driven) decision-making process. This process can also help identify expected implications on a firm's strategy, organization, business processes and IT.

Companies should also consider a dedicated roll-out plan for the MiFID II implementation to help integrate the results efficiently into different departments and international locations. Starting with a pilot program, particularly when many trading desks or locations are concerned can help reduce operational risks. The execution and delivery of projects takes place in the last program phase and requires close monitoring of the roadmap delivery progress as well as compliance with overall project objectives.

In the overall MiFID II implementation a high degree of flexibility in the organization as well as the technical implementation is required in our view. The regulatory landscape is changing fast and should be monitored consistently to help quickly identify topics that affect the roadmap and the product setup. A modular technical implementation approach is strongly recommended to help keep implementation and adaptation costs at a minimum and ensure full compliance.

Figure 6: An Approach to the Challenges and Opportunities of MiFID II



Source: Accenture, December 2014

Outlook and Next Steps

It has been more than 2 years since the EU Commission published its draft for the regulation (MiFIR) and the directive (MiFID II). During that period, investment firms have heavily invested in implementing and complying with other global regulations such as Dodd-Frank and EMIR. The final version of MiFID II went into force in July 2014 and allows investment firms to act until the beginning of 2017.

The time remaining for meeting MiFID II requirements is not as generous at it seems at first sight. Financial institutions should now be considering the ramifications for business strategy and operations, and act accordingly, while ESMA and the European Banking Authority draft the technical details and fill in the missing parts in the final text of MiFID II.

It remains to be seen whether investment firms will leverage their past experience to establish the appropriate governance structures, and provide sufficient resources and budget to avoid the implementation havoc that previous regulations caused.

How Accenture Can Help

Accenture has worked with numerous global financial institutions to help clients navigate the challenges of regulatory topics. With this wealth of experience, Accenture is well suited to help financial institutions chart a course in the MiFID II landscape.

Notes

1. "Markets in Financial Instruments Directive (MiFID II): Frequently Asked Questions," European Commission, press release, April 15, 2014. Access at: http://europa.eu/rapid/press-release_MEMO-14-305_en.htm?locale=en.
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8. Decision engine can be extended to account also for further regulatory specifics e.g. for applicable tax regime.
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11. Investment firms are required to define a dedicated program to monitor their compliance with MiFID II.


RISK
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