

OCTOBER 2017

Below are a number of popular questions we are getting in regards to MiFID II. If you have any further questions please email us at mifid@7im.co.uk.

Please note that the answers below represent 7IM's interpretation of requirements. We have taken all reasonable care to assess the rules and put them in the appropriate context for the business which we handle. However, these interpretations should not be considered to be advice and we are not in a position to take responsibility for them and the way in which they relate to the business of advisers. Your own compliance functions and support providers, where appropriate, should remain your primary source of assurance on how relevant regulations apply to your business.

Transaction Reporting and Legal Entity Identifiers (“LEIs”)

1. How will you be assisting advisers with their transaction reporting requirements?

Transaction reporting will be completed by Pershing Securities Limited on behalf of 7IM for all relevant transactions which we execute. Unless otherwise agreed this process will apply to all such transactions.

2. Which transactions are subject to reporting requirements

If an instrument has a listing on a recognised stock exchange then all transactions in that instrument will be reportable, regardless of whether a specific transaction was carried out on exchange.

3. Who do you need to provide an LEI for?

LEIs are required for all clients, subject to the notes below, who are not natural persons; e.g. trusts, corporates, charities etc. if they wish to execute transactions in any listed securities.

4. Do bare trusts require an LEI?

Bare trusts are exempt from obtaining an LEI. For these clients we will need to report the beneficiary using the same data as for natural persons. Therefore in these instances we will need the firm to confirm the following details for all beneficiaries and the trustees who will be recorded as a decision maker so that we can capture this on our records.

First Name
Surname
Date of Birth
Nationality
MIFID ID

MIFID ID that is required to be recorded depends on the individual's Nationality.

For GB Nationals the MIFID ID is National Insurance number. Only if the beneficiary/Trustee has never been issued with a National Insurance number then can we use CONCAT, which is combination of personal details.

5. From when will you be requesting Legal Entity Identifiers (LEIs) from advisers and eligible investors?

We have requested that all advisers review their client accounts and arrange with clients to obtain an LEI if required. Advisers will also need to take this into account for any new business and make sure clients are aware of how this could affect them in the future. 7IM has provided lists of affected clients based on your current clients who hold listed securities and require an LEI. If you have not received a list please do request this from your Relationship Manager.

Without an LEI on our records the client will not be able to trade in listed securities, even if they already hold them. We would encourage all LEI applications to be made as soon as possible as it seems very likely that there will be a significant rush towards the end of the year.

6. How will adviser LEIs be recorded and what reporting will be available?

We record these on our internal systems to ensure appropriate trade blocks will happen. This will also be recorded in Pershing as all transaction reporting is completed by them. We will be requesting information from adviser practices to request the LEI of practice and decision maker information and relationship with the client.

7. Are Family/Individual Trusts deemed Legal Entities, and therefore require an LEI to continue investing in our model portfolios?

Yes, these accounts will need an LEI.

8. If a DFM invests in a portfolio for a company or a Trust which consists entirely of Collective Investment Funds, is an LEI required?

The short answer is no, as the transaction reporting for which the LEI is required for only covers listed securities, although you should be aware that some collective investment schemes do have stock exchange listings. In the future if listed securities will be traded then an LEI will be required.

9. As an advisory firm will we require our own LEI?

You will need to provide us with your firm level LEI if you:

- trade in any market traded securities for your clients
- use the 7IM Model Portfolio Service for your clients
- use the 7IM Managed Investment Service for your clients
- use an external Model Portfolio Service for your client which includes market traded securities

We do not require an LEI from you in the following circumstances:

- You solely use the 7IM Discretionary Service
- You use the 7IM Platform and your clients only invest in collectives
Please remember that if you do not provide us with an LEI we will not be able to transact any trades for your clients on any current market traded securities they have or any they may wish to invest in at a future point in time. This will also mean that your clients will not be able to invest in 7IM model portfolios or any external model portfolios which include market traded securities.

Client Reporting

10. What information will you provide on costs and charges to help advisers to meet their obligations to provide upfront and ongoing aggregated costs and charges information (in £ and % terms) to their end investor clients?

We will be receiving a feed of all the costs and charges information for investments available on the 7IM platform, this information as provided by the underlying product provider/fund manager will be able to be accessed via the 7IM platform.

We are currently enhancing our illustration tool to incorporate these costs and charges.

For the 7IM fund range we will be making available via our website all costs and charges information for each of our funds.

When accessing the 7IM fund range on external platforms the relevant fund costs and charges will be provided to the external platform by 7IM. The platform will be in control of how they make this information available but at all times all information on the 7IM funds will be available via the 7IM website.

Periodic statements provided to clients on a quarterly basis as required will incorporate costs and charges information. More detailed information will be available on request from the beginning of 2019 which we believe will be the industry standard approach.

11. Which clients need to be notified of a 10% portfolio valuation drop?

Our interpretation of the rules is that this rule applies when client portfolios are managed under discretion. That would also apply to model portfolios unless the offering is structured to require client approval for transactions within the model.

12. What is the definition of a portfolio, is this at client, wrapper or fund level?

Our interpretation is that the requirement applies at individual wrapper level. Therefore if a client held, for example, a GIA, an ISA and a SIPP, a report would be made for each of those portfolios separately when appropriate.

13. How will you identify a fall of more than 10% in DFM portfolios held on your platform to help DFMs to meet their obligations?

We are developing logic to identify clients on a daily basis with a 10% or more drop in market value in any of their discrete portfolios; e.g. bonds, pensions. ISAs, GIAs etc.

14. How and when will notifications of falls of more than 10% be communicated to DFMs, advisers and investors?

7IM Discretionary Clients

Clients affected by a 10% drop will be notified that day via letter.

Clients on the 7IM Platform using Discretionary Models

The client's adviser will be notified of the 10% drop and it will be the adviser's responsibility to notify the underlying client. The third party discretionary manager will have no knowledge of the underlying client, the adviser has the relationship with the underlying client and hence the responsibility to notify the client.

Periodic Reporting

15. From when will you facilitate quarterly reporting?

Provision of quarterly reports will commence from Quarter 1 2018.

16. How will this be facilitated? E.g. paper only, online, automatically etc?

Quarterly reports are available online for all clients to access. It is a simple process to turn off paper reporting. We will require an email address for the client to ensure that they are notified via email when their quarterly report is available for them to access online. We hope to move this form of reporting onto an electronic basis for many clients and would encourage advisers to provide email contact details to us wherever this may be appropriate.

17. How do you identify and mitigate conflicts of interest?

All individual members of the Management Committee are required to review their areas of specific responsibility to identify actual and potential conflicts of interest. The embedded and procedural mitigating factors are confirmed as appropriate by the relevant manager and testing of their effectiveness is incorporated in compliance monitoring programmes.

Research Payments

18. What is your approach to funding research required by your investment managers?

7IM has always funded the vast majority of its research requirements from its own resources. Now that broker charges will be wholly unbundled from payments for other services we will bear the costs of all research material. We do not expect this to have a material impact on overall fund charges as most brokers have provided an unbundled charging structure for some time.

Telephone recording

19. I understand the FCA has reduced its requirements for call recording. What is the impact?

The rules now include a provision that Article 3 firms, essentially advisory only firms who do not have permission to hold client money and assets, do not need to record communications. The full definition should be assessed by firms before concluding that it applies to them. The FCA's requirement now is for contemporaneous written notes to be made and retained.

20. Do the contemporaneous written notes only relate to calls where transactions are agreed?

Contemporaneous notes must be made when a transaction is contemplated. This seems logical as taking no action can be just as significant as taking action.

21. What is your policy on telephone recording?

All office telephones within 7IM have always been recorded. The records are used for a variety of purposes including training and dispute resolution. Post MiFID II this policy will be extended to cover the use of mobile phones for business purposes and we will also enhance the recording of electronic communications which relate to transactions.

22. Suitability reviews must be conducted annually. How will that work in practice?

For our discretionary clients we will continue to rely on advisers wherever possible and appropriate to do so, bearing in mind our own obligations which are principally to receive and review enough information to enable us to make a full assessment of suitability. We are making progress to automate the process, primarily through the playback of key data to advisers and clients.

Product Governance

23. How will you identify complex and non-complex products?

We will be obtaining a feed of information from an external supplier which will show complex products. If an adviser is placing a transaction on behalf of a client without giving advice i.e. the adviser is placing the trade as an execution only trade then the adviser will be asked to confirm that an appropriateness check has been carried. Appropriateness checks are only required for instructions executed on a non-advised basis.

For advised trades into complex products it is assumed that the adviser will have undertaken client suitability and hence providing a personal recommendation, so no appropriateness check is required.

24. What information will you provide to advisers regarding a fund's target market (and the target market assessment undertaken) and how will this be presented?

For the 7IM fund range we will be identifying and communicating the target market for each product to all distributors. This will be on our fund factsheets and also the European MiFID II Template which we will be making available for each of our products. We will also be ensuring that we continue to work closely with firms who buy our funds and ensure that they have the relevant target market information.

For all third party funds available on the 7IM platform the fund factsheets will be available to both advisers and clients via the 7IM platform. Any further detailed information that an adviser requires will need to be obtained directly from the product provider.

25. How will you provide information to advisers on your own product approval and monitoring process where applicable?

We work closely with firms who buy our products and we will ensure that we are developing products in line with our target market. We have a formal proposition steering committee process where business cases are signed off at management committee level and ongoing monitoring process to ensure we are delivering for our target market. Our product governance process for exiting products has been enhanced to ensure that those products remain suitable for their intended target market.

26. Can you clarify the use of the EMT? Is it a document given to the end client or just between the provider and platform to share cost information which eventually makes it to the illustration?

There is no requirement to give this document to an end client. Various pieces of information contained on the EMT is required to be made available to clients such as the costs and charges. The information provided regarding the characteristics of products and their identified target market are intended to facilitate appropriate distribution of those products.