

# MiFID

## Overview and Summary of Key Requirements

The Markets in Financial Instruments Directive (“MiFID”) will replace the Investment Services Directive which was adopted by the European Parliament in 1993. MiFID is a comprehensive regulatory regime which will affect how firms carrying on investment business and ancillary activities will organise their internal systems and controls and how they will conduct business with their customers across Europe.

MiFID is a key element of the European Union’s Financial Services Action Plan which was designed and intended to facilitate the integration of Europe’s financial markets, enhance investor protections and attract new investors to the EU capital markets.

MiFID will come into force from November 1, 2007.

MiFID covers three basic areas:

- :: **Conduct of business:** which includes rules governing best execution, client categorisation, suitability/appropriateness, inducements, investment advice, commodity derivatives, reporting requirements, client order handling, marketing and transaction reporting.
- :: **Organisation:** which includes rules regarding licensing, cross-border passporting, compliance arrangements, risk management, outsourcing, record-keeping, client assets and client money, conflicts of interest, systems and controls, auditors, controllers and governance.
- :: **Equity Market Transparency:** which includes rules regarding systemic internalisation, pre-trade transparency and post-trade transparency.



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## Key Requirements



The following is a high level summary, and is not intended to be an exhaustive list of MiFID's new regulatory requirements. JPMorgan has provided this information as a guide to areas which may be of particular interest to its clients.

**Systematic Internalisation & Pre-Trade and Post-Trade Transparency.** In the cash equity product, MiFID introduces completely new pre-trade transparency requirements for investment firms who on an organised, frequent and systematic basis deal on their own behalf by executing client orders outside a Regulated Market (such as the London Stock Exchange) or an MTF. These investment firms or "systematic internalisers" must, on a continuous basis, provide firm bid and/or offer quotes up to a standard market size for all potential buyers or sellers in 'liquid' shares. MiFID will extend the scope of post-trade transparency requirements for completed trades in shares by requiring the publication of the price, volume and time of those trades as close to real time as possible (with delays for large risk trades).

**Best Execution.** MiFID best execution rules require that firms take all reasonable steps to obtain the best possible result when executing orders on behalf of clients. JPMorgan is also required to provide its professional clients with details on its Execution Policy.

**Client Classification and documentation.** MiFID distinguishes between three types of client: retail, professional and eligible counterparty. The level of regulatory protections owed to a client is determined by the client type.

**Client Suitability and Appropriateness.** MiFID requires an assessment of the suitability of a client investment in all instances where investment advice or discretionary management is provided. The suitability assessment covers a client's knowledge and experience, financial situation and investment objectives. For other services, firms must ensure their services or products are appropriate by considering the knowledge and experience of the client.

**Transaction Reporting.** MiFID harmonises and broadens the scope of current transaction reporting requirements to include any instrument admitted to trading on a Regulated Market.

**Conflicts of Interest.** MiFID requires a firm to: take all reasonable steps to identify conflicts of interest between itself and its clients and between one client and another; keep and regularly update a record of conflicts that may arise in each business area; have effective organisational and administrative arrangements in place to prevent/manage conflicts of interest; where those arrangements are not sufficient to ensure that risks of damage to a client's interests will be prevented, disclose clearly the general nature and/or sources of that conflict; and prepare, maintain and implement an effective conflicts policy setting out the types of conflicts that need to be managed and the methods adopted to manage those conflicts. JPMorgan's existing conflicts policies and procedures are consistent with these requirements.

**Organisational requirements.** MiFID organisational requirements are more extensive than the current regime and cover outsourcing, conflicts of interest, governance and internal systems and controls. The new rules of the UK regulator (FSA) are now "principle based" rather than "rules based". MiFID organisational requirements also extend the range of activities and instruments covered by an EU "passport" and prescribe new rules for the supervision of firms using the passport. Firms established and authorised to do business in one Member State (the "home state") use the passport to conduct business from a branch in another Member State (the "host state")

