

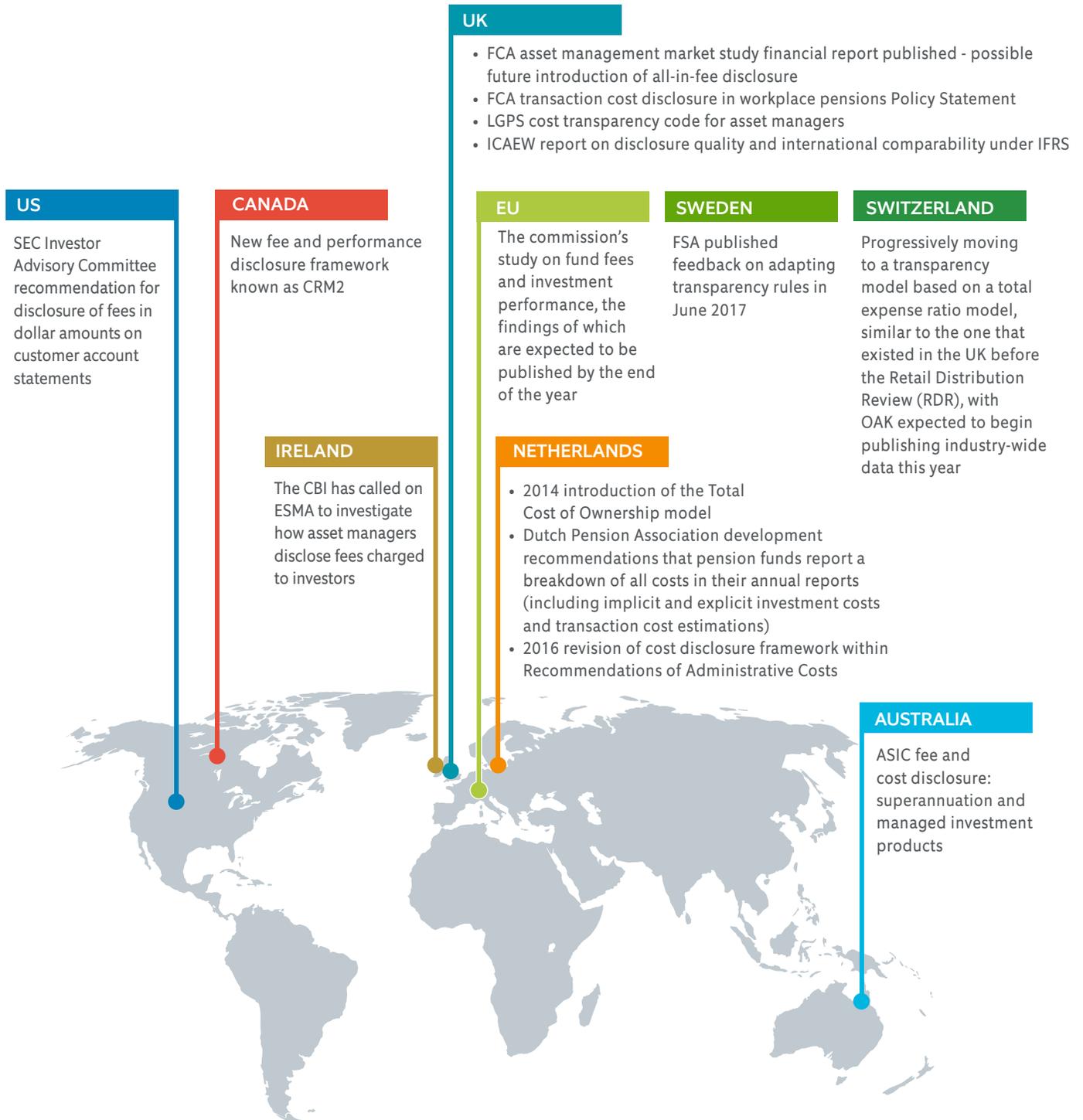
# THE RISE OF TRANSPARENCY REGULATION

In order to provide pension funds, end beneficiaries and retail investors with more value for their investments, global efforts have focused on achieving transparency through the disclosure of standardised information to clients and investors.



There is now also an increasing drive at national level to implement legislation mandating further disclosure, particularly around costs and charges information.

Examples of national efforts in this space include:



## WHAT ABOUT EUROPE?

Whilst much of the European legislation implemented since 2008 has focused on enhanced transparency, none has gone so far as PRIIPs<sup>1</sup> and MiFID II<sup>2</sup> in mandating cost & fees disclosure.

PRIIPs regulation focuses on transparency for retail investors, ensuring they have an understanding of the key risks, costs and product features to enable comparison ahead of investment. Specifically, the regulation mandates the use of a key information document (KID).

MiFID II applies to firms providing or distributing investment services or distributing financial instruments. Under MiFID II, there are pre-investment (ex-ante) and post-investment (ex-post) disclosures required to be made to clients. The level of information required to meet both obligations is significant. Looking specifically at the pre-investment obligations, MiFID II requires:

Investment services firms to disclose all costs & charges related to the provision of the investment service and associated with the manufacturing and managing of financial instruments.

In relation to the latter, the following must be disclosed under MiFID II:

- All costs relating to management of the financial instrument
- All costs paid at the beginning or at the end of an investment
- Costs associated with the acquisition or disposal of investments, such as broker commissions, exit charges paid by the fund and stamp duty
- Performance fees

**Firms that manage financial instruments** (including collective investment schemes such as UCITS and AIFs<sup>3</sup>) will have no MiFID II obligation to provide investors with this detail on costs & charges. However, investment services firms are obliged to disclose to their clients all costs relating to the manufacturing and management of the financial instrument. As a result, AIFMs/UCITS managers will likely receive data requests to facilitate the need for others to meet their regulatory obligations under MiFID II.

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## What is a financial instrument?

- Transferable securities
- Money market instruments
- Certain derivative contracts as specified in MIFID II
- Units in collective investment undertakings (e.g. UCITS and AIFs)

Please note - this is not an exhaustive list

<sup>1</sup>The Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation

<sup>2</sup>The revised Markets in Financial Instruments Directive (MiFID II) and new Regulation (MiFIR) – usually collectively referred to as MiFID II

<sup>3</sup>These are in scope of the definition of financial instrument in MiFID II

THE USE OF PRE-INVESTMENT DISCLOSURE DOCUMENTS KI(I)Ds IN MEETING MIFID II EX-ANTE DISCLOSURES



**PRIIP**

The PRIIPs Regulation was written to correspond with MiFID II. As a result, the KID contains sufficient pre-sale disclosure to allow those providing MiFID II services to utilise this information in meeting their MiFID II costs & charges requirements.

The KID will contain all costs & charges information required for MiFID II compliance; manufacturers of products in scope of PRIIPs are unlikely to need to provide further detail to MiFID firms to enable them to meet their requirements.



**UCITS**

The UCITS Key Investor Information Document (KIID) lacks the information required under MiFID II on transaction costs.

Although this information is contained within the PRIIPs KIID, UCITS are not only currently exempted from the requirements but also prevented from choosing to issue a KID instead of a KIID until the expiry of this exemption (31 Dec 2019).

Managers of UCITS will therefore need to provide information on costs beyond the level required for KIID disclosure to enable MiFID firms to meet their requirements.



**NON-UCITS**

Non-UCITS products that would be in scope of PRIIPs other than that they are not sold to retail investors are still a financial instrument under MiFID, so in spite of no KID being required, manufacturers of such products will still need to provide MiFID firms with the level of detail on the previous page:

- All costs pertaining to the management of the financial instrument
- All costs paid at the end of an investment
- Costs associated with the acquisition or disposal of investments (broker commissions, exit charges paid by the fund, stamp duty, etc.)
- Performance fees

Although there are discrepancies between the different disclosure requirements, there are at least industry efforts to build templates to assist with the data sharing obligations brought about by each. The European Working Group has designed the European MiFID Template (EMT) with the aim of standardising the data to be provided by fund groups to platforms and advisers to help them deliver client reports under MiFID II. The EMT was endorsed by EFAMA in August and includes ex-post information as well as ex-ante disclosures.

The European PRIIPs Template (EPT) has arisen from an initiative driven by investment industry bodies to develop a standardised methodology for distributing PRIIPs information between themselves and to insurance entities. The EPT contains the minimum information required from asset managers in order for insurers to be able to produce the KID.

The Comfort European PRIIPs template (CEPT) contains additional information that can be used, for example, by the multi-option PRIIP (MOP) manufacturer for performing calculations.

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