



MiFID II—Regulatory requirements have a major impact on the securities business model of banks

Facing the challenges while considering regulatory and business-political issues

Summary in Swedish:

MiFID II kommer att ha stora konsekvenser. Implementationen kommer att leda till ökad komplexitet och ökade kostnader, men särskilt intressant är dess påverkan på affärsmodellerna. Speciellt påverkas befintliga affärsmodeller för rådgivning, som kommer att behöva genomgripande förändringar för samtliga kundsegment. Vidare påverkas marknaderna för finansiella instrument genom utökade krav på transparens, nya regleringar av algohandeln (särskilt högfrekvenshandeln) och introduktion av den nya handelsplattformen OTF. En förväntad konsekvens är att fler finansiella instrument (särskilt derivat) kommer att handlas via tredjeparts handelsplattform istället för OTC. Det rekommenderas att göra en noggrann analys av strategi, nuvarande situation och framtida mål för att finna affärsmodeller och anpassningar till MiFID II som minimerar kostnadsökningar och uppehåller eller ökar intäkter.

Due to extensive auditing, documentation and reporting duties, the implementation of the MiFID II requirements will lead to an increase in complexity and costs—as experienced before in the wake of other regulatory initiatives. However, MiFID II has added an important aspect to the regulation of the securities business: influencing the business model. In this context, one of many things that has to be reviewed is whether existing remuneration systems can be maintained in the future. Inducements and commissions are an integral part of a bank's securities revenues and one of the key topics of the MiFID II regulations. In order to avoid a drop in revenues and to ease the cost pressure, it is recommendable to address and strategically assess the main fields of action.

Using the leeway provided in the MiFID II regulations, negative impacts for the business model can be minimized. Here, the focus is on the following areas:

- Against the background of the regulatory field of investor protection, existing **advisory models** need to be critically reviewed. For example, a financial services provider is not forced to declare itself “independent” and to thereby commit to offering a wide range of products and to refraining from charging commissions from product suppliers. If the company cannot or does not want to refrain from charging commissions from third-party providers, or if it prefers to offer only a limited range of products, it has the option to declare itself “non-independent”.
- In view of the increasing complexity, the **advisory process** also requires reviewing. Aside from the general question of how the support of the investment advisor can be ensured when adhering to MiFID II requirements, this area, too, offers room for individual solutions. For example, there is a possibility to offer customers active monitoring of their portfolio by means of an “periodic suitability test”. If there is no customer demand to that effect, only a “onetime suitability test” is obligatory upon concluding the transaction.
- If fixed-price transactions or trading OTC derivatives are a crucial element of the business model of the institution in question, a closer look at the topics **systematic internalization** and **OTF platform** may be beneficial. Depending on the respective volumes, it should be examined whether it would be more profitable to build an own infrastructure or to cooperate with a third-party provider.

In view of this scope for individualized action, a holistic analysis and, if necessary, a readjustment of the securities business are recommendable. This readjustment is typically based on the following cornerstones:

- A **clear securities strategy** forms the basis for any readjustment. It defines not only the strategic guidelines with regard to the advisory model or the adjustment of fixed-price transactions/OTC trade, but also underlines the company's commitment to the active securities business. In this context, a critical review of the service and product portfolio based on the respective customer demand and the corresponding customers' willingness to pay constitutes the key aspect.
- Based on the securities strategy, the necessary steps for the **transformation** of the **sales architecture** have to be defined. In addition to the revision of the advisory process for the purpose of developing an efficient concept for advisory meetings, customer communication should also be taken into account here. This can be improved, for example, by combining physical and virtual sales channels in a multi-channel approach.
- Since the proper understanding of roles is a key success factor in sales, possible causes for uncertainty should also be taken into careful consideration. In this context it is often recommendable to **build** a clear **service architecture**, in order to support investment advisors with the compliance with regulatory requirements and to sustainably enhance their roles as securities specialist.

Business policy adjustments will only be successful if the individual steps are aligned for an all-encompassing compliance with the MiFID II requirements. The identification and closing of gaps between the current setup and the MiFID requirements also play a crucial role.

Preparing for the changing framework conditions under MiFID II thus includes two steps which need to be well-coordinated: On the one hand, the need for adjustment of processes, systems and structures needs to be clearly identified and the corresponding adjustments need to be implemented. On the other hand, the sustainability of the securities business needs to be ensured by means of a systematic assessment based on business policies and a readjustment, if required.



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