

MiFID II Impacts in Private Banking

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Abstract

- The following report tries to analyze the impact of the new MiFID II regulation on a sample of 4 clients' portfolios of the Credit Suisse International Wealth Management branch in Portugal. This will be done with focus on the new product availability to retail clients and considering various scenarios of allocation and risk level. The main objective is to deduce how significant will be the impact before and after applying the proposed solutions. This was done to help the Relationship Managers to better prepare for the challenges rising in 2018.

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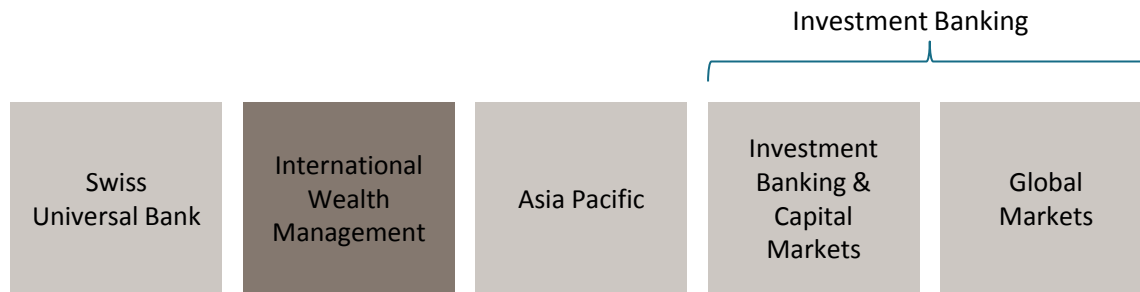
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Literature Review – Credit Suisse & MiFID II

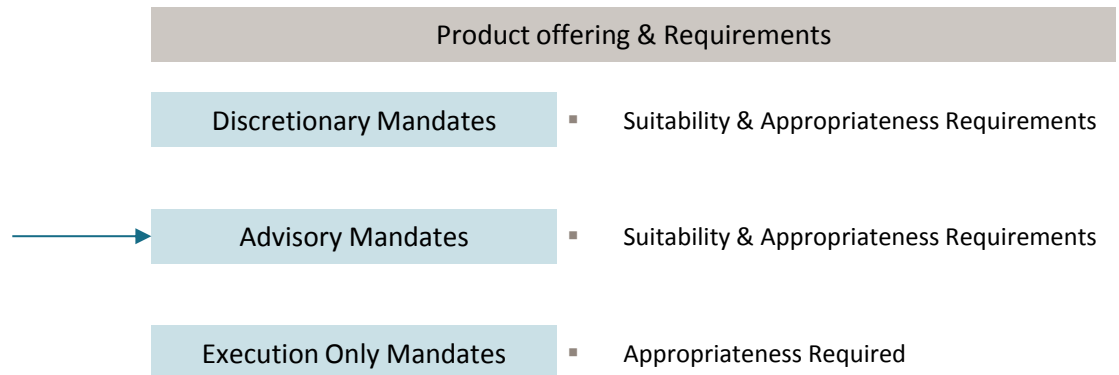
Credit Suisse's Business Model

Structure

- Three regionally focused divisions and two divisions specializing in investment banking.



Its Private Banking business offers comprehensive advisory services and tailored investment and financing solutions to wealthy private clients and external asset managers in Europe, the Middle East, Africa and Latin America, utilizing comprehensive access to the broad spectrum of Credit Suisse's global resources and capabilities as well as a wide range of proprietary and third-party products and services.



Credit Suisse's Business Model

Structure

Suitability

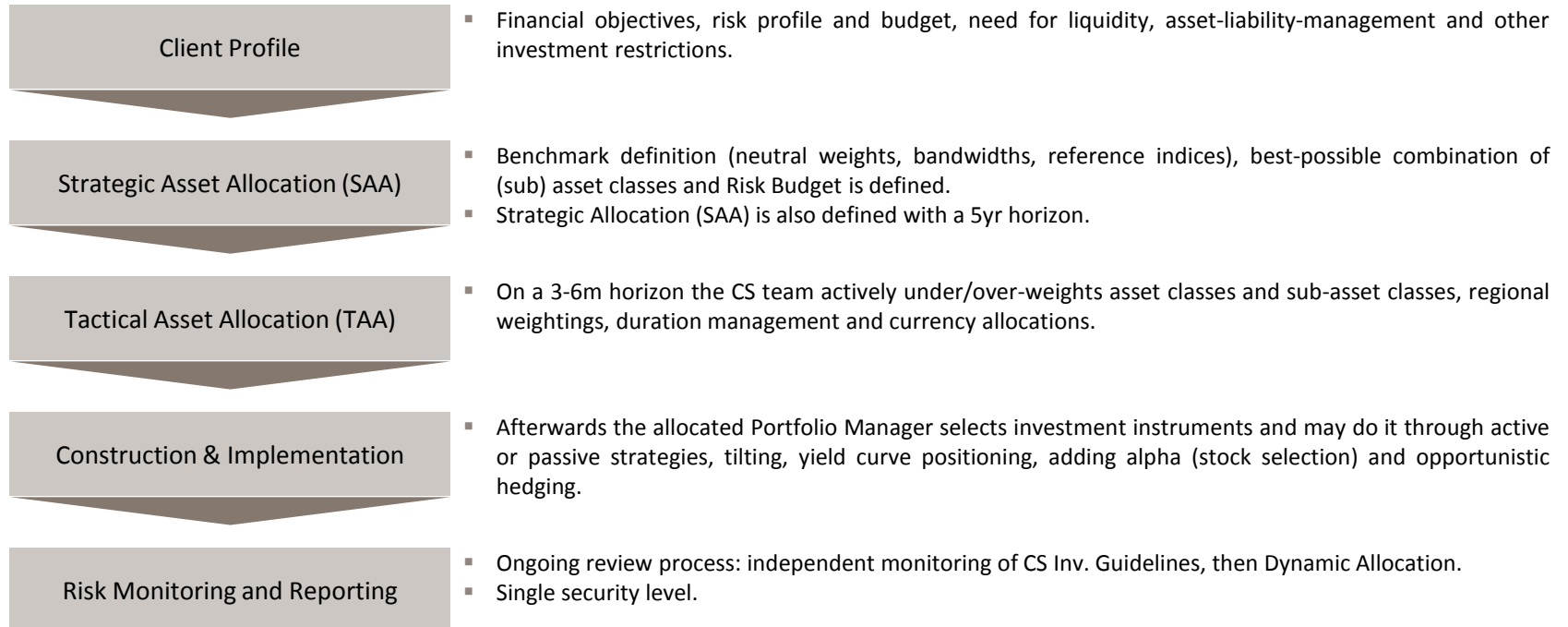
- Sufficient information must be obtained to understand the essential facts about the client in order to assess the suitability of any investment advice or service provided.
- The following information is therefore required:
 - Knowledge and experience in relation to the product types provided
 - Financial and other relevant information
 - Risk capacity and risk tolerance
 - Investment objectives/profile particularly investment horizon.
- There may exist necessity for tighter standards for clients who are financially unsophisticated, or lessened suitability standards for those clients who are financially sophisticated.

Appropriateness (usually for non-advised orders)

- For product Development and approval, the products must be suitable for their target market, this is measured through:
 - Complexity
 - Liquidity limitations
 - Intended method of distribution
 - Potential downside risks
- Proper records must be kept for both advised and non-advised orders.
- There is responsibility from employees and supervisors on keeping the requirements above.

Credit Suisse's Business Model

Product Offering: Discretionary Mandate



Independent Monitoring of Credit Suisse Investment guidelines and Client guidelines.

Dynamic Asset Allocation is implemented with attention to diversification, tracking error, volatility analysis, shortfall analysis and stress tests (Market Risk).

Single security level, a set of analysis is made in an ongoing basis: fundamental, technical, liquidity, credit and rating analysis

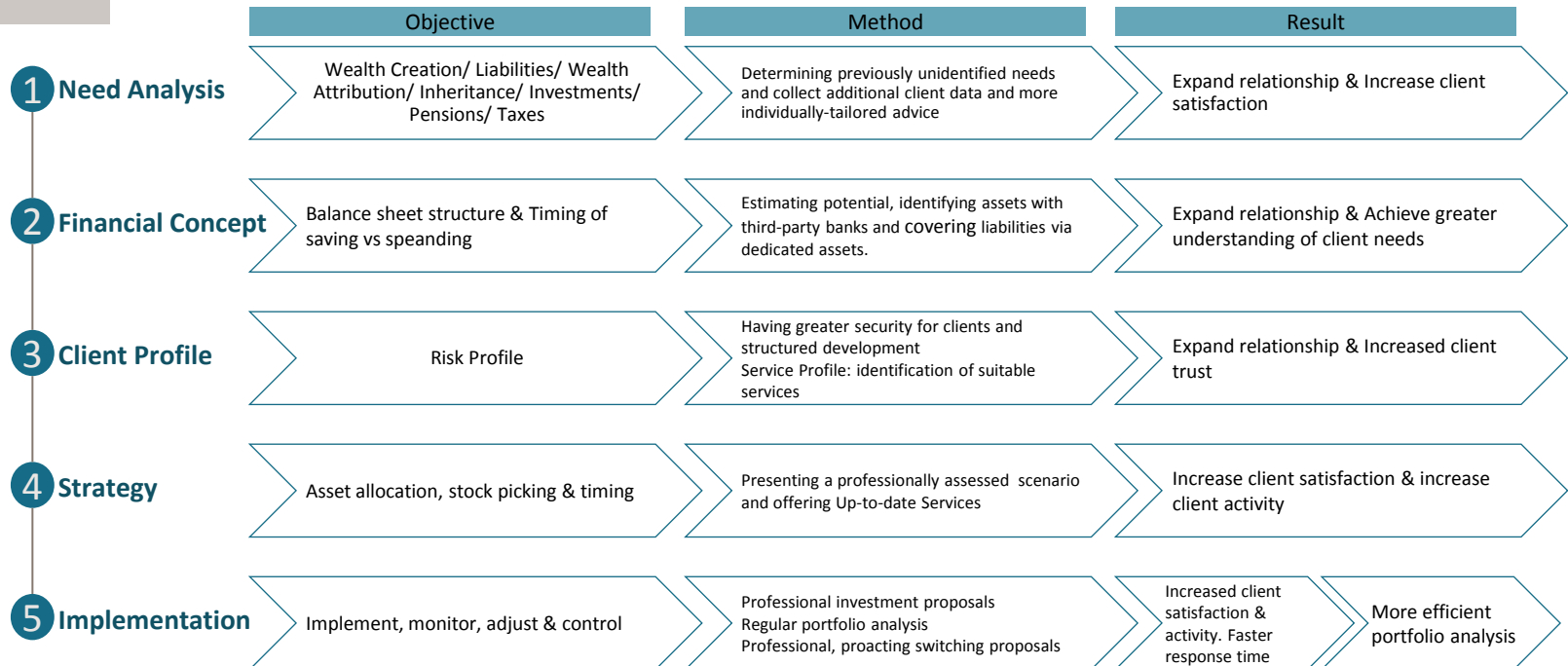
Modifications are implemented based on **Tactical Asset Allocation** changes, changes at the single security level or investment restrictions that were reached.

Credit Suisse's Business Model

Product Offering: Advisory Mandate & Execution Only

Advisory Mandate

- Investment proposals with or without specific transaction orders that the client signs.
- Personalized and more active investment strategy, both by the bank and the client.
- The optimal process follows the structure below:



Execution Only

- An execution only instruction may involve the provision of information without making any comment or value judgement on its relevance to the decisions which an investor may make.
- Whilst no suitability assessment is required for an execution-only trade, if the product is complex an appropriateness assessment is required for retail clients.

Credit Suisse's Business Model

Unit Links

- Clients set-up a life insurance, which in turn opens a policy (inside the insurance company's account in Credit Suisse).
- Policy portability: the policy holder may open accounts and transfer accounts within banks (that have agreements with the insurance company), without losing its characteristics – with the exception of credit lines. Fees are related to outstanding amount, not policy's age.
- The policy works as a surrogate, it is its own collateral, therefore the assets are managed in a segregated way from the insurance's assets. This means that the assets inside the policy do not answer to any of the insurance company's responsibilities.
- This product may be put into action alongside with any of the mandates presented.
- The settlors may have a power of attorney over their policy, hence they can be the effective managers of the assets held by the policy.

Fiscal Aspects of Unit Links

Fiscal Efficiency

- The added value of all assets inserted in the policy capitalizes by its gross value. Meaning that while the policy is not rescued 100% of the gains are kept.

Fiscal Benefits

- **Yr0 to Yr5:** If policy is rescued there is a small benefit due to the fact that the gains are considered added value and not revenues (different taxation system).
- **Yr5 to Yr8:** Tax exclusion of 20%.
- **Yr8 onwards:** Tax exclusion of 60%.

Markets in Financial Instruments Directive II

What is MiFID II and why is it here?

- The Markets in Financial Instruments Directive II is new regulation built on MiFID I, introducing an attempt to harmonize the regulation on investment services.
- The 3 main goals for regulators are to i) Improve the quality of advice, ii) Expose and remove conflicts of interest, iii) provide more transparency to reduce costs.
- The distributors side is impacted through:

Competence

- Demonstrable competence for advisers and information providers. Definition of common minimum standards for qualifications and experience that will be required of all advisers.

Inducements

- Ban on commissions / rebate payments or 'material' non-monetary benefits to independent advisers or portfolio managers. Non-independent advisers may receive inducements subject to rules on conflicts of interest and not compromising the customer.

Transparency

- Disclosure of aggregated costs and charges and the costs of advice must be made clear to all clients, at the point of investment, annually and both relative as absolute. Detailed itemization must also be made available.

Complexity

- New definitions of 'Complex' and 'Non-complex' products.

Suitability

- Strengthening of standards on appropriateness of advice and product recommendations. Introducing of Target Market Assessment regime. Ongoing suitability after-sale.

Markets in Financial Instruments Directive II

How does this apply to Private Banking?

- MiFID II impacts mostly on 3 dimensions:

Product Availability

Retail Clients will be restricted on what they can buy.

Only Professional clients will have full product availability, retail clients will be limited to simple and KID (Key Information Document) producing products.

Applicability to European Economic Area clients and account holders.

Pricing

Clients will have more cost transparency (both ex-ante and ex-post).

Both product costs as bank charges will be presented with more clarity.

This will not only give the client more negotiating power with bank and more decision power on investments, but it will also be the end of retrocessions (fees distributors pay banks per each product sold through bank). As retrocessions will be known to clients (ultimate payers of fees), these type of agreements between banks and funds will cease to exist or reduce exponentially.

Procedures

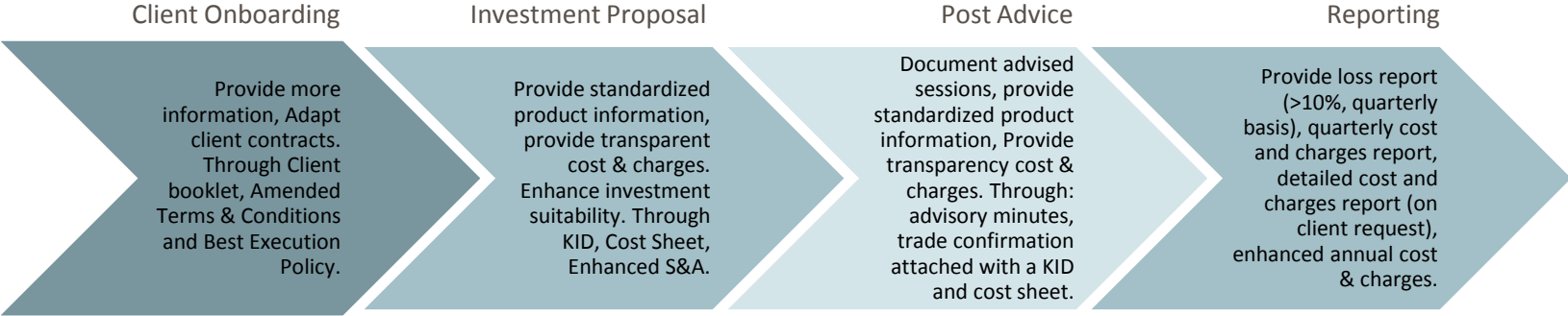
There will be a great increase in administrative burden with additional paperwork such as KIDs, Costs Sheets and added Advisory Minutes.

The information process is explained in more detail in the following page.

Markets in Financial Instruments Directive II

Specific Impacts on Credit Suisse

- New obligations across the client interaction cycle:



- Differences on protection:

Retail Clients

- Highest level of investor protection.

Professional Clients

- Reduced level of investor protection.

Professional clients per se: Companies
Eligible professional clients: retail clients that asked and fit the criteria to have professional status

Eligible Clients

- Very limited investor protection: Governments and other Financial Institutions

Methodology & Empirical Results: Case Study

Sample Portfolios in MiFID II

Explanation of Methodology

Sample of 4 different Advisory
Mandate portfolios

Comparison between Base Scenario &
MiFID II Scenarios

MiFID II A All abandoned positions relative to the base scenario will be kept as liquidity.

MiFID II B All abandoned positions relative to the base scenario will be invested in a respective risk level Model Portfolio (MiFID II Compliant).

Built the same portfolios as is in a MiFID II scenario – last year performance with and without MiFID II. The two scenarios above will be considered. The analysis is made in terms of product availability to retail clients in a MiFID II scenario.

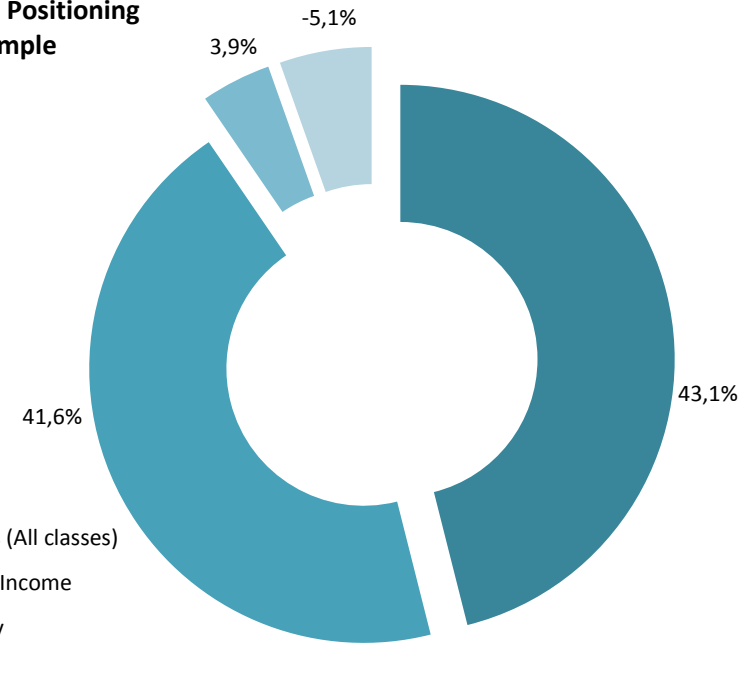
- 1 Collect Sample**
Each Relationship Manager (RM) chose a random client to simplify clients with only one active account.
- 2 Analysis of Complete Product Choice** – which are and aren't accepted in a MiFID II scenario.
Products were researched and categorized into the following vehicles: FI (Direct Fixed Income), EQ (Direct Equity), FU (Funds) and CA (Cash). Even though funds aren't a class, mostly all in place produce KIDs therefore there was no added value to separate funds by types and classes – considering the MiFID II scope of analysis. Furthermore the FI class was subdivided into FI-CONV (Convertible), FI-COCO (Contingent Convertible), FI-SR SUB (Senior Subordinate), FI-JR SUB (Junior Subordinate), FI-SR UNSECURED, FI-HYBRID. From these only Senior Unsecured Bonds are out of the MiFID II scope and therefore are not required to have a KID available to retail investors.
- 3 Construction of Base Scenario**
Present weights were used for each product as if they had started in November 2016, and considered constant (weights) until to November 2017 (1year)
- 4 Create MiFID II Scenarios** - for the same time period.
All abandoned positions will be (A) in the current account, (B) invested in a Advisory Model Portfolio with the same risk profile as the client.
No rebalancing.
Fees and commissions were ignored.
- 5 Analysis of Results**

Sample Portfolios in MiFID II

Sample Positioning

- MiFID II does not categorize products in risk, it does so in complexity so that the investor may undertake the risk desired but requires certain documentations (i.e.KIDs) to ensure full understanding of how the products work.
- The biggest challenge for Credit Suisse is to maintain its service performance, is the amount invested in direct fixed income – where most restrictions lie. This section represents 41,6% of the total sample. The biggest section is funds, as mentioned before their class is not relevant for an analysis from a MiFID II perspective.
- Investments in direct equity (3,9% of the sample) do not have any challenges in terms of product availability due to its simple nature.
- There are many sophisticated fixed income products that offer higher returns with less risk (by being issued by banks), however these products are usually very close in nature to equity. These products are the ones that become more restricted.
- The liquidity is negative because one of the portfolios in analysis, representing 37,3% of the sample, has leverage.

Vehicles Positioning
Total Sample

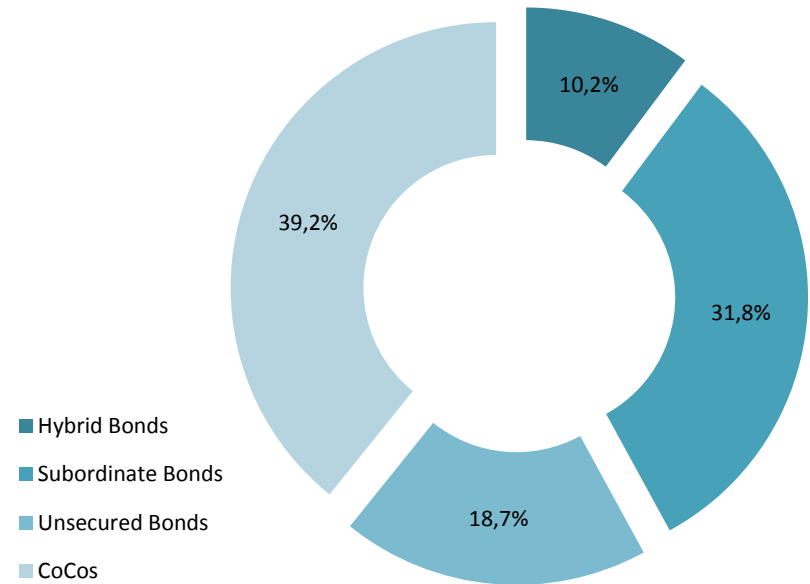


Sample Portfolios in MiFID II

Fixed Income products in scope with MiFID II

- Convertible Bonds: may be converted into equity at holder's choice.
- CoCo Bonds: may be converted into equity (limited by a contingent) at issuer's choice (banks). This type of product offers very high dividends due to the lack of holder's choice. The product is registered as debt in the bank's balance sheet, however if a significant amount of the bank's clients enter in default and rip through the Basel III reserves, the bank can exercise the CoCo and convert debt into capital, hence reducing its balance sheet and restore the reserve relative levels.
- Inflation Linked Bonds: coupons are linked to an inflation index.
- Alternative Bonds: understood as any other type of bond structure (except the plain vanilla – floaters, variables, zero-coupon...). This category was CS's interpretation of the directive, which makes the following analysis extremely conservative.
- The CoCo Bonds are a branch favourite, amounting to 39,2% of all direct fixed income investments.
- Some plain vanilla bonds used in the sample have options or swap agreements as collateral, which are products that need a KID in a MiFID II scope – therefore this type of products weren't introduced in the MiFID II scenarios.
- There are some funds that don't produce KIDs, only factsheets. Therefore these weren't included in the MiFID II scenarios.

Fixed Income Allocation



Sample Portfolios in MiFID II

Base Scenario

- The Base Scenario portfolios were built considering the real relative positions on the 14th of November 2017.
- All products were included, some were issued few days after the beginning of the base portfolio (position was assumed constant – no returns – at the initial price on the data missing days).
- Looking through a MiFID II perspective there are two portfolios that suggest a more aggressive positioning – FSP and LB – both with the highest portion of fixed income hence higher probability of product availability changes. SRP shows a balanced positioning, MiFID II wise (otherwise it is quite aggressive having >50% invested in equities – funds and direct). And finally GVS has the most conservative positionnig (again conserning MiFID II parameters), since almost 90% of its investments lie on funds – typically produce annual or semestral KIDs – not restricted to retails clients.
- The performance of the portfolios observed in the base scenario is a bit higher than the actual performance in the real portfolios (exempt fees and taxes) because the real weights on November 2017 were applied in this scenario from November 2016 to November 2017 unchanged.
- As expected the portfolio with the highest exposure to equity (SRP) performed the best followed by LB. LB's returns compared to FSP's, both similar in positioning, differ specially due to the FX esposure, FSP has circa 50% of all investments in USD and LB's investments in US currency are only 6% (the EUR/USD had an exceptional increase during the time period considered – USD corrected 9% against the EUR between Nov.16 and Nov.17).

Positioning				
	FSP	GVS	SRP	LB
Direct Fixed Income	65%	6%	15%	38%
Direct Equity	0%	0%	29%	0%
Funds (All classes)	34%	89%	41%	44%
Cash	-40%	5%	15%	0%

Performance				
	FSP Base	GVS Base	SRP Base	LB Base
Return	11,15%	7,80%	12,98%	8,95%
Volatility	1,33%	1,82%	3,70%	1,85%
FX Impact	-7,51%	-2,12%	-3,85%	-0,59%
TOTAL	3,64%	5,68%	9,13%	8,36%

Sample Portfolios in MiFID II

MiFID II - A

- This scenario considers that the amount invested in MiFID II unavailable products in the Base Scenario, will now stay in the current account as liquidity (in their respective currency).
- As anticipated previously, the portfolios with most exposure to fixed income were the ones that suffered the biggest changes in positioning. FSP's direct investments in Fixed Income are 50% lower than in the Base Scenario. Half of these 50% are Subordinated Bonds (Jr. and Sr.), approximately 40% are Cocos and the rest are Hybrids and Convertibles. Similarly LB's 33% Fixed Income change is 60% due to Cocos and 20% to Hybrids.
- Performance wise, FSP and LB suffered the biggest loss due to the high returns from Cocos. As GVS is mainly composed of funds the return impact is very little. SRP's negative return impact comes from the fact that half of the small amount of fixed income in the base scenario (approximately 15%) is not available in a MiFID II compliant scenario.
- Reflecting the RM's skills, the volatility of all portfolio's has changed but not very significantly (below 1%) – meaning that the investments that are not MiFID II available and that were previously invested in the portfolios, were having a significant impact in the portfolio's returns but had less impact in terms of volatility. Even though one's expectations is that the volatility would decrease due to the MiFID II constraints, GVS's volatility increased by 20bp, this can be explained by extracting hedge purposed products.
- This scenario reflects the worse possible loss in terms of performance due to MiFID II restrictions.

Positioning								
	FSP		GVS		SRP		LB	
		Δ		Δ		Δ		Δ
Direct Fixed Income	13%	-52%	3%	-3%	8%	-7%	5%	-33%
Direct Equity	0%	0%	0%	0%	29%	0%	0%	0%
Funds (All classes)	34%	0%	89%	0%	32%	-9%	44%	0%
Cash	12%	52%	8%	3%	31%	16%	33%	33%

Performance								
	FSP		GVS		SRP		LB	
		Δ		Δ		Δ		Δ
Return	2,21%	-8,9%	7,50%	-0,3%	9,96%	-3,0%	4,53%	-4,4%
Volatility	0,59%	-0,7%	2,05%	0,2%	3,39%	-0,3%	1,11%	-0,7%
FX Impact	-7,51%	0,0%	-2,12%	0,0%	-3,85%	0,0%	-0,59%	0,0%
TOTAL	-5,30%	-8,9%	5,38%	-0,3%	6,11%	-3,0%	3,94%	-4,4%

Sample Portfolios in MiFID II

MiFID II - B

- This scenario considers that the amount invested in MiFID II unavailable products in the Base Scenario is now invested in a MiFID II compliant CS Advisory model portfolio with the same risk profile as the client.
- The positioning in this scenario is very similar to the one in the A scenario except with the addition of the model portfolios. These portfolios are mainly invested in funds, logically the most aggressive ones are invested directly in Equities. Therefore these are MiFID II compliant, this meaning that as they're invested in funds (most produce KIDs) and in direct Equities (do not need KIDs) there is not nay restrictions.
- The clients can be categorized in 5 different levels of risk profile. These risks levels are crucial and limit portfolio strategies and investment picking.
- On the discretionary mandates, the bank manages the adjustment to the risk levels through 5 different model portfolios. The risk increase from level 1 up to 5 comes from assets class reallocation, namely from adding direct equity.
- The results of the performance do not represent the worst case scenario because the clients in analysis have a high risk profile.
- Due to the high risk profiles, the decrease in returns in this scenario is smaller than the one in the A scenario. Consequently the half of the volatilities increased, even compared with the base scenario which is a very alarming indicator for the following year. This fact once again reflects the added value of the Advisory process. SRP did not increase volatility due to its already high volatility base, therefore a more conservative portfolio addition reduced volatility. On the same trend LB also decreased volatility due to removing the high volatile products unavailable in MiFID II scenario.
- GVS's performance show the smallest reduction in returns of 10bp as its portfolio changes very little, only suffers a replacement of 3% of Fixed Income by Equity.

Positioning								
	FSP	Δ	GVS	Δ	SRP	Δ	LB	Δ
Direct Fixed Income	13%	-52%	3%	-3%	8%	-7%	5%	-33%
Direct Equity	0%	0%	0%	0%	29%	0%	0%	0%
Funds (All classes)	34%	0%	89%	0%	32%	-9%	44%	0%
Cash	-40%	0%	5%	0%	15%	0%	0%	0%
Model Portfolio	52%	52%	3%	3%	16%	16%	33%	33%

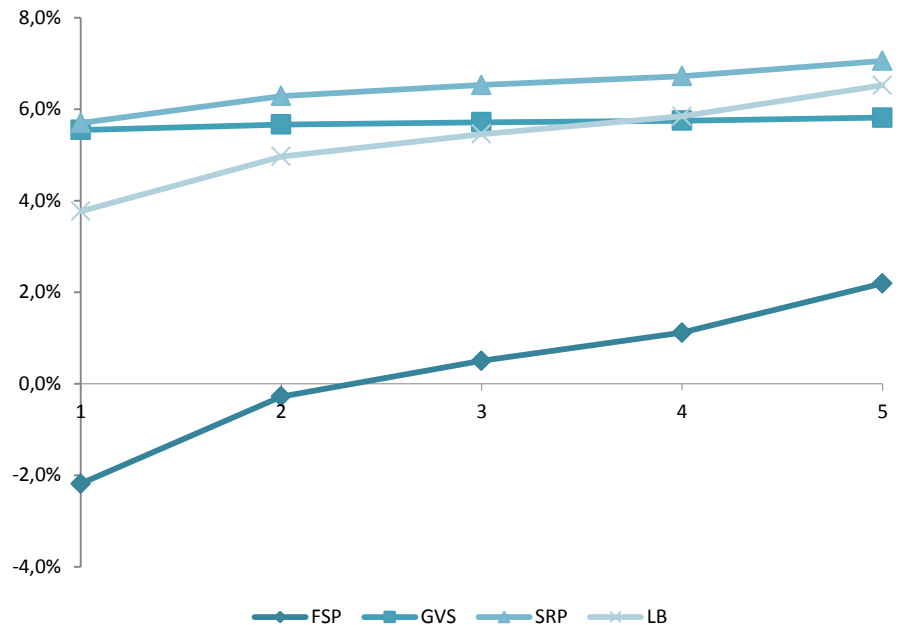
Performance								
	FSP	Δ	GVS	Δ	SRP	Δ	LB	Δ
Return	8,03%	-3,1%	7,75%	-0,1%	10,80%	-2,2%	7,16%	-1,8%
Volatility	2,99%	1,7%	2,00%	0,2%	2,99%	-0,7%	1,64%	-0,2%
FX Impact	-5,84%	1,7%	-1,93%	0,2%	-3,74%	0,1%	-1,32%	-0,7%
TOTAL	2,19%	-1,4%	5,82%	0,1%	7,06%	-2,1%	5,85%	-2,5%

Sample Portfolios in MiFID II

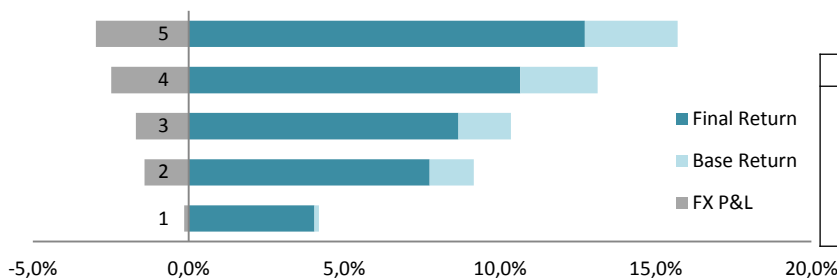
Risk Scenarios

- The graph and tables on the right show the different returns for each portfolio for the 5 risk levels and their respective volatility. This always taking into consideration the base portfolios in the MiFID II – B scenario.
- The 5 portfolios are the bank’s model for the advisory process for each type of client profile. The portfolio 1 is the Fixed Income portfolio that is adjacent to the lowest risk profile, and so it goes until portfolio number 5 – the highest risk level profile with approximately 85% invested in equity..
- There is a big increase in returns from model portfolio 1 to 2 due to allocating 27% of fixed income to equities.
- It is important to note that as the period in observation was very peculiar terms of FX results, 2017 was an extremely negative period for USD (to which exposure is increased as the risk level steps up).

MiFID II - B & 5 Risk Level Portfolios Return



Returns of Model Portfolios



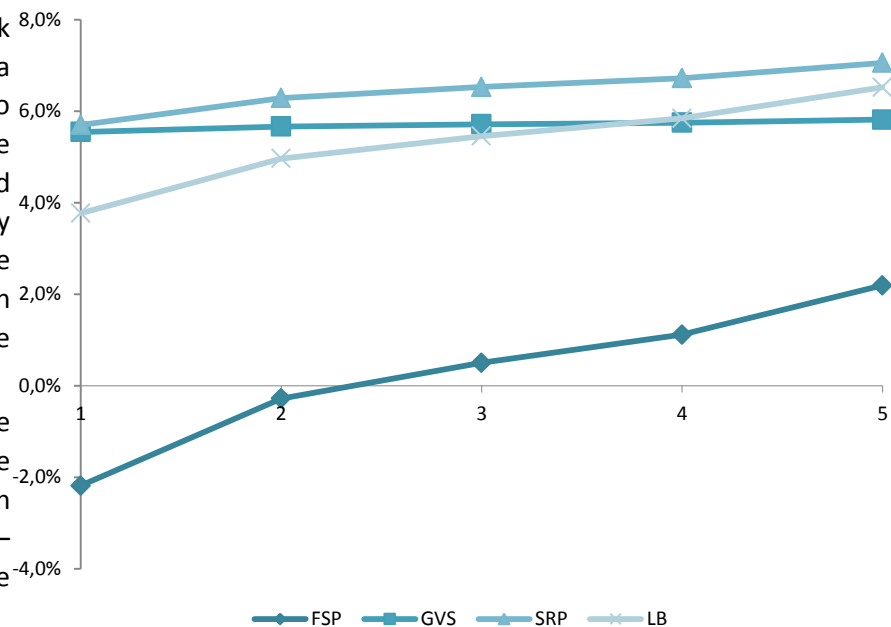
Ret.	FSP	GVS	SRP	LB	Vol.	FSP	GVS	SRP	LB
1	-2,2%	5,5%	5,7%	3,8%	1	0,65%	1,99%	2,85%	0,85%
2	-0,3%	5,7%	6,3%	5,0%	2	1,24%	1,99%	2,87%	1,08%
3	0,5%	5,7%	6,5%	5,5%	3	1,72%	1,99%	2,89%	1,31%
4	1,1%	5,8%	6,7%	5,8%	4	2,33%	1,99%	2,93%	1,64%
5	2,2%	5,8%	7,1%	6,5%	5	2,99%	2,00%	2,99%	2,02%

Sample Portfolios in MiFID II

Risk Scenarios: Considering different client profiles

- It is clear that the top performer from the Base Scenario stay at the top, SRP. Due to the high return base of a portfolio constructed from mainly Equity. GVS is very stable across risk levels it suffers little changes. LB's on the other hand suffers a reallocation of 33% representing 61% of its returns. This portfolio presents the biggest return reduction in every risk level. LB's base portfolio consisted in 100% fixed income and was constructed with great detail to manage risk, meaning that there were many high return products combined with low volatility ones. As the MiFID II scenario comes, specially in higher risks level, the high return products are replaced with lower returns products but the volatility is not compensated.
- Through FSP's performance on the graph, one can follow the direct trend of the Model Portfolios across the risk levels, since FSP suffered the largest reallocation of 52% of its assets - which represented 80% of its return. As FSP FX Impact is very negative - it is leveraged in EUR, in the lowest levels of risk the results are actually negative.
- The most alarming information suggested from this analysis is that in whatever risk level the clients are, the returns decrease substantially and the volatility increases on some cases - therefore the MiFID II ambition to increase client protection actually leads to higher volatility portfolios (and lower Sharpe ratios).

MiFID II - B & 5 Risk Level Portfolios Return

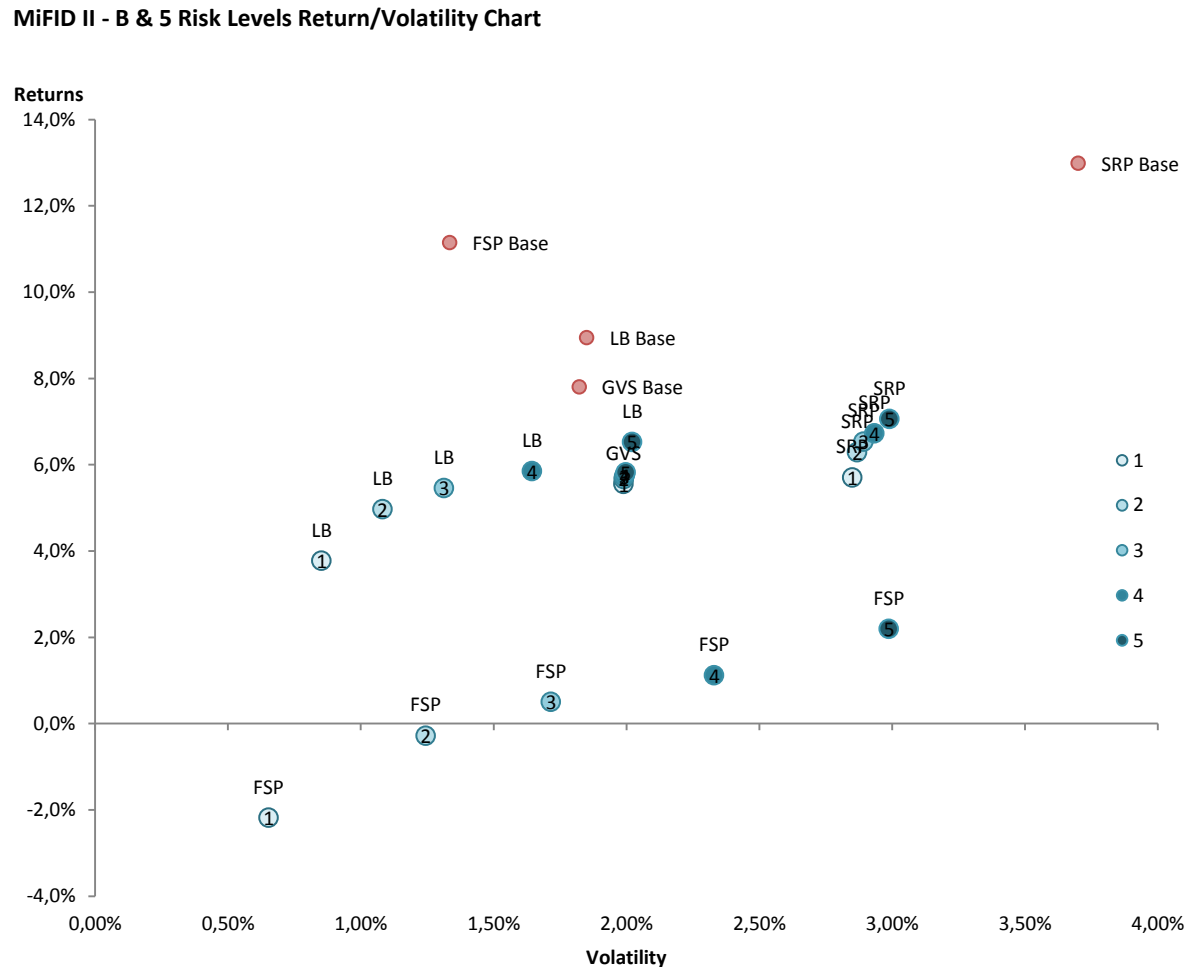


Ret.	FSP	GVS	SRP	LB	Vol.	FSP	GVS	SRP	LB
1	-2,2%	5,5%	5,7%	3,8%	1	0,65%	1,99%	2,85%	0,85%
2	-0,3%	5,7%	6,3%	5,0%	2	1,24%	1,99%	2,87%	1,08%
3	0,5%	5,7%	6,5%	5,5%	3	1,72%	1,99%	2,89%	1,31%
4	1,1%	5,8%	6,7%	5,8%	4	2,33%	1,99%	2,93%	1,64%
5	2,2%	5,8%	7,1%	6,5%	5	2,99%	2,00%	2,99%	2,02%

Sample Portfolios in MiFID II

Risk Scenarios: Lower returns & higher volatility

- The right chart shows a more complete representation of the results presented on the previous slides, it shows the map of returns, volatility, risk level and portfolios under the MiFID II-B scenario.
- The most striking information that is so clearly presented on this chart is overall reduction in returns. The volatilities are even more intriguing. GVS' volatility is slightly higher than the base, in any risk scenario considered. FSP's depend highly on the risk scenario – 1&2 volatilities' are lower and 3,4&5 they're higher. On the other hand both SRP and LB reduce volatility in any MiFID II scenario. Both Lb and SRP are very peculiar portfolio as one is almost all equity and the other consists in 100% of Fixed Income.
- From this we can conclude that the majority of the bank's portfolios, which in Portugal mostly are situated in risk levels 3 and 4, will diminish in return and increase in volatility. Again concluding that for a regulation that aims to protect clients the conclusion in terms of volatility is disturbing.



Statistical Significance of MiFID II Impacts

Are these impacts significant?

- To further analyse if these MiFID II impacts are significant throughout the whole bank, a sample of 20 portfolios was studied. It was extracted from the most used listed risk level in the Portuguese branch: Risk Level 4. It is listed risk level due to the fact that most of the clients are inserted in a different category of bespoke strategies, meaning that they are not limited by risk levels, therefore the most usual listed level was used to be able to achieve sound comparisons. The scenario B was considered, every amount that was released from non compliant MiFID II products was invested in a Advisory Model Portfolio with risk level 4.
- It is also important to mention that the first sample that was analysed in such detail was mostly clients of risk level 5 – which was the RM's choice when asked to provide a random portfolio for the study.
- In order to conclude if the higher volatility and lower returns hypothesis is significant in the population, a less detailed process of the one described above (in methodology) was put into action on the 20 portfolio sample and the changes both in the standard deviation as in the returns were tested with a t-test, H_0 : average changes in return/volatility = 0 and H_a : average changes in return/volatility \neq 0. To this effect the following statistic was calculated for the two parameters: $t_{obs} = \frac{\mu_{\Delta S} - 0}{\sigma_{\Delta S} / \sqrt{n}}$.
- For the changes in returns the t-value observed was -1,004. Which compared with the t-student distribution's critical values for 95% confidence interval and 19 degrees of freedom ($\pm 2,093$), the null hypothesis is not rejected and therefore the changes are not significant.
- For the changes in volatility, in the MiFID II scenario considered, a t-value of -1,43 was obtained, which again, comparing with the critical values for the same distribution one must conclude that the changes are not significant.
- This statistical analysis may not be accurate due to possibility for biased sample, as there are many portfolios categorized as following a bespoke strategy that may have the same risk level e suffer more from MiFID II than the categorized in risk level 4 ones. This is also very probable as the RM's prefer to have flexibility to invest in riskier products for some clients and therefore insert them in bespoke strategy.
- Furthermore the sample is very small considering the universe of 500 portfolios. Nevertheless if the result of insignificance is accurate it is very assuring for the bank.

Conclusions

Conclusions

Conclusions & Personal Notes

- Overall the MiFID II will have a negative impact on performance, by restricting the products available the most diverse and high return products are off limits which as seen above have great impact in overall performance. There is also the cost issue that was not studied due to unavailability of information. Nevertheless this will prove a challenge to the RMs in the sense of explaining to the clients why the whole costs were never fully presented– specially on the retrocessions matter. Both in the individual and the statistical significance analysis there were products that could not have been included in the returns on the base scenario, as private equities and trusts that are not quoted privately or in Bloomberg terminals. These specific investments have not been included at all but they would represent a significant difference in returns as their investment was kept in the portfolios but with zero returns.
- Retrocessions are fees that the bank receives from funds for each investment made through the bank (included in the fund's management fees paid by client), their usually between 0.25% to 0.60% - which is a considerable amount. The biggest problem with the costs is that the clients do not have an idea how much they are paying, the returns do not change – the costs are taken directly from the returns the funds gives away, for example the client receives 5% return in a year from a fund, but does not know that it was 7-8% before the fees were charged, furthermore they do not know that a part of these fund's costs are profit for the bank.
- Another great challenge will be the increase in bureaucracy. There are many new documents that must be delivered and signed to and by the client. Moreover this will be integrated in a more complex and long interactions between RM and clients, for every trade idea the client must be in possession of the simplified cost sheet and KID if necessary. For the execution there must be proof the client has received and understand the cost sheet and KID, afterwards the client must receive the detailed cost sheet (of the specific trade) and the advisory minutes.
- On a more personal note, this project and internship gave me a great insight on the financial institutions system. It is clear that there have been many changes in structure and process for these type of banks after the 2008 crisis, and these are still happening. Although many changes limit the flexibility and creativity of the financial market to create and find profit, on the other hand one hopes they protect the market and their inhabitants.
- There was also a big exposure to the commercial part of the job. This was both interesting and reassuring, as communicating with the clients not only helps maintain the human part of the job, but also, in my opinion, keeps the bankers grounded – meaning that materializes the fact that the money dealt with every day is not only a vehicle for fees and commissions but has actual people depending on it.

Solutions & Further Research

Proposed Solutions

- It is expected that the market itself will respond to MiFID II according to the bank's best interests, by this it is meant that the distributors will have to give into market pressure and allocate resources to producing KIDs in order to maintain their sales' level if these are affected by the regulation.
- There is also the choice of bumping-up retail clients to professionals. Or creating unit links. To set a client as professional, this must have 2 out of 3 of the bank's demands: the client has carried out transactions of significant size at an average frequency of 10 per quarter over the previous 4 quarters; the size of the client's portfolio exceeds EUR 500k; the client works/has worked in the financial sector for at least 1 year in a professional position, which requires knowledge of the transactions. The latter point is not very common, which creates incentives to increase transaction numbers on the retail portfolios. On the other hand the unit links may be an excellent solution – even without the MiFID II problem as it was seen before, with the only set back of long term horizon.
- Finally the most important solution for the changes to come in 2018 is the adaptability of the RMs' strategies and their capacity to explain to the clients that the contraction of performance is absolute but not relative, as every player in the market will be affected similarly.

Further Research

- A big flaw in MiFID II is that the clients may invest in mutual funds that have positions in products that don't comply with the complexity level required per client. Further research on specific mutual funds of structured products may reduce the returns impact.
- There is an opportunity of deep analysis of costs that will influence negatively the bank, and positively the clients – they will gain power of negotiation due to the introduced transparency – both in costs and retrocessions
- The statistical significance analysis could be made for all risk levels and extended to bespoke strategies in order to better understand the regulation's impacts.

References

References

List of references

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The end