

TISA MiFID II Project: Progress Update

Significant progress is being made with TISA's project to identify, and develop, data standards and solutions that deliver cost savings to the industry and better outcomes for the consumer, following the implementation of MiFID II. I am pleased to send you this update report on behalf of the project.

Background to the project

Following TISA's work to publish a range of MiFID II 'Guides to implementation', members asked us to consider an industry led approach to develop a solution to the collection and distribution of MiFID II Costs & Charges and Target Market Data. It was felt that this would be the optimal way of avoiding firms and their customers being exposed to increased costs, delivery risks and data duplication arising from the onset of MiFID II.

Work to determine the scope of the project and seek broader commitment from interested parties commenced in November 2017. The project identified 7 key benefits:

1. Significantly reducing industry's operational and technology costs in the implementation of MiFID II
2. Significantly reduce consultancy and legal fees being incurred in the implementation of MiFID II
3. Ensuring the accurate and consistent presentation of costs & charges in all transaction, adviser and client reports
4. Reducing regulatory risk for all participants in the investment value chain
5. Ensuring future regulatory changes can be implemented once and consistently for the industry.
6. Securing better outcomes for consumers
7. Creates the opportunity to assess the desirability of an industry solution.

Progress Update

There are currently ten sponsoring members representing a cross section of all market participants and who form the Governance Steering Committee overseeing the project. Two working groups have been established to consider:

- Specific issues relating to Costs & Charges and Target Market data standards
- Requirements of a potential industry solution.

Working Group 1: Costs & Charges and Target Market Data Standards

The aim is to develop a single set of reporting standards with both downstream (manufacturer to distributor) and upstream (distributor to manufacturer) in scope.

Downstream standards development

Progress snapshot:

We have engaged with members across the industry to review the efficacy of the European MiFID Template (EMT) as a standard means for manufacturers to provide the necessary information. This includes reporting our findings into the European Working Group's (EWG) own feedback process for any future update to the EMT and its associated Q&A. We are aiming to have a set of business rules covering the EMT which will be published for consultation during March. These can then form the basis of the development of a set of ISO standards.

Workstream Focus

The Working Group is focusing on reviewing existing standards for data, passed from the manufacturer downstream to the distributor, and any gaps in such standards, required by industry. It aims to resolve differences, across existing standards, enhancing those standards to meet the needs of industry and to move towards one standard.

Key areas include:

- Data Modelling
- File Format Standards
- Calculational Standards
- Timing/Frequency/SLA's

A range of workshops are being held resulting in the draft of a single universal standard for adoption by the industry and development as an ISO standard.

Initial analysis findings

- EMT has been widely adopted and has enabled industry to get over the line although there are some exceptions and some platforms require additional fields
- There are still some issues with completion and interpretation
 - Country specific differences / requirements
 - Target Market – different risk-based approaches
 - Cost & Charges, especially transaction costs
- Current distribution infrastructure is very fragmented with multiple data routes
 - Spreadsheet / csv file is not ideal but is at least easy to incorporate into existing infrastructure across the value chain
- The industry would benefit from additional work to
 - Standardise format of field content
 - Standardise interpretation of how these should be filled in
 - Standardise format of outputs, both csv and excel
 - Provide clarification on global vs country specific items
 - Streamline delivery mechanisms

Activity completed to date

- Workshops held, largely data vendors and data disseminators
- Reinstated TISA Cost & Charges working group outside of this project

- Engaged with EWG
- Collated feedback based on first round of industry submissions
- Identified areas where further clarification required for consistent completion
- Analysed differences in approach to Target Market fields
- Identified country specific requirements
- Proposed standard rules around file formats for csv and xls
- Proposed standards around decimal places etc.

Upstream standards development

Progress snapshot:

Industry views on reporting of relevant MiFID II data by distributors up to manufacturers vary widely in terms of content, granularity and frequency. In order to drive a consensus view, we have restarted the TISA Target Market working group and are holding regular meetings. We are also engaging with other industry associations (PIMFA and IA) and solutions providers. We are aiming to publish a consultation document on this at the end of March. Upstream data standards are less developed than downstream, and there is a requirement for a set of such standards that are built and adopted by the industry.

Workstream focus

The upstream focus is on developing a set of proposed standards and Q&A templates that distributors can use to report to manufacturers; however, transactional data is out of scope.

The intention is to create an outline set of requirements for the standards and then draft a set of standards and Q&A templates. These will be put out to wider consultation and feedback will be collated and incorporated.

Initial analysis findings

- TISA Target Market specification is being adopted in some quarters
- Some data exchange platforms are building solutions to allow distributors to post all information to be picked up by manufacturers
 - No standard on what information is being gathered
- These do not address the aggregation challenge for manufacturers
- Manufacturer governance likely to require increased level of information for more complex products
- UK distribution landscape (Platforms, IFAs) is very different to much of Europe (large distributors, automated client systems & controls)
 - Wealth managers likely to be main UK distributors of complex products
- Distributor willingness to share information with providers is extremely varied across Europe.

Activity completed to date

- Reinstated TISA Target Market working group with focus on upstream reporting
- Engagement with PIMFA, IA and distributor focused solutions providers
- Creating worked examples for different products along the “complexity spectrum” to understand likely manufacturer reporting requirements.

Working Group 2: Requirements of a potential industry solution

Standards based Solution

The current mechanism for sharing EMT downstream data uses CSV file formats or Excel spreadsheets, which has inherent limitations. This workstream is therefore investigating the market need to develop an automated system (using machine readable technologies) to collate and analyse this data and the costs savings it could deliver. This will cover both downstream and upstream reporting

Different approaches will be identified and reviewed, the intention is to assess if there is an opportunity to develop a solution that can ingest and interpret the data in a machine-readable format.

Industry Based Solution

Following the success of the TISA MiFID II guides, many members enquired if TISA would facilitate the build of an industry solution that could drive improved outcomes for the market and lower costs.

This workstream is investigating if there is demand for a single industry solution (which offers more functionality than simply reading the data) and will determine how this could be structured.

Market analysis is to be undertaken to assess the impact of the reporting requirements of MiFID II, and the desirability of an industry solution, amongst a target audience consisting of a broad mix of organisations directly impacted, including manufacturers, distributors and data vendors.

Depending on the research findings, if there is a market need for a new body to be formed to manage this solution then this workstream would be asked to agree the scope, define data flows, propose technical delivery assumptions and the corporate structure.

Getting involved

It is nearly two months on from the implementation of MiFID II and reports are already circulating around the issues and challenges that this project is seeking to address. In particular, the flow of data on costs and charges from manufacturers and on target market back from distributors is proving to be demanding, complex and un-wieldy.

Costs are high and will continue to increase, as Nick Bayley, Managing Director, Regulatory and Compliance Consulting at Duff & Phelps and a member of the TISA project has said: *“The cost of MiFID II implementation was put at between €512m-732m in a 2014 cost benefit analysis by the European Commission. But I expect the actual cost to be in the €billions.”*

However, we are optimistic that an industry led solution can be found to resolve this and deliver significant benefits to firms and consumers. We are therefore seeking to work with the IA, PIMFA and the European Working Group(EWG) to develop a collaborative solution.

If you would like to find out how your organisation can get involved in the project please contact Jeffrey Mushens, TISA's Technical Policy Director via: jeffrey.mushens@tisa.uk.com

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