



# Compliance-Tagung 2006

## MiFID Implementation – A UK Experience

**Eschborn/Frankfurt 16<sup>th</sup> November**  
**Philip Dätwiler**  
**Global Head of Compliance Training**

# Content

- The UK Regulatory Approach
- Major Changes within the UK Regulatory Environment
- Reaction from the “City”: Positive or Negative?
- WestLB London’s Approach
- Divergence or Convergence within the EU?

# Content

- **The UK Regulatory Approach**
- Major Changes within the UK Regulatory Environment
- Reaction from the “City”: Positive or Negative?
- WestLB London’s Approach
- Divergence or Convergence of the various EU Rulebooks?

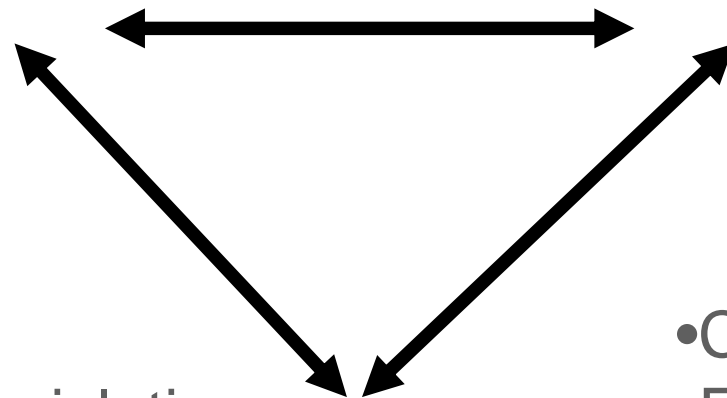
# The UK Regulatory Approach



- HMT is responsible for implementing MiFID
- Changes to National Legislation
- Give powers to the FSA



- Consult widely
- Engage Stakeholders
- Make rules and guidance



Industry

# The UK Regulatory Approach



- 15<sup>th</sup> December 2005 – Consultation Document “UK implementation of the EU MiFID” covering scope and required legislative changes:
  - Financial Services and Markets Act 2000 (FSMA)
  - 2ndry Legislation – the Regulated Activities Order 2001 (RAO)
  
- Legislation to be laid before Parliament in early December 2006

# The UK Regulatory Approach



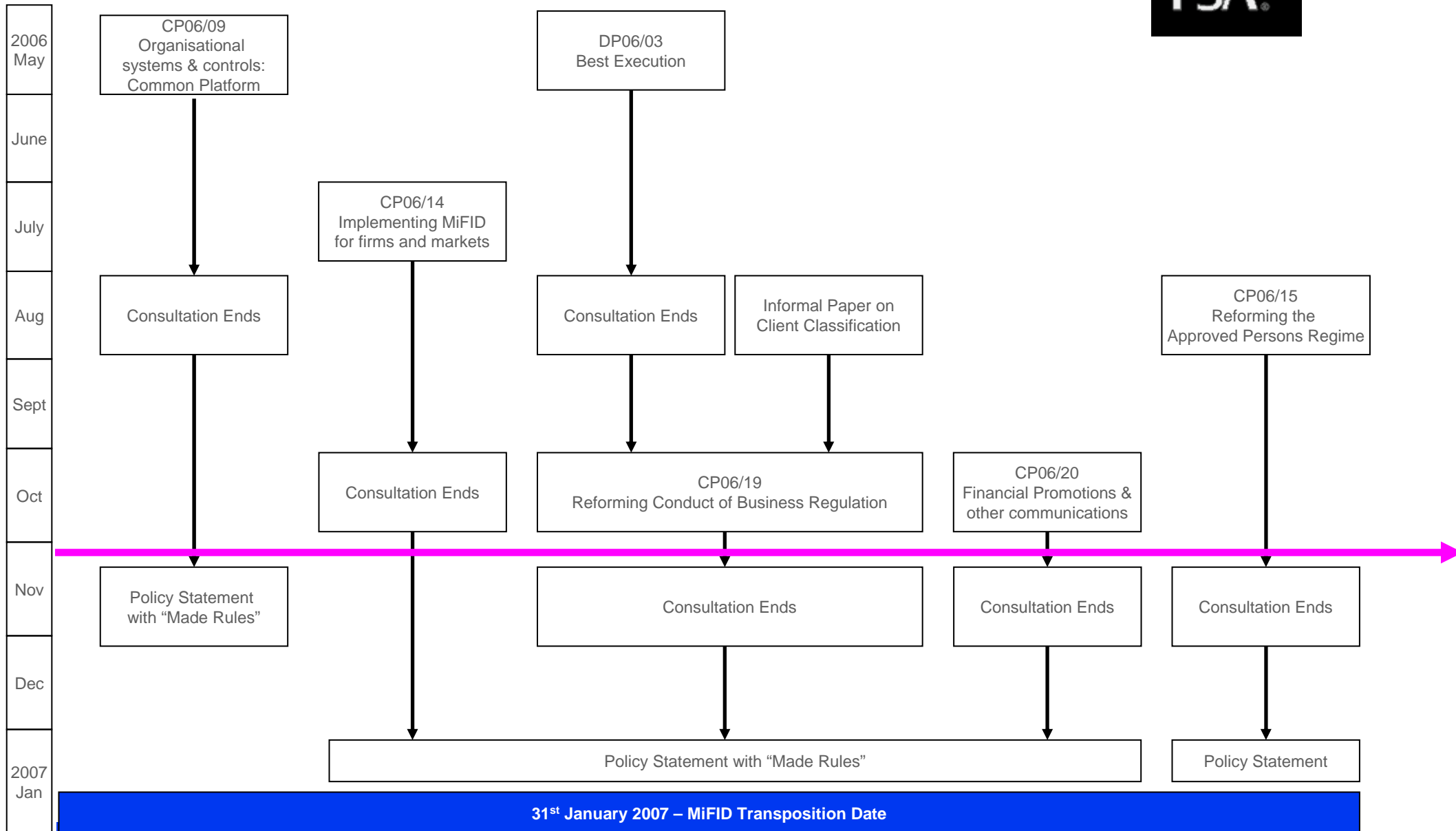
- Main Legislative Changes:
  - Most MiFID activities can be incorporated into current RAO (rational = MiFID is not new legislation – but an update of ISD)
  - MTFs to become new regulated activity
  - Small changes to FSMA to increase the FSA's powers in respect to; a) writing rules on financial promotions, and b) enforcement powers in relation to Recognised Investment Exchanges
  - UK will exercise option under Article 3 to take most “financial advisors” outside of scope, but not UK regulation

# The UK Regulatory Approach

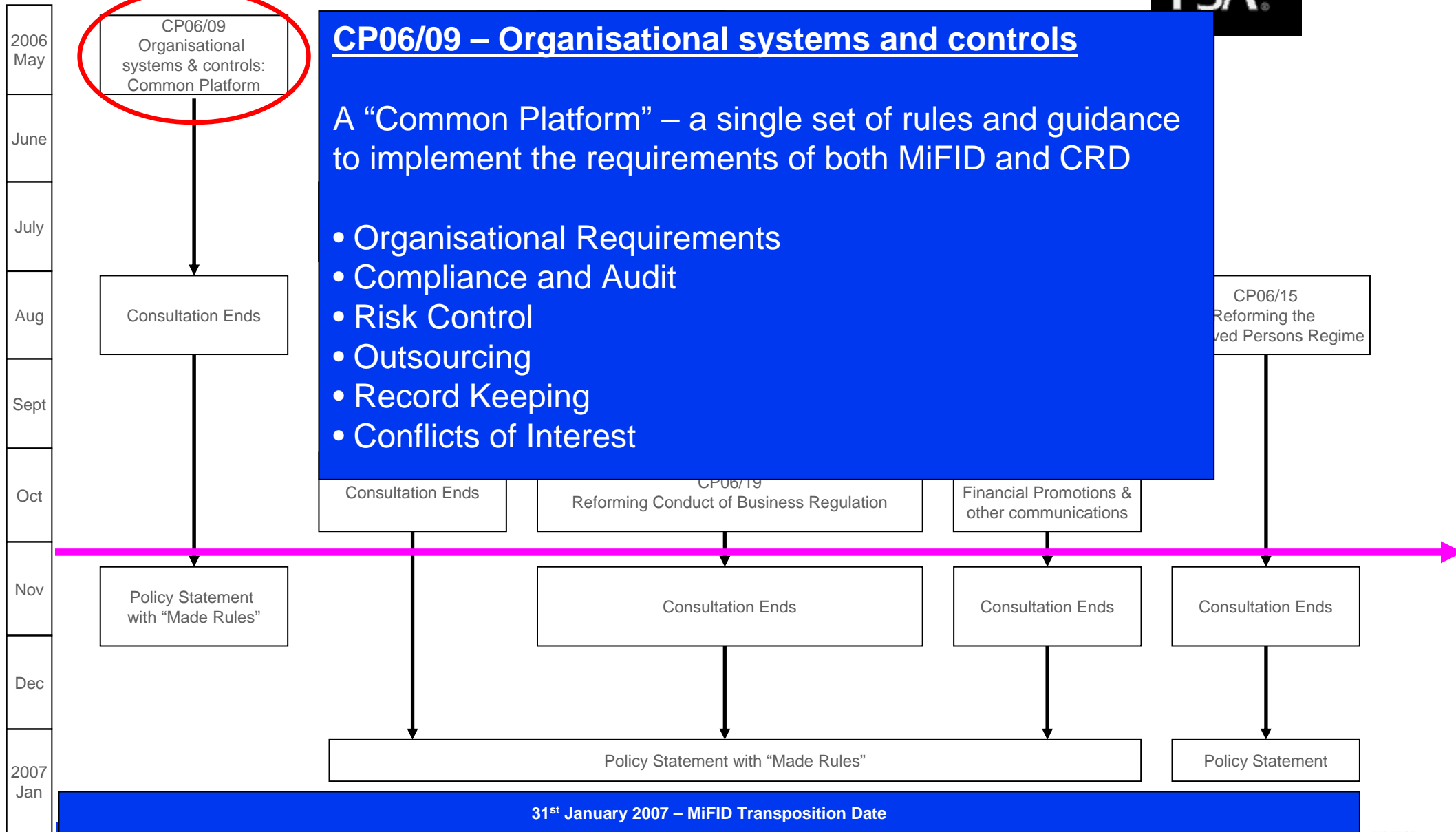


- “Intelligent Copy Out” of Directive requirements (Level 1 and Level 2)
- Deletion of overwritten rules and removal of redundant material
- Further move towards “principles-based regulation”
- “MiFID Preparation” forming part of ARROW II assessments
- Intensive and detailed “Consultation” – 1,860 pages!!

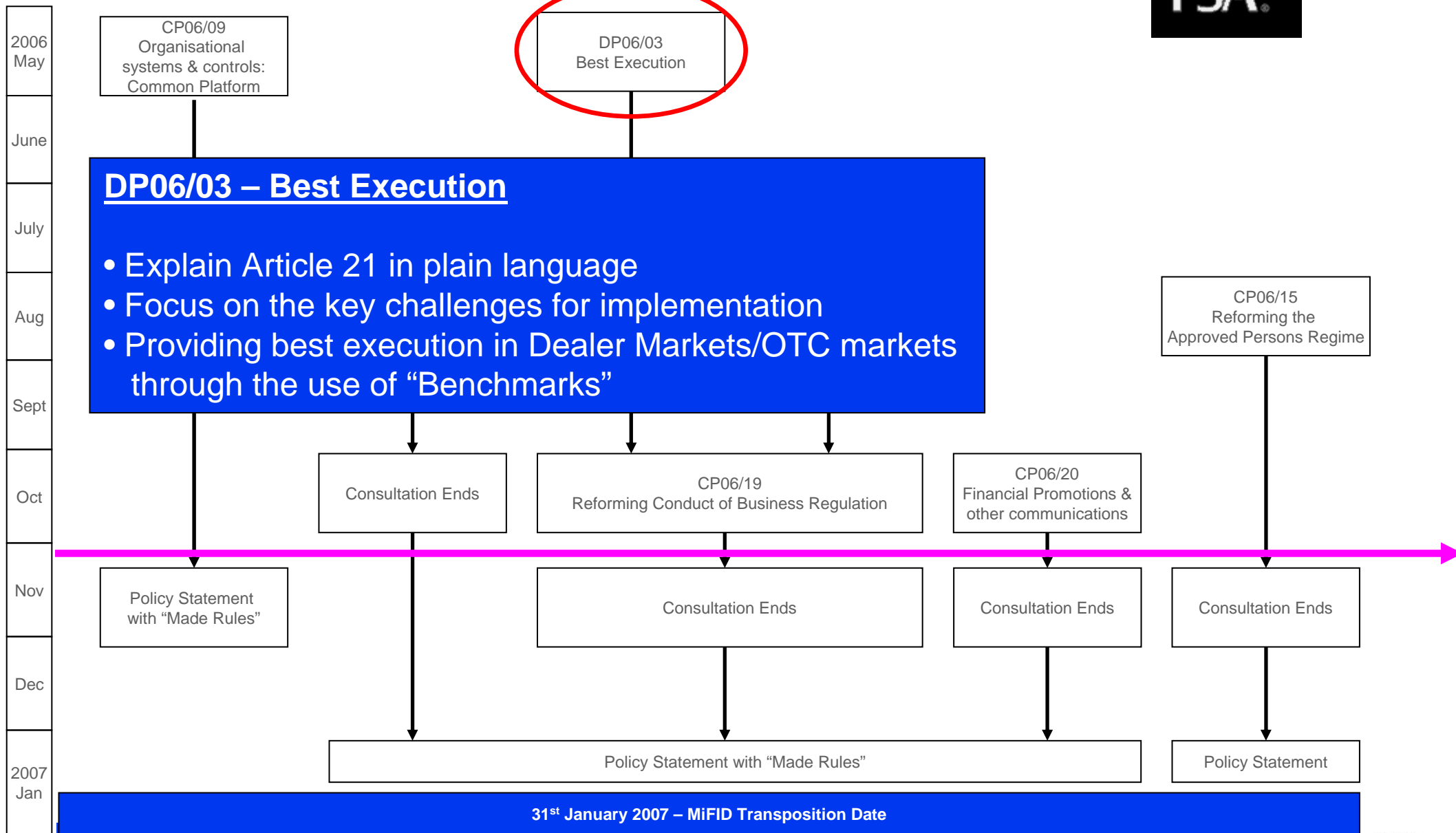
# The UK Regulatory Approach



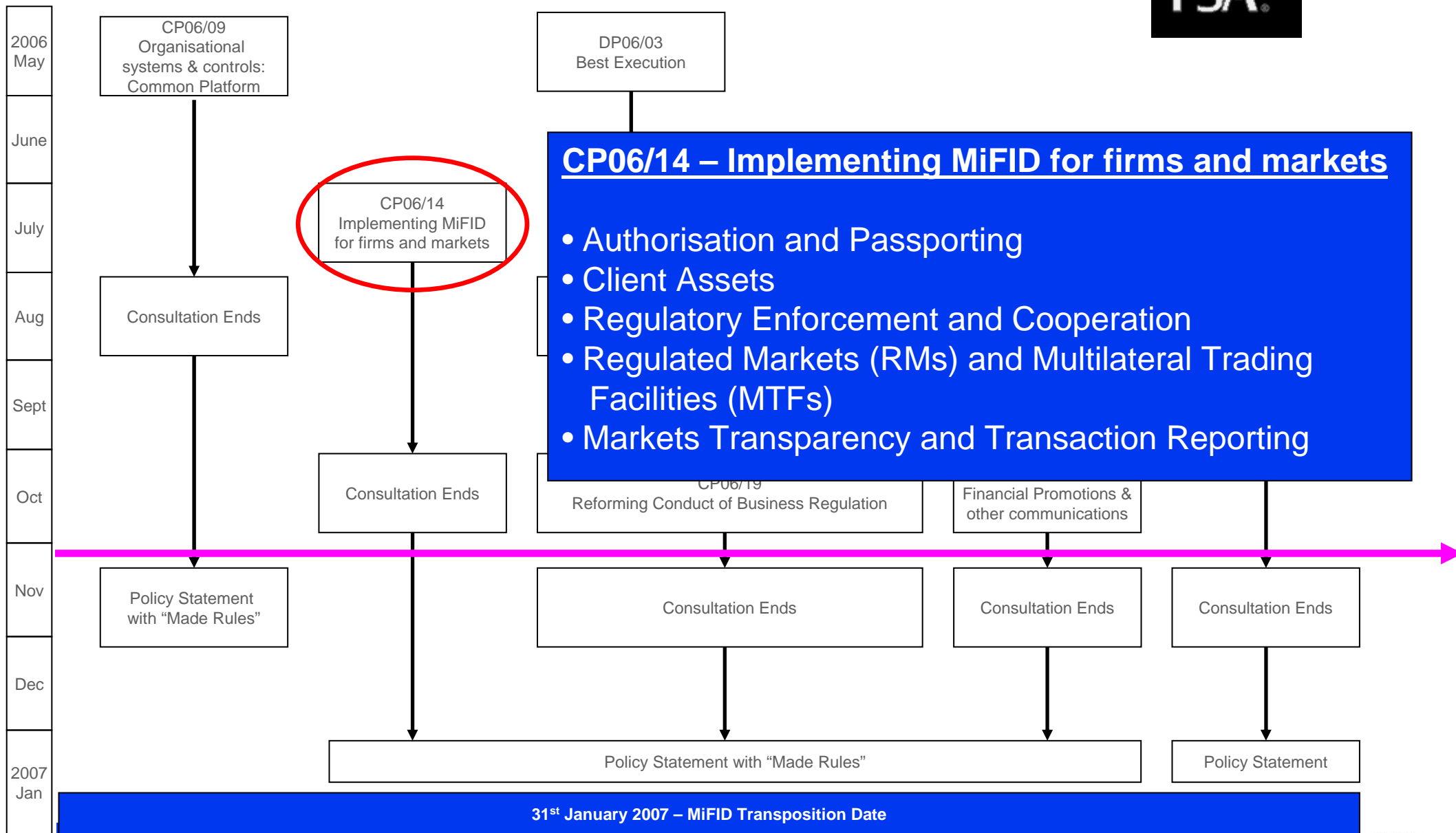
# The UK Regulatory Approach



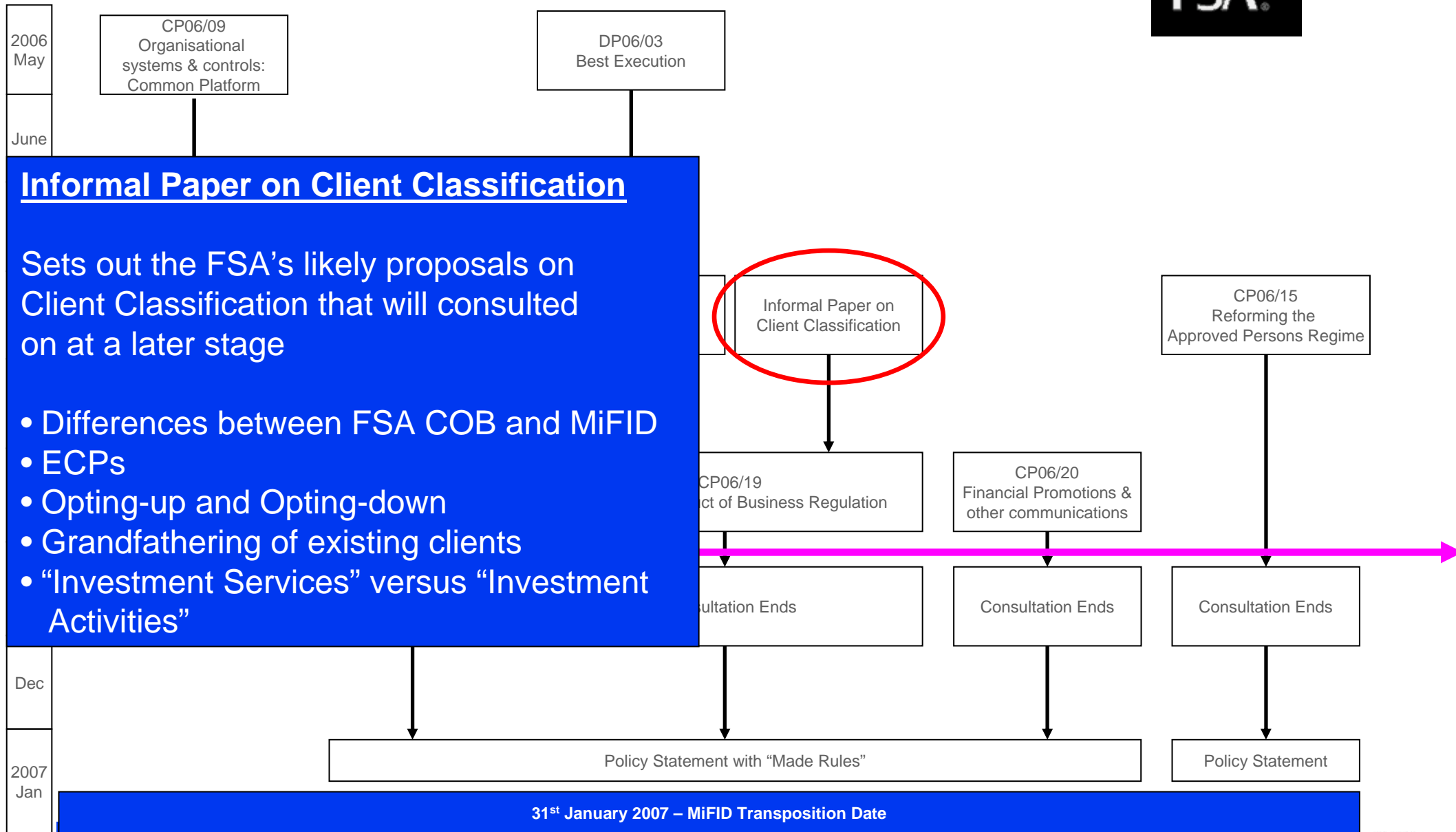
# The UK Regulatory Approach



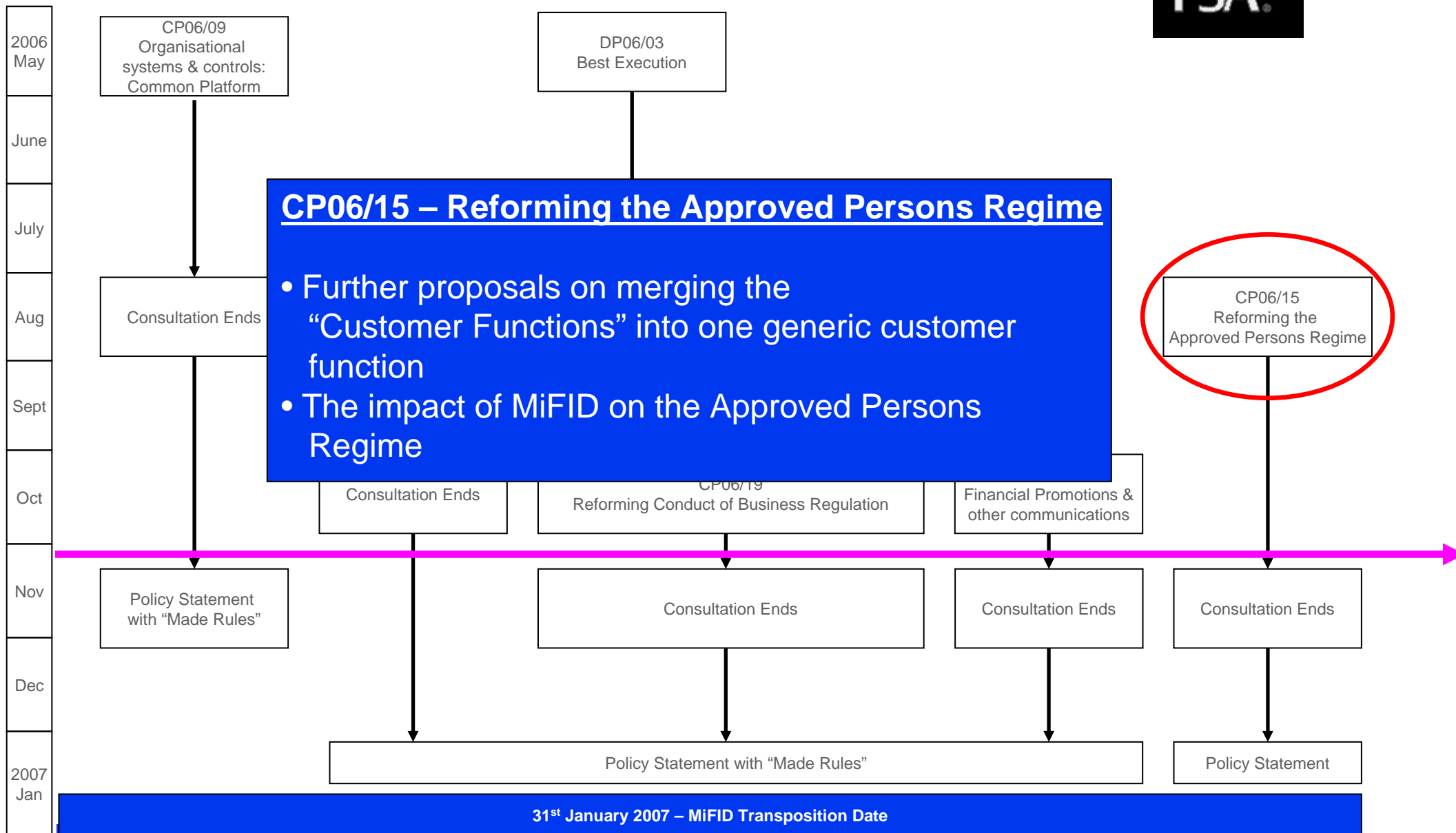
# The UK Regulatory Approach



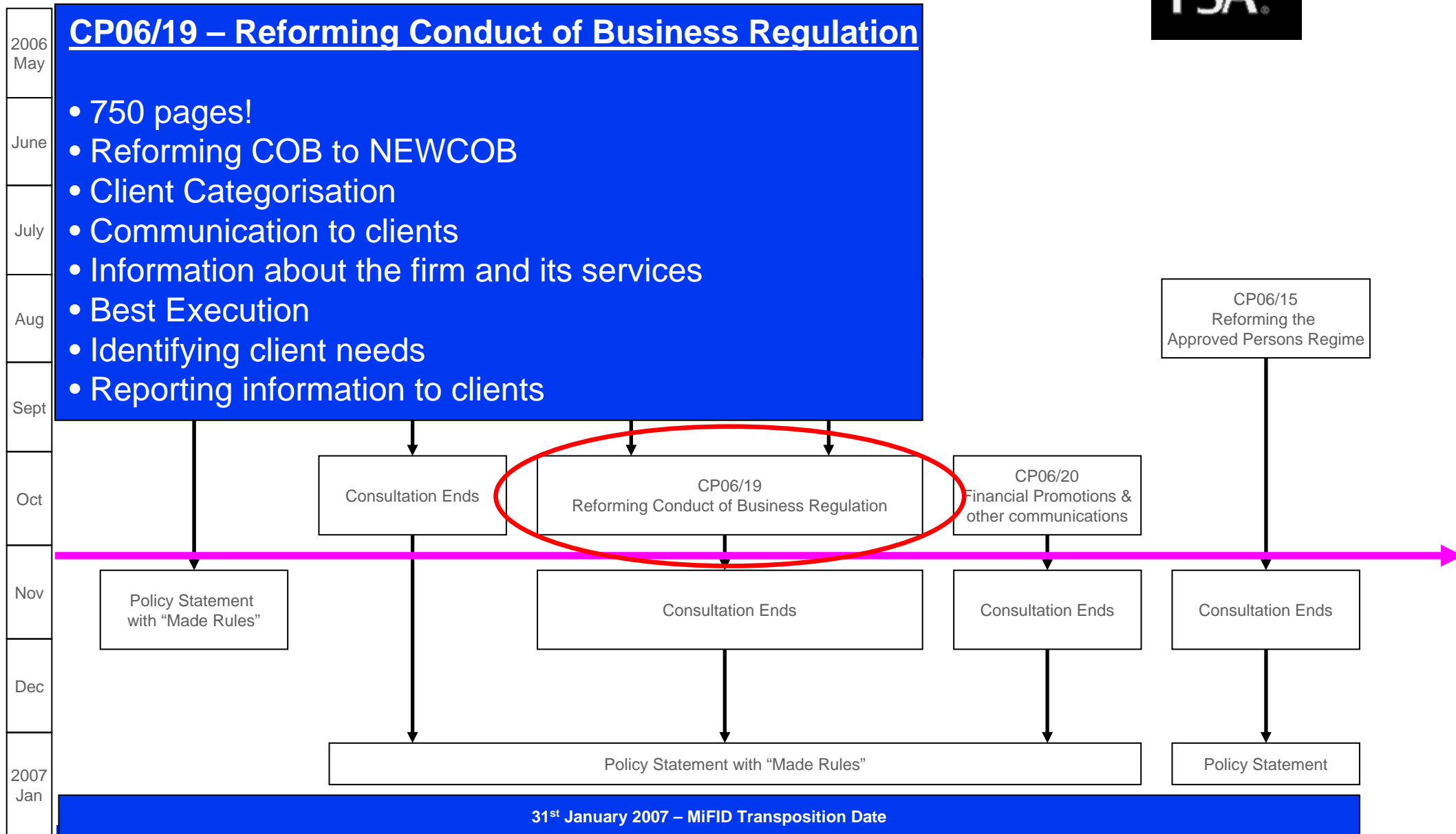
# The UK Regulatory Approach



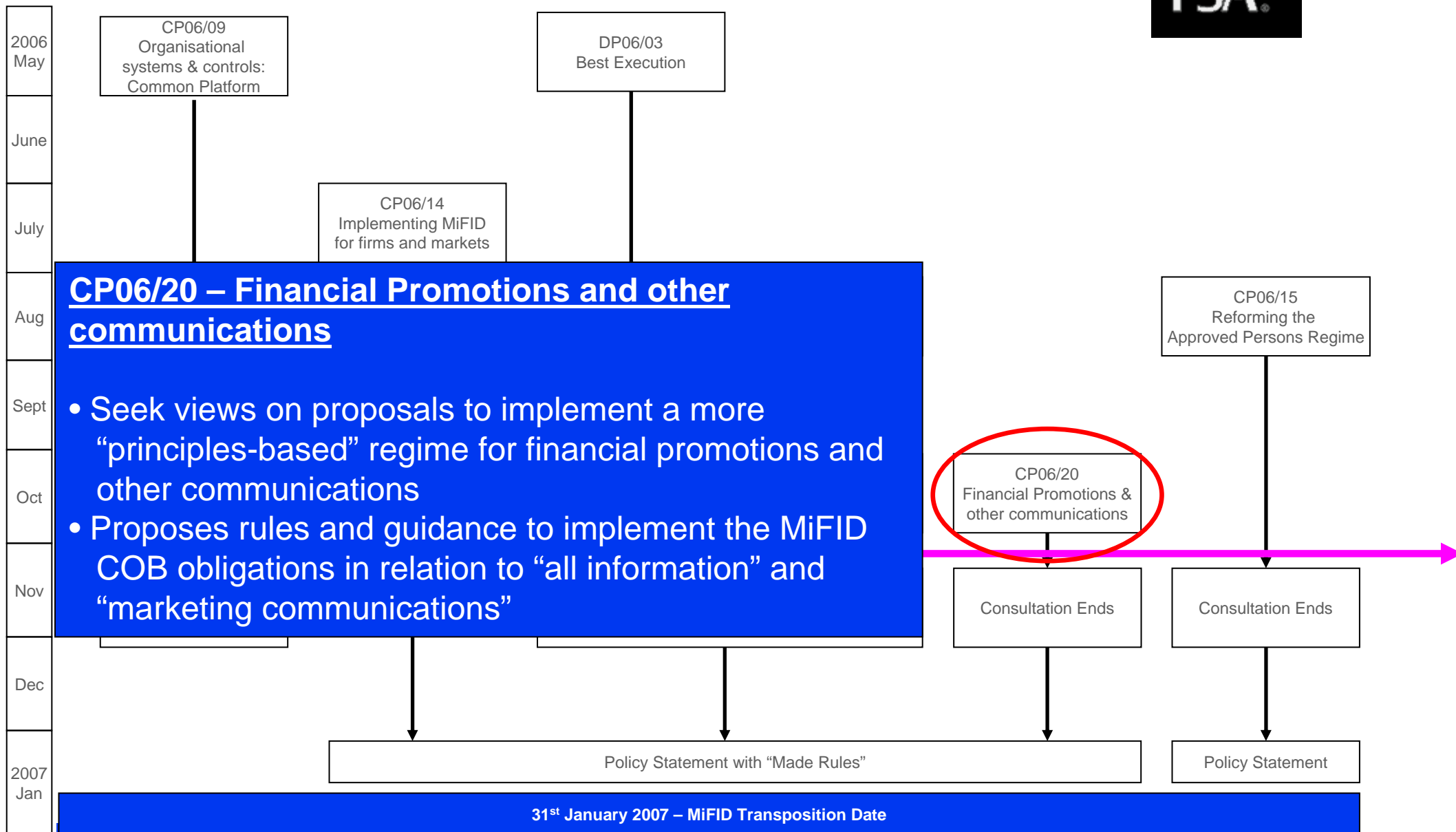
# The UK Regulatory Approach



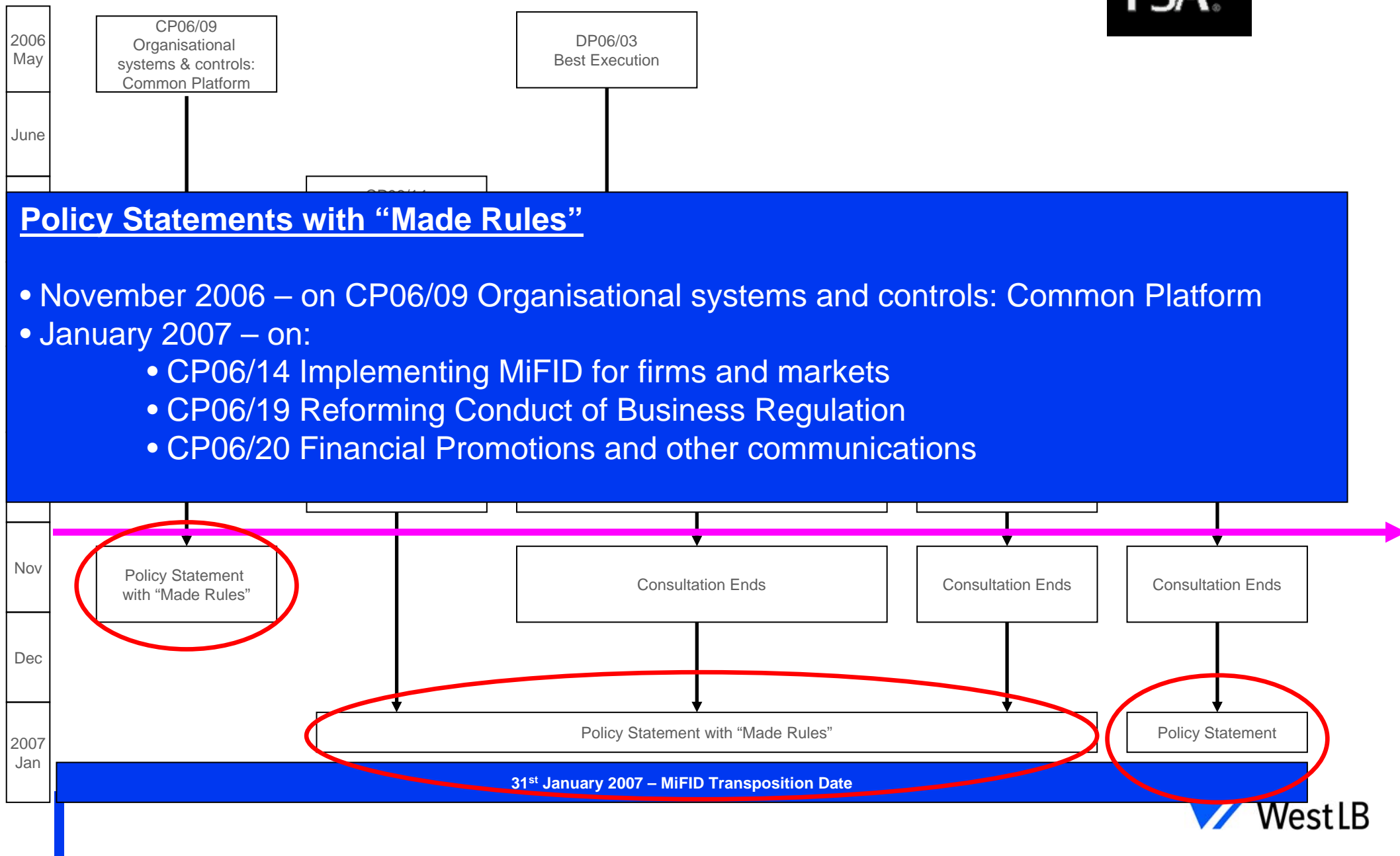
# The UK Regulatory Approach



# The UK Regulatory Approach



# The UK Regulatory Approach



# The UK Regulatory Approach

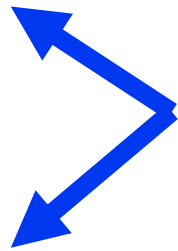


## Beyond Transposition

- Q1/Q2 2007 – Consultation on proposals to review COB requirements for non-scope business
- Q2 2007 – NEWCOB (in force on 01.11.2007) will incorporate and replace rules made for the “transposition” of the MiFID COB rules in January 2007
- Q3/Q4 2007 – Consultation on whether or not the systems and controls “Common Platform” should apply to non-MiFID/CRD firms

# The UK Regulatory Approach

## The Role of the Industry – Lobbying the Regulators



MIFID Connect

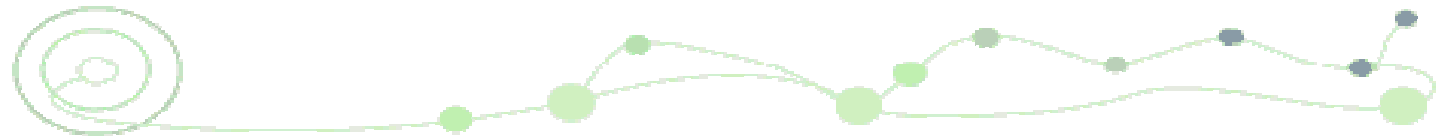


Industry



# The UK Regulatory Approach

MiFID Connect



# Content

- The UK Regulatory Approach
- **Major Changes within the UK Regulatory Environment**
- Reaction from the “City”: Positive or Negative?
- WestLB London’s Approach
- Divergence or Convergence of the various EU Rulebooks?

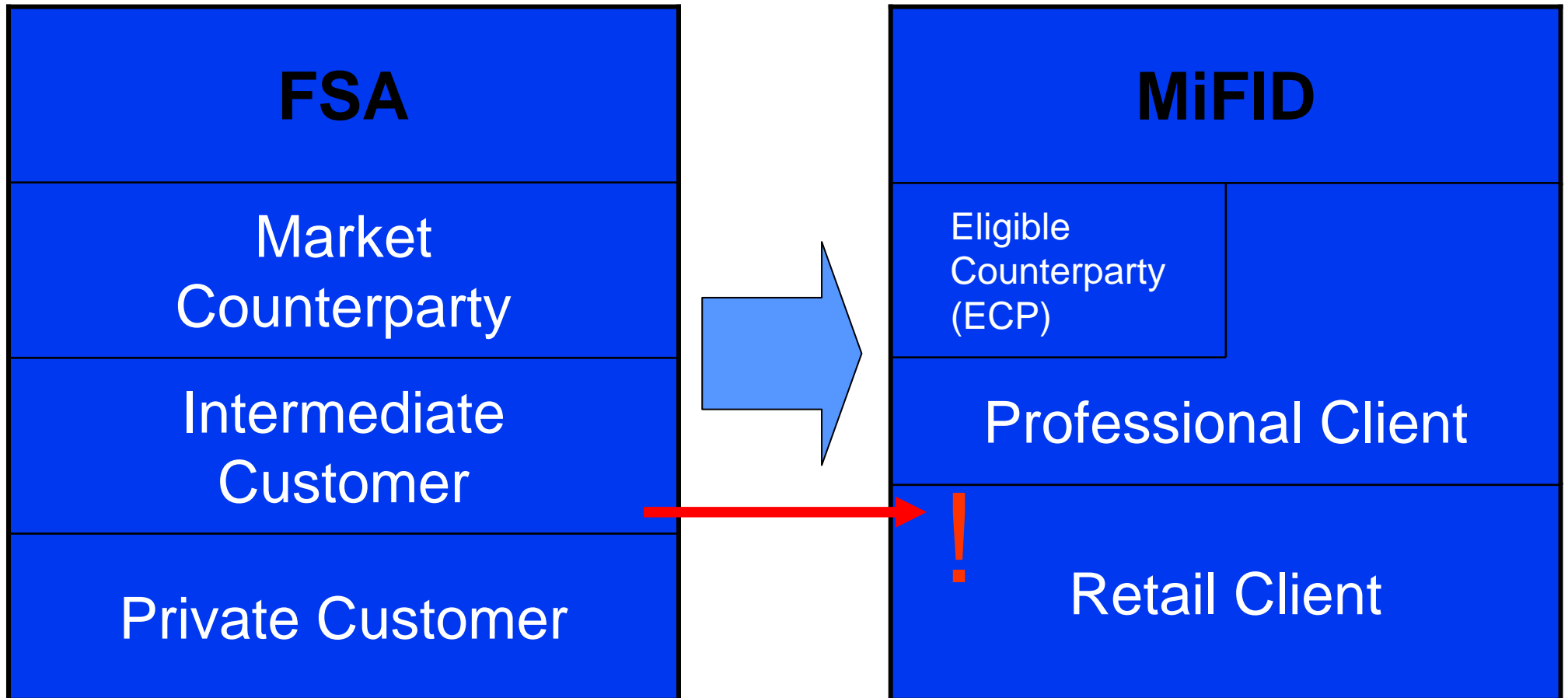
# Major Changes within the UK Regulatory Environment

- Client Classification
- Best Execution
- Conflicts of Interest
- Suitability Test



# Major Changes within the UK Regulatory Environment

## ■ Client Classification



# Major Changes within the UK Regulatory Environment

## ■ Best Execution

- Currently “Best Execution” relates to “price” only
- “Intermediate Customers” (new Professional Clients) can currently request to “Opt-out” from receiving “Best Execution”. Under MiFID this will not be possible!

## ■ Conflicts of Interest

- Currently “Disclosure” is a “solution” at general law and under FSA rules. Under MiFID it may be used only if all other methods of managing conflicts are not possible. Will apply to ECPs.

# Major Changes within the UK Regulatory Environment

## ■ Suitability Test

- Like current FSA rules – MiFID contains “Know Your Customer” and Suitability requirements. But under MiFID the Suitability requirements will also apply when providing investment advice to Professional Clients

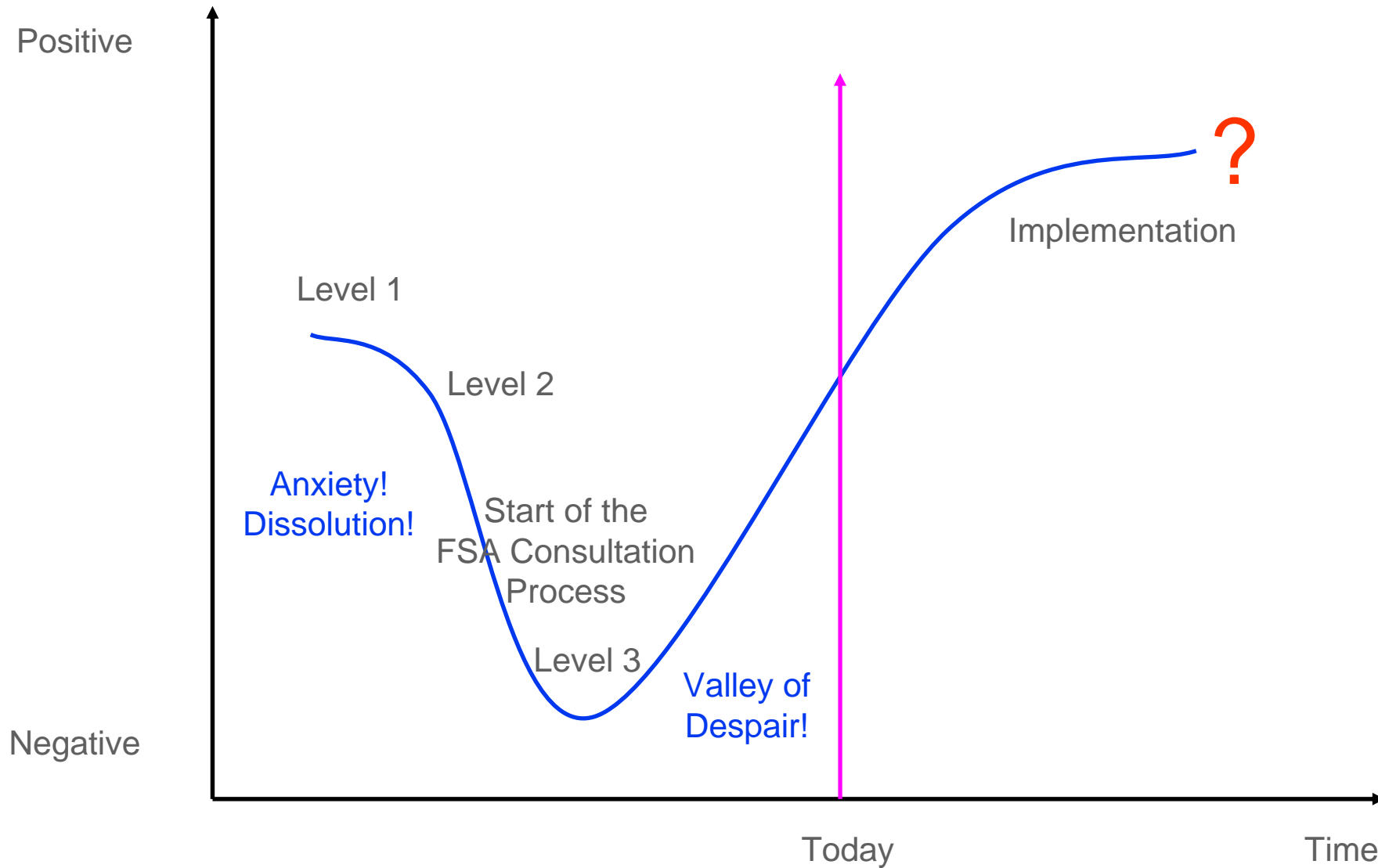
## ■ Appropriateness Test

- Under FSA rules most investment products can be provided on an execution-only basis. Under MiFID an execution-only service will only be possible under certain criteria

# Content

- The UK Regulatory Approach
- Major Changes within the UK Regulatory Environment
- **Reaction from the “City”: Positive or Negative?**
- WestLB London’s Approach
- Divergence or Convergence of the various EU Rulebooks?

# Reaction from the “City”: Positive or Negative?



# Reaction from the “City”: Positive or Negative?

## Resources for MiFID implementation?

- A year ago 50 in house FTEs
- Today 100-340 FTEs active on MiFID (investment banks, law firms etc.)
- Less than 20% are “run the Bank” – vast majority are change agents
- Most active professionals are trade bodies, law firms, think-tanks, analysts and lastly consultants
- The number of paid consulting MiFID jobs in London is approximately 24-30

# Reaction from the “City”: Positive or Negative?

## Cost of MiFID implementation?

- HM Treasury December 2005 Consultation Document estimated costs: £900,000-£2.2m
- Current Estimates: £19m-£50m (3000-3,500 firms!)
- Volume of “data” to increase 4x!
- “To be an “SI” or not to be”. That is the question”. Estimate 14-100s
- Transparency requirements for Fixed Income? 90% = OTC

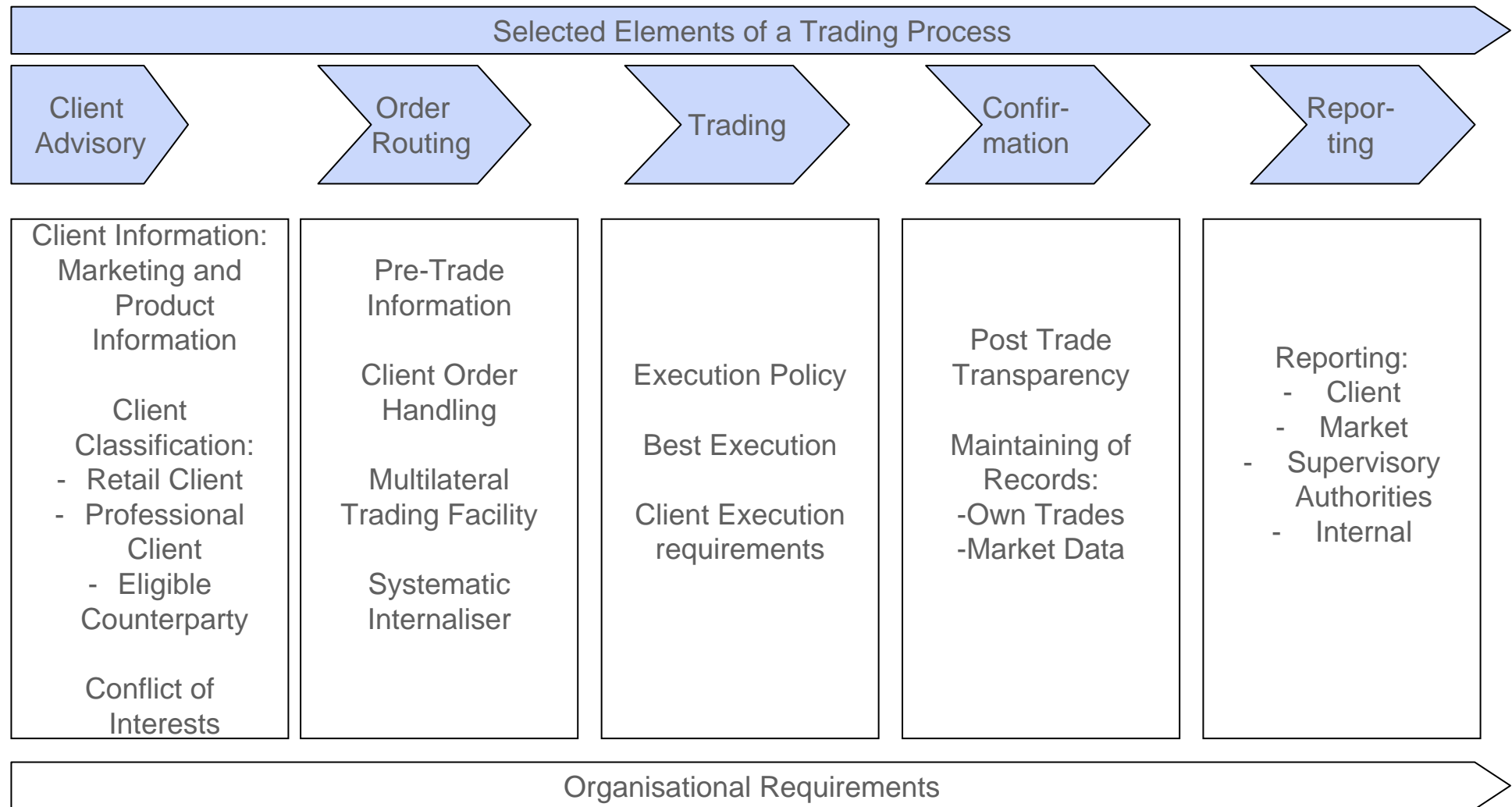
## But the ultimate aim is to save costs!

- Project Boat

# Content

- The UK Regulatory Approach
- Major Changes within the UK Regulatory Environment
- Reaction from the “City”: Positive or Negative?
- **WestLB London’s Approach**
- Divergence or Convergence of the various EU Rulebooks?

# WestLB London's Approach = Part of a Global Project



# WestLB London's Approach = Part of a Global Project

**Client: WestLB Board, Sponsor: BU Group Compliance**

**Steering Committee: BU Heads**

Business Unit		Business Unit
Business Unit		
Board Office & G. Devel.	Processes & Infrastructure	Group Operations
Legal	Cap. Mark. Business Mgt.	Operational Risk Mgt.
Group Compliance	Cap. Mark. Reg. CEO Europe	IT, COO London
Group Organisation	Weberbank	WestLB/Mellon
		Group Audit

**Project Management/Project Office**

Global Project Manager BU Group Compliance  
 Project Manager's Assistant BU Group Compliance

Subject Matter Experts (SME)

Conflicts of Interest	"KYC" / Client Classification
Customer Reporting	Maintaining of Records
Best Execution	Post Trade Transparency
Organisational Requirements	Pre-Trade Transparency / MTF

**Core team**

**Project team**

**Subprojects**

1 Capital Markets	2 Private Customers
3 Corporate Customers	4 Group Operations
5 IT	6 Branches + Subs.

**Subproject 1  
Capital Markets**

**Subproject 2  
Private  
Customers**

**Subproject 3  
Corp. Customers**

**Subproject 4  
Group Operations**

**Subproject 5  
IT**

**Subproject 6  
Branches + Subs.**

# WestLB London's Approach = Part of a Global Project

- Replicate same structure as Global Project Team
- Participate in regular Global Project Team conference calls
- Participate in Global Project Team led “Workshops”
- Hold weekly London Project Team meetings
- Regular participation at “MiFID Connect” meetings
- Participate in London based working groups: i.e. JWG-IT
- Participate in regular London conferences, seminars etc.

# WestLB London's Approach = Part of a Global Project

## Tasks


























Main Tasks
<b>Phase 1: Understanding the Requirements</b> <ul style="list-style-type: none"><li>• Level 1 requirements</li><li>• Level II requirements</li><li>• National requirements</li><li>• Level III requirements</li></ul>
<b>Phase 2: Gap Analysis</b> <ul style="list-style-type: none"><li>• Where are we now?</li><li>• What is required / important for the various BUs?</li></ul>
<b>Phase 3: Identification of Measures</b> <ul style="list-style-type: none"><li>• What must WestLB do?</li><li>• What must each BU do?</li><li>• What are the measures for each location?</li></ul>
<b>Phase 4 Implementation</b> <ul style="list-style-type: none"><li>• Coordination of measures</li><li>• Control of results on the milestones</li></ul>
<ul style="list-style-type: none"><li>• Project Management</li><li>• Steering Committee</li><li>• Board information</li><li>• Info Staff Council</li></ul>

# Content

- The UK Regulatory Approach
- Major Changes within the UK Regulatory Environment
- Reaction from the “City”: Positive or Negative?
- WestLB London’s Approach
- **Divergence or Convergence within the EU?**

# Divergence or Convergence within the EU?



No Comment; Not Recorded	Significant Delay	Slight Delay > 31/01/07	Some Doubts 31/01/07	Will be ready 31/01/07
	       	  	   	        

Source: Working document ESC/55/2006; MiFID – State of Play – Transposition and Application

# Divergence or Convergence within the EU?



“Market forces and shareholder choices should determine the optimal shape of exchange consolidation. Not bureaucrats. Nor politicians.”

Charlie McCreevy

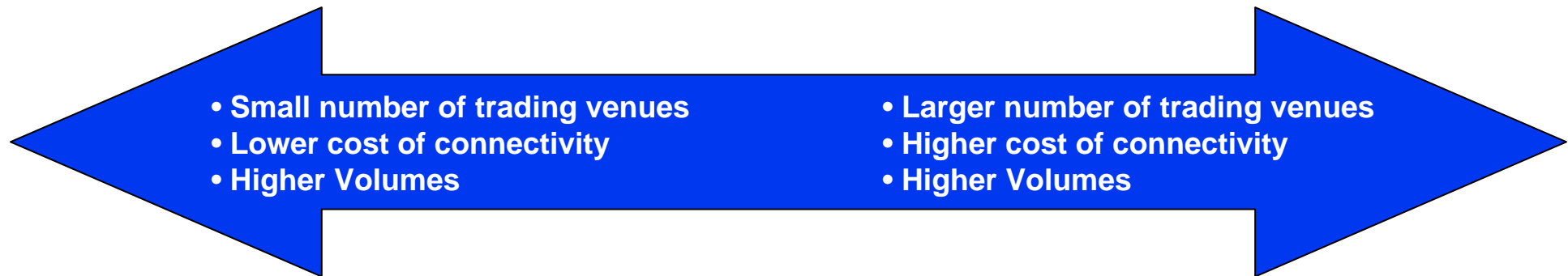




# Divergence or Convergence within the EU?

## Market Concentration

## Market Fragmentation



- **Existing Exchange Concentration** – Too expansive transparency requirements will burden MTFs to the extent that exchanges will be in a strong position to become investors' execution venue of default
- **Cost of Connectivity** – Reduced exchange links and maintenance costs

- **New Entrants in Open Market** – New market entrants gain market share from existing exchanges due to the elimination of concentration rules and more effective foreign market access gained as regulatory harmonisation occurs
- **Systematic Internalisers** – Become important liquidity pools for all players to access
- **Reduced Exchange Costs** – Increased competition reduces exchange margins

**Thank you**

**Any Questions?**

