

Delivering MiFID Regulatory Change

In November 2007, the Markets in Financial Instruments Directive (MiFID) comes into force; introducing both a single European market and a consolidated regulatory regime for financial instruments. MiFID will introduce new concepts that will considerably change European securities markets creating significant operational impact but also strategic opportunities. Those changes aimed at:

- Standardising rules on internal systems and controls, and on conflicts of interest across the member states e.g. client classification
- Ensuring high quality execution of investor transactions by enforcing a 'best execution' obligation
- Offering more open access to liquidity pools by allowing new market entrants such as Multi-lateral trading facilities (MTFs) or Bank Liquidity pools (Systematic Internaliser) to provide services throughout the EU on the basis of home country regulation (referred to as passporting of additional instruments)
- Enhancing transparency on the depth of liquidity in securities

Overall, MiFID will reduce securities transaction costs by increasing competition in share trading.

What are the challenges for most banks?

Most changes in regulation are treated as compliance issues and do not always get the business focus they deserve. MiFID is a strategic change, it must be business-led and requires every affected party to understand the challenges they are facing and the consequences of failing to comply. To summarise, these challenges are:

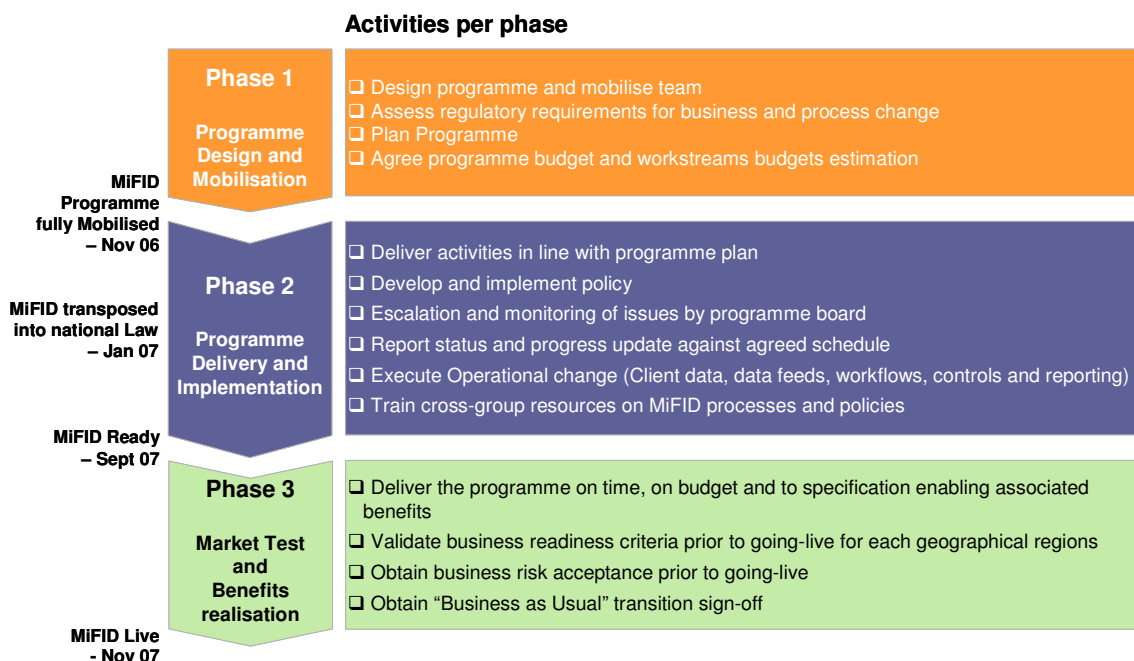
- *Reputational and client relationship impacts* - Firms that fail to comply with MiFID will suffer a loss of competitive advantage and potentially market share through client 'flight'
- *Highly complex business and IT change* - MiFID requires careful coordination to manage various IT and business process changes across multiple locations and legislation. Most firms face challenges with instruments and client data management, which will complicate the transition
- *Balancing the costs of regulatory compliance and potential increased revenues* - High implementation costs will force firms to revisit the Operational and IT strategy to assess the benefit of upgrading a set of legacy systems versus deploying a new solution. Should the 'grandfathering' agreement be disallowed, then one of the biggest challenges (and costs) will be re-confirming clients (one/two-way repapering), and making changes to client classification policies and procedures.
- *Poor stakeholder engagement*- Most firms will rely on Risk and Compliance to drive this regulatory change initiative reducing board level visibility and resulting in poor stakeholder engagement. This is the classic 'compliance-driven' approach to mandatory change and a significant factor in delivery failure.

PIPC's Approach – Creating commercial advantage through efficient delivery

The requirement for effective project management applies across all change projects, whether mandatory or not, from mobilisation through to delivery. For MiFID, key areas that need to be considered to increase the likelihood of successful delivery are that:

- *For a regulatory change programme to be compared on an equal footing with other business-led change initiatives it must play by the same rules* - This requires a robust business case to define exactly who will benefit from the changes brought about by MiFID, what this will be worth, and how the improvements will be measured.

- *A simple first step is to assess the requirement for business and process change to meet the new regulation* - This current state review will require rigorous scope management as it will undoubtedly highlight impacts on existing programmes of work focusing on the same areas
- *By coordinating effort on process and system change within the overall portfolio, time, cost and effort can be saved* - This seemingly obvious approach is often overlooked, partly due to the polarisation of regulatory change initiatives in the Risk and Compliance area, and the resulting poor stakeholder engagement



There are 3 main phases for a MiFID programme. For large firms, phase 1 should already be complete.

When to use our MiFID Regulatory Change capability

Our approach to MiFID is of use to any organisation. We are of particular value to organisations that are:

- Exposed to reputational and client relationship impacts and who wish to gain get some assurance that MiFID will be successfully delivered and for benefits to be actually realised
- Facing highly complex business and IT change across the multiple locations and legislation
- Seeing this change as a strategic opportunity and who are for instance required to establish/revisit their Operational and IT strategy to maximise the business benefits
- Looking to share the accountability for delivery with a trusted and proven partner
- Under time and pressure to get the change made and require pace, energy and drive

PIPC Proposition

PIPC's offering is unique; we are project delivery specialists who work with you to take ownership for ultimately delivering value back to your shareholders. We have a track record in delivering some of the most complex change projects across the globe. Our team of delivery experts will work with you to mobilise, design and implement your mandatory change programmes to ensure programme success. Our response to the MiFID challenges can be summarised as:

The Challenge	PIPC's Response
Reputation impacts and client relationship impacts	Manage internal and external communication to ensure coordinated programme delivery
Major opportunity to turn regulatory compliance into tangible business benefit	Optimise the balance between costs of regulatory compliance and potential increased revenue
Highly complex programme made of multiple business and IT changes across various locations and legislations	Managed the programme within the overall change portfolio
Top level resources are not assigned	Make this your number one priority and lead from the top