

## Starting with January 2018: Enhanced protection for investors and more transparent transactions with financial instruments

Significant changes occurred on the financial markets recently and demonstrated the need for the adoption of a new legal framework. To that end, the European Union (EU) passed a set of regulations that will come into effect on the 3rd January 2018: Directive (EU) 65/2014 on markets in financial instruments (MiFID II), Regulation No 600/2014 on markets in financial instruments (MiFIR) and Regulation No 1286/2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs).

MiFID II shall supersede the current Directive (UE) MiFID I aiming to enhance protection of investors and enter new transparency requirements on products, services and related costs.

### What are the goals of Directive (EU) MiFID II?



#### Protection of investors

The main pursuit is to enhance the level of investor protection by:

- Extended transparency on consulting services, products and costs
- More resilient and effective market structures
- Stricter regulation of financial markets
- Extension of the supervisory attributions and capacity of the regulatory authorities to apply penalties



#### How will you benefit from Directive (EU) MiFID II

In short, by means of enhanced protection for investors. In your regard, this means:

- Enhanced transparency for the selection of the product
- Enhanced transparency on costs
- Enhanced transparency on transactions



#### Enhanced transparency for the selection of products

**Definition of the target market.** Starting with January 2018, all creators and providers of financial products must define a target market for the relevant product. Besides the evaluation of the adequacy of financial products, starting with January 2018 all creators and providers of financial products must define, in regard of each product, a group of target customers who can acquire the product.

**Key information documents for packaged retail and insurance-based investment products (PRIIP).** If you have been classified as an

“Individual investor”, as defined in Regulation (EU) No 1286/2014 on key information documents for packaged retail and insurance-based investment products (PRIIP), you will receive key information documents for packaged retail and insurance-based investment products starting with January 2018. Key information documents shall be provided by the creator of the product. They will also be accessible on-line on the web page of the product creator.

Key information provided in key information documents for investment products: ● type

- and characteristics
- investment facilities ●
- due date
- prior evolutions ●
- risks
- costs

You can use key information documents to compare investment products.



## Enhanced costs transparency

**Information on costs prior to the conclusion of a transaction.** You will be sent more detailed information on the costs of a transaction with financial instruments which will include, if applicable, the related costs (e.g., custody costs, trading costs etc.):

- Prior to the acquisition or sale of a financial instrument, you will be provided detailed information on all estimated costs. Moreover, if applicable, you will be provided with the effect of all costs on the expected return on investment.
- You will also be submitted an annual report with all costs incurred effectively during the past year in connection with the transactions with financial instruments executed with the Bank.



## Enhanced transaction transparency

**All investors** who perform transactions with financial instruments in the application scope of MIFID II will require starting with 2018 an identification code applicable worldwide. The purpose is to make financial markets safer and more transparent.

**Legal entities** will be forced to hold and maintain valid a separate international identifier, specifically the Legal Entity Identifier/ the LEI code, for their transactions with financial instruments.

**Please note** that legal entities will not be allowed to engage in transactions with the Bank following the 3rd of January 2018 in the absence of a valid LEI code.

### Record keeping requirements

In the future, we will record telephone conversations related to financial instruments, specifically those related to the acceptance, transmission and performance of your instructions. Moreover, all relevant electronic communications, such as emails, shall be archived. All records and archived materials will be maintained available for at least five years.

## Current regulations which will remain in effect: the three investor categories

The new MiFID II (EU) Directive does not amend the rules for the classification in one of the three categories of investors. Based on the available information, you will be classified in one of the three categories:

- Retail client
- Professional client
- Eligible counterparty

Based on this classification, you will be provided the legal protection required for your category.



### Retail client

Retail clients enjoy the most extensive form of protection regulated under MiFID II. It involves the observance of all conduct requirements provided in the new directive. Retail clients can be natural entities or legal entities.

According to the MiFID II (EU) Directive, we will be outlining a full profile of investors, as we have done in the past. To that end, we will require some information from you, such as your knowledge and experience in investments, your financial status, including the ability to incur potential losses etc. Based on your information, we will be able to evaluate the adequacy of the financial tools, as well as the qualification for the target market of the investment products requested by you.

For that reason, it is very important that the information provided for the investor profile is detailed, updated and complete.

Should you not want to provide all required information, from the legal perspective we can only provide a limited range of products and services, given that appropriate protection for investors can only be guaranteed based on the provision of



complete information between you and our bank.

 **Professional client**

Professional clients have the experience, knowledge and abilities to make the investment decision and assess the risks involved; therefore, they will benefit from lesser protection than the protection applicable to retail clients. This category of professional clients involves:

- companies which meet at least two of the following criteria:
  - total accounting balance sheet: EUR 20 million or more
  - net turnover: EUR 40 million or more
  - own funds: EUR 2 million or more
- national or regional governments, public institutions which manage public debt, central banks, international and supranational institutions, such as the World Bank, International Monetary Fund, European Central Bank, European Investment Bank and other similar international organisations.
- other institutional investors mainly operating in investments in financial instruments, including entities dealing in the securitisation of assets or other financial transactions.

 **Eligible counterparty**

Eligible counterparties include the following entities:

- financial investment services companies, credit institutions and insurance companies
- collective investment entities and their management companies
- pension funds and their management companies
- other financial institutions authorised or regulated according to the communitarian legislation or national laws of one of the Member States
- natural or legal entities with main line of business consisting in the proprietary trading of goods and/or of derivatives with goods as support
- traders
- national governments and their subordinated public entities, including public authorities managing public debt
- central banks and transnational organisations

Only specific provisions of MiFID II apply to this category of clients, with regard to which the directive sets the lowest form of protection.

Should you require the highest level of protection, you can submit a written application for the assignment in a different category of investors. We shall subsequently check whether you meet the legal requirements for such reassignment.