MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE (MIFID)

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The Markets in Financial Instruments Directive (MiFID) has been transposed into French law (Order of 12 April 2007 amending the Monetary and Financial Code).

It applies to **financial instruments, including** UCITS, equities, bonds, subordinated securities, shares, negotiable certificates of deposit, futures, etc.

It makes numerous changes to the operating rules of markets, by providing in particular for competition between trading venues. Furthermore, it defines a principle of "**best execution"** of orders, establishes assessment and information rules for investment clients and specifies the organisational principles to be applied to avoid conflicts of interest.

The aim of this brochure is to explain the main characteristics of these changes.

These provisions entered into force on 1st November 2007.

1 – Competition between trading venues

Before MiFID, stock market orders could only be executed in France on a regulated market (notably EURONEXT, the Paris stock exchange). Practices were different in other European countries.
Now, 3 methods of execution are possible within single legal framework:

- a regulated market, which is an approved multilateral system, which brings together

multiple third-party buying and selling interests in financial instruments that are admitted to trading (in France, EURONEXT);

- multilateral trading systems (MTF), operated by a market undertaking, which bring

together multiple third-party buying and selling interests;

- systematic internalisers which, in an organised and systematic way, deal on their own

account by executing the orders of their clients outside a regulated market or a MTF;

- numerous transparency rules must be respected by the investment firm in this case.

2 – Execution of orders on terms that are the most favourable to the client (best execution)
To protect investors and to guarantee that they receive a high-quality service, MiFID requires intermediaries to implement execution procedures that ensure that they obtain the best possible result for their client taking into account:

- the total execution price

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- the quality of execution (speed and likelihood)
- the order's characteristics (nature, size or other considerations relative to the execution of the order)

3 – Client assessment and information

- This aspect is governed by new rules.

Portfolio management companies have a general obligation to act in the best interests of their clients taking into account their level of risk aversion. To that end, they are required by MiFID to classify and assess their clients (or potential clients) in order to determine whether the services and financial instruments proposed are appropriate; this means that they are required to obtain certain information prior to the provision of the service.

The implementation of these new rules by CPR AM will lead to enhanced protection for investment clients.

- They vary according to the **classification of investors**:

MiFID distinguishes three categories of investors:
– **eligible counterparties**,
– **professionals**[1],
– **"non-professionals**" (retail): all other clients
Retail clients enjoy the highest level of protection. Professional clients (and even more so eligible counterparties) are in particular assumed to have the necessary experience and knowledge to understand the risks inherent in financial instruments.
You should refer to annex 2 (client classification) to this letter for the details of the criteria applied in order to determine these three categories.
Note: in the case of discretionary management, the management company recognises only two categories of clients:
– non-professional clients
– professional clients

This letter specifies the category in which we intend to classify you.
You can request a change of category. In such a case, your account manager will check that the necessary conditions are met if the resultant level of protection is lower.

- They vary according to the service provided:

→ Where the portfolio management company provides an investment advisory service or portfolio management service, it must obtain information that will enable it to assess the client's knowledge, investment experience, financial situation and investment objectives.

If the portfolio management company does not obtain this information from its client, it must refrain from recommending investment services or financial instruments.

→ Where the portfolio management company provides investment services other than those mentioned above (such as the execution of orders on behalf of client or the

reception and transmission of orders in one or more financial instruments), it only needs to check the client's investment knowledge and experience.
If it does not have sufficient information, it informs the client that it is unable to determine whether the proposed service is appropriate.

4 – Organisational rules intended to avoid conflicts of interest
All investment service providers must take measures to avoid conflicts of interest between them and their clients or between two clients: detection of such conflicts and the implementation of an effective management policy (procedures to be followed and measures to be taken).
You can obtain details of CPR AM's conflict of interest management policy, governing the application of procedures for the prevention and management of conflicts of interest from your account manager or you can consult the policy on our website www.cpr-am.fr

5 – Specific case of the application of MiFID to the marketing of UCITS (open or segregated)
The MiFID obligations have been transposed in the new book III of the AMFGR published on 15 May 2007, applicable to investment service providers engaged in third-party asset management services, the reception/transmission of orders, investment advisory services, and applied since 1st November 2007.
[1]
As the collective management of UCITS fell within the scope of the European UCITS Directive and not MiFID, clients investing directly in UCITS (open to the public or segregated) were therefore not concerned by book III of the AMFGR published on 15 May 2007.

The new book IV of the AMFGR setting out the regulatory obligations applicable to collective investment products was published on 30 March 2008.

In particular, one article in book IV stipulates that:
- where a management company markets its own UCITS it must comply with the rules of good conduct applicable to the execution of third-party orders;
- where a management company markets UCITS managed by other entities, it must comply with the rules of good conduct applicable to RTO services for third parties.

The implementing instruction defining these obligations was published on 15 July 2008.

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