

Product governance – MiFID II requirements

Flexible – Standardised – Automated

We support you when it comes to fulfilling your regulatory feedback requirements pursuant to MiFID II

MiFID II, which entered into force on 3rd January 2018, introduced product governance obligations for “manufacturers” and “distributors” (i.e. distribution outlets with contact to final investors) of MiFID instruments, which also include units in investment funds.

At the heart of this product governance lies the product approval procedure which the manufacturer of the financial product and the distributor must create.

As a general rule, manufacturers must ensure that a new product is compatible with the interests and needs of clients and does not represent a threat to the orderly functioning or stability of financial markets. By contrast, the distribution outlets must decide on the basis of individual process steps whether to include a product or service in its range.

The lawmakers provide for a continuous exchange of information between the two parties in order to ensure effective product governance. While the manufacturers specify a “target market” for each product by defining the client needs and characteristics with which the product is compatible (positive target market) and those with which it is not compatible (negative target market), the distributors must inform manufacturers at regular intervals of their experience of the products.¹ This is designed to enable the manufacturers to review the target market definition for its accuracy and amend it where necessary.

While the target market definitions can usually be communicated to the distribution outlets via data service providers owing to their standardised format, the reporting to manufacturers poses a logistical and technical challenge for many distribution outlets. In particular, complex trading and distribution chains complicate the feedback process because there is often no direct contractual relationship with the manufacturers of the investment funds. Due to missing contact details and without the implementation of expensive technical communication solutions, this reporting obligation pursuant to MiFID II usually requires considerable effort and causes high costs; moreover, because the processes are manual they are extremely error-prone.

A platform for your MiFID II feedback process

For this reason, we at ifsam support our clients when it comes to fulfilling their regulatory obligations. “As a fund platform, we have, per se, a comprehensive network connection to all major fund manufacturers. It therefore stands to reason that we take on this task for our clients”, says **Michael König, Head of Fund Partner Network at ifsam**. “The only thing needed was to identify a reporting standard that meets the requirements and is accepted by the broad market. We consider the European Feedback Template EFT V1 produced by FinDatEx a solid basis”, adds **Gerrit Mundt, Managing Director at ifsam**.

Working in collaboration with **Liechtensteinische Landesbank AG** as pilot client, a fully automated reporting system has been implemented.

“For us as an all-purpose bank it was important to find a comprehensive solution, independent of the depository and the distribution channel of the investment fund concerned. In ifsam, we have found a provider who takes on the reporting for all investment funds concerned regardless of whether or not we deposit the fund portfolios at ifsam. This provides us with maximum added value in the fulfilment of this statutory requirement”, states **Kurt Ospelt, Head of Financial Institutions**.

“What is more, this flexible implementation does not limit the group of distribution outlets to clients of our trading and depository services alone, it also gives us the opportunity to act rapidly, in an uncomplicated and above all hassle-free manner on behalf of every distribution outlet that has to comply with these statutory requirements”, adds **Gerrit Mundt**.



¹ “Recital 20, COMMISSION DELEGATED DIRECTIVE (EU) 2017/593 of 7 April 2016”