

MiFID II and Kuber

This document is a brief summary of MiFID II, the forthcoming European directive and its implications for Kuber and its Adviser community.

What is MiFID/ MiFID II?

The Markets in Financial Instruments Directive (MiFID) is a piece of EU legislation that regulates firms providing services to clients linked to 'financial instruments'. Financial instruments are generally defined as:

- > Shares
- > Bonds
- > Units in collective investment schemes
- > Derivatives

The legislation also regulates the venues where those instruments are traded. The regulations cover:

- > investment intermediaries that provide services to clients around shares, bonds, units in collective investment schemes and derivatives (collectively known as 'financial instruments') and the organised trading of financial instruments MiFID came into force in the UK in November 2007. Its aim was to increase competition and consumer protection in the financial services sector across the European Economic Area (EEA). It was intended to:
 - > remove barriers to cross-border financial services within Europe
 - > encourage a level, competitive playing field between trading venues for financial instruments in the EEA
 - > ensure that financial service consumers/investors across the EEA have appropriate levels of protection

MiFID II is a revision to improve the functioning of financial markets in light of the financial crisis and to strengthen investor protection.

The full list can be found in section C of annex I of MiFID.

What does MiFID II hope to achieve?

The legislation's high level goals are: Increased transparency of markets

- > Strengthen investor protection
- > Reduce risks of a disorderly market
- > Reduce systemic risks
- > Increase the efficiency of financial markets
- > Reduce unnecessary costs for participants more explicit

When does it come into effect?

It was originally scheduled to come into force on 3 January 2017. In February 2016, the European Commission formally delayed implementation by one year; it now comes into effect on 3 January 2018. The delay was designed to allow firms to deliver the complex IT systems and other supporting infrastructure needed to meet the requirements.

Who does it affect?

In terms of the types of business affected, MiFID II will impact:

- > IFAs who are not article 3 exempt
- > Brokers
- > Dealers
- > Trading venues
- > Hedge fund managers
- > Asset managers
- > Global corporations in the financial services market



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Geographically, although it is an EU regulation, it will have implications worldwide. The financial markets are international in scope so the impact of the legislation will be felt globally. Interactions between – for example – an Asian firm and a European customer, will be subject to its rules

What are the MiFID II requirements?

The changes it demands of businesses will require fundamental change – not just in approaches, but in the systems and models that support financial services firms' operations. Some of the big changes relate to:

- > client reporting – all clients now need to be informed if the value of their portfolio drops by 10%
- > best execution (the duty of an investment services firm, such as a stock broker, executing orders on behalf of customers to ensure the best execution possible for their customers' orders)
- > product governance affecting manufacturers and distributors
- > aggregation of costs and charges
- > marketing material for professional clients – which will now be treated as a financial promotion

Understanding these requirements and their implications is the key first step in preparing for MiFID II implementation.

Specific Kuber oriented questions/ observations

Q 1 What are the implications of the Legal Entity Identifier (LEI)

From 3/1/18, LEI's are required to execute a transaction on behalf on an eligible client who requires an LEI. Reporting firms should obtain an LEI from the relevant entities before executing a transaction in a financial instrument so that accurate details can be reported to the competent authority.

A. LEIs are reference numbers which are designed to track whether a legal entity is paying its tax and other obligations. They are required when a regulated firm is providing investment management or advisory services to a legal entity which is not a human being. There is no need for advisory firms or investee companies to provide LEIs as neither is in receipt of these services. The instance where LEIs are needed is where an investor is a legal entity, not a human being. The main circumstances where this becomes relevant is:

- > Trusts investing in BPR qualifying companies
- > Estates are created where an investor has died
- > Companies invest in BPR.

In these instances, the Adviser would need to obtain an LEI and provide it to us. We are in the process of modifying the database to accommodate LEIs

Q 2 How does Kuber comply in Identifying the Target Market

ESMA has set out 6 criteria which product providers must use to identify the target market for each of their products. There must be 2 way information sharing between advisers and providers to ensure the product chosen is being marketed at the intended target market.

A. We have been complying with this since Kuber started trading. The target market for EIS and SEIS is clients with income tax or capital gains tax liabilities who have capital which they are able to commit for at least 7 years. As a broad guide, these clients would typically meet the FSMA HMW test – i.e. they have at least £250k of investible assets. In the case of BPR, our clients would have an estate which could be liable to IHT and an investment portfolio which would be of a sufficient size that they could commit funds to a BPR portfolio and still have liquidity elsewhere to cover their living needs.

Q 3 What measures does Kuber have in place to report the Drop in Portfolio Valuation?

If a portfolio drops more than 10% in a reporting period, the client needs to be informed within 24 hours.

A. Kuber is building in a reporting facility which will automatically send a warning by email where such a drop is experienced. We interpret the rules such that we will daily look back over the previous 90 days to check if there has been such a fall in value. Kuber will include the Adviser in any communications.

Q 4 How will Kuber be reporting on all aggregated costs and charges

Investment firms have to inform clients of ALL costs and charges, acquisition costs or exit charges paid by the fund, stamp duty etc. Whilst most costs are declared on the KFI and half yearly statement, this may not currently cover breakdown of additional charges such as switch fees, exit fees, stamp duty of property funds etc.

A. Kuber will report all fees through the platform. Stamp duty charges will be declared in the exit statements generated by the fund managers.

Q5 Going forward how will telephone calls be handled at Kuber?

A. As a requirement of MiFID II all telephone calls need to be recorded and Kuber will be switching to mobile call recording from January.

All of the above information is correct as a result of Kuber Ventures understanding and interpretation of MiFID II requirements and covers the major areas of MiFID II.

Important Notice

Please read the following information carefully as a professional adviser.

The information contained in this flyer is for discussion purposes only for professional advisers and their clients, it is not for Retail Clients. The example provided in this flyer is for illustrative purposes only and should not be relied on when taking or advising on any investment decision.

EIS/SEIS/BPR Funds are not suitable for all investors as the underlying investments are often illiquid and therefore high risk. Investors may not receive back some or all of the initial investment. Advice should always be sought from a professional adviser prior to investing.

For purposes of compliance with the UK Financial Services and Markets ACT 2000 (FSMA), this material is communicated by Kuber Ventures; and the contents

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