THE TA FORUM
MiFID II Working Group

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The primary objective of the MIFID II TA Forum working group was to review the regulatory changes being implemented under MIFID II and define a standard approach, where applicable, for the TA industry.

The collective working group reviewed the following elements to assess the impact to TA's and have published recommended best practice and roles and responsibilities:

- Cost & Disclosure (Pre and Post sale)
- Client Classification
- Appropriateness
- Client Money and Assets Reporting (and quarterly reporting requirements)
- Call recording
- Product Governance and Target Market
- Training and Competence
- Distance Communications
- Record Keeping
- Contract Notes
- Complaints

As a result of the above review the most complex area of MIFID II is the Ex Post cost and charges statement issued to investors of MIFID II products/funds. The working group have defined an industry standard statement and Investor guide which are available on the website.

Explaining the cost and charges statement

Foreword

This document describes how the cost and charges document is constructed for an investment that only contains fund investments (no cash) and where no cost and charges are applied to the plan itself. It is not intended for use with investors or clients nor for any other investment without appropriate amendment. Your attention is drawn to the fact that some terms are used that might not be familiar to those outside of the TA industry.

Introduction

- The cost and charges statement "the statement" combines all the costs and charges incurred on the plan. The plan itself may contain more than one investment in a fund and the statement will combine the cost and charges over all the fund investments contained in the plan.
- The costs and charges incurred are those that arise in respect of the funds held and the transactions in those funds. No costs and charges are applied to the plan itself.
- The cost and charges applied to the funds held by the investor's plan are those provided from the EMT for each fund and the statement will provide the investor with a statement of the total charges (£'s and %) applied to the investor's actual fund holdings and the impact that those charges had on the investment return of the plan.

- For ex-post reporting 2 charges are taken from the EMT. The first is the ongoing charge and the second is the transaction charge.
- The reporting date is always a calendar year from the previous reporting date. However the reporting period is between the reporting start date and the reporting end date. The reporting start date is the date on or after the previous reporting date when the Plan first contains a non-zero holding. The reporting end date is the date on or before the current reporting date when the Plan first contains a non-zero holding.

How do we do calculate the fund charge in £s?

- The charge %s provided from the EMT are the charges per annum but the charges are actually applied in the fund at each valuation point throughout the year. To calculate the monetary value of the charge in the reporting period for the investor's plan the following calculation is performed for each fund and then the value summed over all the investor's fund holdings in the plan.
- The EMT charges for the fund are divided by the number of days in the calendar year to provide a daily charge rate. The charge applied at each fund VP in the reporting period will be the number of days since the previous valuation point times the daily charge e.g. the charge applied in the fund on a Monday will be for the 3 days to include the weekend.
- The charge applied at the VP to the investor will be the value of the investor's holding in the fund at that VP times the charge applied at that VP.
- The total charge for the reporting period will be the sum of all the daily charges in the reporting period.

How do we do calculate the fund charge in %

- The value of all the plan charges in £'s from 2 above is divided by the average value of the plan in the reporting period. The average value is the average of the plan values calculated on each calendar day of the reporting period.

How do we calculate the effect of the charges in %

- The investment performance of the plan is calculated from the investment performance of the plan between each VP and accumulated over all VPs in the reporting period. To calculate the investment performance after charges the published prices are used for the funds contained in the plan to calculate the fund values.
- The investment performance before charges is calculated from the investment performance of the plan between VPs but using the prices of the fund(s) that would have arisen had the charges actually made not been deducted and then accumulating the between VP investment performance calculated over the entire reporting period.
- The effect of the charges on the investment return of the plan is calculated as the value calculated in 4.2 above less that calculated in 4.1.

What should I expect the results to be?

- If the investor has a holding in one fund only at the beginning and end of the reporting year and in the absence of any plan charges and any initial charges on the transactions the net yield and gross yield reported is unaffected by any transactions performed throughout the reporting year i.e. The reported net yield and gross yield is the same irrespective of whether the holding value is £1 or £1 million and irrespective of any transactions in the reporting period. This is an entirely logical result but perhaps not intuitively obvious e.g. a bank account providing a return of 2% interest will provide 2% interest irrespective of the balance or transactions. However the size of the holding and transactions will impact the charges expressed in £s and % (since the % is based on the average plan value and the average plan value will be affected by any transactions in the reporting period).

- Where the duration between the reporting start date and the reporting end date is not a year the net yield and the grossed up yield will depend on the date (but not the amount) of the transactions in the funds since the invested amount will be exposed to different periods of the underlying fund performance.
- If the fund only has a 2% on-going charge and the price of the fund has remained static throughout the year and has been held by the investor for the whole year the effect of the 2% charge will be 2.02% for a daily priced fund (because it is applied daily). If the fund increased in value by 50% over the period the effect would be 3.03% since the effect of the charge is compounded by the fund performance.