The Financial Services Forum

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The countdown to MiFID II: How can marketers prep themselves?

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By Nandini Rao, Investment Writer
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You might think regulatory changes are only the business of governments or legal and compliance departments of asset managers. But the Markets in Financial Instruments Directive (MiFID II), scheduled to take effect on 3 January 2018, is set to have a much wider reach.

At a recent panel discussion hosted by the Financial Services Forum, the experts were unanimous in their verdict about the far-reaching consequences of the directive for marketers in asset management companies. Chaired by Mark Colegate, the editorial director of Asset TV, the panel comprised people on the front line of dealing with MiFID II. Key to their discussion was how marketers should take the lead in understanding the implications of MiFID II and especially in communicating with clients.

Reaching out to clients

MiFID II will affect the entire value chain including distributors of funds, and most importantly, the end-clients of asset managers, according to panellist Adrian Whelan, who is the senior vice president of regulatory intelligence at Brown Brothers Harriman.

One of the objectives of the directive is to enhance transparency. Consequently, asset managers will have to disclosure factors such as product awareness and risk and return to clients. In addition, they will also have to make complex disclosures of charges and trading venues. Marketers will have to communicate with clients what positions their companies have taken on charges (for example, research costs) and cope with clients' reactions. But passing on this information to clients could be challenging.

A chunky 100-page report about charges under MiFID II may tick compliance boxes but is this how marketers should help clients? Panellist Claire Bennison – head of services and product development at Brooks Macdonald – believes it is important for asset managers to avoid jargon when making these new disclosures. This will be especially important when dealing with retail investors, some of whom are bewildered by terms – such as "structured products" – that asset managers take for granted.

Panellist Simon Ellis, global head of client segments at HSBC Global Asset Management, believes effectively communicating with clients is important. Ellis says that regardless of MiFID II, asset managers are likely to enter an "arms race" in tech-savvy client communications – everything from videos on smartphones to virtual meetings with advisors and even robo advice.

Already, he notes, large firms are buying stakes in platforms and fintech firms. Hence, technology could pave the way for marketers to communicate the new disclosures under MiFID in digestible chunks so clients get what Ellis calls an "Amazon experience".

Caveat venditor

This Latin expression means "let the seller beware". MiFID will involve new suitability requirements, under which asset managers will have obligations to ensure their products only get sold to the investors they are meant for. The good news is that the industry is already geared up for the suitability requirements to a large extent – these were covered under RDR.

However, Ellis believes companies need to do more when it comes to implementing the new product governance norms. Currently, asset managers do not have clear target market definitions – marketers will need to work on defining the target market for each fund and sometimes each share class. Ellis believes it is important to arrive at a single target market definition that can be used throughout the value chain from product makers to distributors.

Under MiFID, another element of product governance will involve assigning complexity labels to certain funds. Whelan believes this could lead to tensions between product, sales and compliance. Marketers could work on bridging the gap here, using their knowledge of distributors and end-clients.

“United we stand”

The reach of MiFID could be dramatic not only for asset management companies but also for distributors. Ellis believes that the product governance norms proposed under the directive could constrain distributors to work with fewer firms. Consequently, marketers in asset management companies need to assess the impact on distributors and how they react to this.

Feedback will be essential. “Every part of the value chain needs to work together,” says Bennison. At Brooks Macdonald, she says that there are teams discussing the implication of MiFID with fund managers for each fund on the buy list. For their part, marketers in asset managers need to communicate with distributors on how to position their funds once MiFID kicks in and seek feedback on whether this positioning is effective or not. “What is encouraging is that investment firms are working together on this” she says.

Clouds – and perhaps a silver lining

MiFID will undoubtedly increase costs for asset managers. Whelan believes the companies most likely to face higher compliance costs will be those with highly dispersed open-architecture models.

Furthermore, MiFID, at least in the early days, may also risk limiting innovation in an industry where it has always been important, says Bennison. Meanwhile, Ellis believes that the use of passive funds for retail investors could increase under MiFID.

On the other side of the coin, some of the new rules under MiFID could translate into opportunities for active managers. Under MiFID, asset managers will need to unbundle research costs from trading costs and decide if they will pay for research from their own pockets or pass it on to end clients. They must also break down these costs for investors, and if they opt to pass them on, then explain to investors why they will face these costs.

Explaining this may mean marketers need to communicate complex information which may be very difficult for everyday investors to understand. However, while explaining the minutiae of research costs could be a challenge for marketers, Bennison believes that if clients are willing to pay for research under MiFID, then the value of active fund managers could increase.

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www.thefsforum.co.uk
0207 449 9000

Copylab
www.copylab.co.uk
0131 247 6781

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