

## A European directive to improve investor protection

The MiFID (for “Markets in Financial Instruments Directive”) European directive entered into force on 1st November 2007 within the European Economic Area, which consists of the European Union Member States, Iceland, the Principality of Liechtenstein and Norway.

The aim of the MiFID directive is not only to harmonise financial services within the European Economic Area but also to formalise and strengthen measures designed to protect the interests of investors.

Accordingly, all investment firms providing services related to financial instruments, such as the execution of stock market orders, investment advice or portfolio management services, are directly concerned by these new provisions. Although the MiFID helps to harmonise the functioning of financial markets, the directive is also intended to enhance the efficiency and transparency of financial markets, in particular by introducing healthy competition between financial centres in Europe.

The MiFID directive is based on several general principles which are to be implemented in every European financial institution. We will focus on four main principles.

First of all, the MiFID requires investment firms (such as banks, brokerage firms and portfolio management companies) to ensure that the services and products they propose are in line with each investor’s risk profile. Similarly, the MiFID provides for each institution to put in place a “best execution” policy, intended to guarantee investors that their stock market order will be executed in the best possible conditions. The MiFID European directive also imposes higher standards as regards the management of stock market orders. Finally, it includes stringent provisions regarding transparency and the information to be provided to investors.

Since it was formed in 1928, Leleux Associated Brokers has always given priority to protecting the interests of its clients. It follows therefore that the entry into force of the MiFID directive has not fundamentally changed our way of working, as our Firm has already applied a large number of the directive’s new requirements for many years. However, some procedures have had to be adapted, in order to achieve the enhanced formalism that the directive has introduced since November 2007. The MiFID directive may therefore affect the day-to-day financial management of every investor. It is with this in mind that we decided to produce this presentation of the general principles of the directive.



## ■ Improved investor protection

One of the objectives of the MiFID directive is to provide investors with greater protection the moment they make their investment decisions. To that end, clients of European investment firms (banks, brokerage firms and portfolio management companies) are divided into three categories:

- Retail clients
- Professional clients
- Eligible counterparties

The directive stipulates that all safeguards shall apply to retail clients, while the level of protection is lower for professional clients and eligible counterparties. Every investment firm in Europe must therefore classify its clients and inform them of the category in which they are placed. This classification must, of course, comply with the criteria laid down by the directive.

## ■ Advice in line with the investor's profile

When financial institutions provide investment advice or portfolio management services to a retail client, the MiFID European directive stipulates that they must check that the investments which will be executed via them are suitable for their client. Pursuant to this principle, investment firms must, when they provide these services, establish the client's investor profile.

To that end, your financial intermediary must gather certain information regarding your investment objectives, your investment knowledge, your experience and your financial situation. Your investor profile will be established on the basis of this information. From then on, all investment advice provided by your financial intermediary must comply strictly with your investor profile. In other words, your financial intermediary cannot recommend to you a financial transaction which would represent a disproportionate risk in relation to your investor profile.

At Leleux Associated Brokers, our account managers are required to update your investor profile every three years in order to ensure that it still matches your needs. Three months before the scheduled review date, you will receive a letter inviting you to make an appointment with your account manager in order to complete this formality, which takes around ten minutes.

## ■ Upgrading information available to investors

The European directive specifies various criteria regarding information available to investors. The information provided by investment firms must be clear, fair, accurate and not misleading. It must enable investors to make their investment decisions with full knowledge of the nature of the investment and related risks. Accordingly, investors must be given a general description of the nature of the financial instruments in which they wish to invest and the related risks.

## ■ Better management of conflicts of interest

The MiFID also stipulates that every investment firm in Europe must take all necessary steps to identify, control and manage conflicts of interest. Financial intermediaries must establish a policy for management of conflicts of interest.

This is part of our new general terms and conditions which you received when you opened your account. This policy, designed to prevent conflicts of interest, has in fact been in force at Leleux Associated Brokers for many years.

## ■ Provision of regular reports to investors

The MiFID stipulates that financial intermediaries must provide their clients with regular reports on the products and services provided to them. Accordingly, investors must receive from their investment firm confirmations of the execution of their orders as well as, at least once a year, a statement showing all the financial instruments held in their portfolio with their financial intermediary. For clients with a managed portfolio, the report must also include, for the period covered by the statement, a description of the content and value of the portfolio, the total amount of income received (interest and dividends), a summary of the commissions and charges debited, as well as a comparison of the portfolio's performance against an agreed benchmark.

Leleux Associated Brokers has been offering this type of reporting to its clients for many years, since a confirmation is sent to you no later than the day after the execution of your stock market order and you also receive a full securities and cash statement containing a valuation of your assets and a description and breakdown of the assets.

## ■ Optimal order execution

The MiFID stipulates that every financial institution must put in place an order execution policy and provide clients with details of this policy. The principle is simple: for all orders received from their clients, financial intermediaries must assess on which regulated or unregulated market they should execute the order in order to ensure that it is executed on the most favourable terms available. In other words, your financial intermediary must check on which market the best price can be obtained, while taking into account, for each market, factors such as, in particular, the security's liquidity and the applicable commissions and tax rules.

As a member of the leading European markets Euronext, Xetra, the Luxembourg Stock Exchange, Euronext Derivatives, the London Stock Exchange as well as Chi-X Europe and BATS, we are in a position to offer you one of the best order execution policies available.



## ■ The different types of financial services

The MiFID European directive defines the financial services that can be provided by investment firms in Europe. At Leleux Associated Brokers we have identified five main services.

■ **The so-called “Execution Only” service:** This is a pure stock market brokerage service, which involves solely the reception, transmission and execution of stock market orders. In other words, the investment firm restricts itself to executing a stock market order given by a client and may in no circumstances issue recommendations, advice or an opinion on the transaction. A distinction needs to be made however between, on the one hand, the so-called non-complex products, such as equities, bonds and sicavs, for which the financial intermediary is not required to check the investor’s knowledge or experience of these instruments and, on the other hand, the so-called complex products, such as derivative products (warrants, options and futures) and structured products (reverse convertible, turbo, etc.), for which the financial intermediary must check that the investor understands the risk involved in these products. Without this check, the investment firm may not accept the client’s stock market order for a complex product.

■ **Order routing and transmission service:** This is a pure stock market brokerage service, limited to financial sector professionals and professional clients in general. This service includes the reception, transmission and best execution of stock market orders. In other words, the investment firm is responsible for ensuring the best possible execution of the order on the markets in accordance with the professional client’s instructions. This service may not, on the other hand, include recommendations, advice or an opinion on the transaction. Here too, the financial intermediary must check whether the professional client understands the risk involved in the use of complex products. Without this check, the investment firm may not accept the client’s stock market order for a complex product.

■ **Selective investment advice:** This is a stock market brokerage service which consists of the reception, transmission and execution of stock market orders. In addition, at the client’s request, the service may also include selective investment advice or recommendations on a financial transaction that the client is considering. In this context, the financial intermediary must establish the client’s investor profile. Before each transaction, the intermediary checks that the proposed transaction corresponds to the client’s profile. If it does not, the financial intermediary must warn the client of the risk involved and, if applicable, refrain from proposing such an investment. As its name suggests, this service is provided on a selective basis, that is to say a service provided at the request of the client when the latter places a stock market order. Only the suitability of the transactions carried out or advised will be verified. No portfolio supervision will be provided.

■ **General investment advice:** This service corresponds to an investment advisory service where investment proposals come not

from the client but from the investment firm. An appropriate investment strategy depending on the current economic and financial context is developed. The transactions to be executed are recommended to clients in accordance with this investment strategy and, of course, the client’s risk profile. The client’s agreement is necessary before any new position is acquired. Moreover, the client’s portfolio is permanently monitored and portfolio positions may be sold at any time by the brokerage firm on a discretionary basis.

■ **Portfolio management service:** This fifth service consists of the discretionary management of the investor’s portfolio. In this case, the financial intermediary takes the investment decisions regarding the client’s portfolio without any obligation to consult the client beforehand, yet all investment decisions must comply at all times with the client’s investor profile.

While the MiFID European directive now establishes a formal framework and precise rules for each of these services, Leleux Associated Brokers has in fact been proposing such a framework and advisory services adapted to your risk profile for many years. It is in this framework that we are pleased to propose four of the five abovementioned services, namely the Routing and Transmission of Orders, Selective Investment Advice, General Investment Advice and Portfolio Management. In other words, we are committed to providing our retail clients with added value that goes beyond the simple execution of stock market orders and includes advice tailored to the specific situation of each client.

## ■ Mediation and Quality

Finally, the MiFID directive stipulates that every financial institution in Europe must put in place at its head office a Mediation and Quality department, with a view to handling as rapidly as possible all complaints or information requests received from the institution’s clients. At Leleux Associated Brokers, we set up such a department in 2001, i.e. six years before the directive entered into force. This department is now at your disposal. If you wish to make a complaint or request information, please contact this department in writing at our Brussels Head Office. We undertake to reply promptly.

## Conclusion

You will have understood that the MiFID European directive constitutes a new starting point for the European financial industry. It is a vast project, involving the vast majority of investment firms in Europe and requiring substantial investment. The objective was challenging, but worthwhile: to establish identical rules for investment firms throughout the European Union in order to improve investor protection.

However, the work is not yet finished. The directive has created a real momentum for reform and this process will continue for many years. The MiFID directive will itself be reviewed on several occasions, in order to correct any shortcomings and make it even more effective.

At Leleux Associated Brokers, in 2007 several working groups examined the relevant legislation in order to offer you service that fully meets your needs. These working groups are pursuing their work and continue to monitor legislative changes in order to adapt our procedures to the new rules that are introduced every year. Thanks to our 80 years of experience and the expertise of our team of 120 professionals, you can be sure that we will do everything possible to provide you with impeccable service that meets your expectations and complies with the principles of the directive.

This document is intended solely for information purposes and may be used only by the person to whom it is addressed. It may not be reproduced, copied or distributed to other people.

Although this document has been carefully prepared and the information obtained from reliable sources, Leleux Associated Brokers cannot guarantee that the information it contains is accurate or complete, and shall incur no liability in this regard.