



MiFID II Client Categorisation Regime

Local authorities & the Local Government Pension Scheme (“LGPS”)

Agenda

- Timeline
- MiFID II & the Client categorisation regime
- Why retail and what is the practical impact?
- FCA's Role
- Opting-up regime – current criteria
- Desired outcomes (1) – Local authorities
- Desired outcomes (2) - what about the LGPS?
- Benefits of retail client status

Timeline

- **June 2014**: MiFID II published in Official Journal
- **2015 – 2016**: FCA stakeholder engagement
March 2015: FCA Discussion Paper Published (*including treatment of Local authorities*)
- **Early 2016**: FCA Consultation Paper on Conduct Matters
- **Q2 2016**: FCA Policy Statement
- **July 2016**: Transposition deadline
- **3 January 2017**: MiFID II applies

MiFID II & Client Categorisation Regime

- Improving investor protection
- Retained key principles of regime
- Local authorities re-categorised as retail
 - BUT can “opt-up” to professional status
- Decision taken during L1 process

Why retail and what practical impact?

- Why? To increase protection for all clients, especially Local authorities
- Retail clients vs. professional clients
- Firms will need retail permissions
- Marketing restrictions for alternative investment funds (professional-only)

FCA's Role

- FCA has **no discretion** to change default retail categorisation
- But we can...
- Design alternative/additional criteria to current quantitative criteria for opting-up

Opting-up Regime - Current Criteria

- Retail clients can opt-up if they meet specific criteria – COBS 3.5.3R
- This consists of:
 - (i) a qualitative test
 - (ii) a quantitative test; and the
 - (iii) requirement to follow a specific procedure

Desired Outcome (1) - Local authorities

- FCA intends to exercise discretion
- Why? To protect smaller, less sophisticated Local authorities
- Proportionate thresholds– flexible approach to opting-up

Desired Outcome (2): What about LGPS?

- LGPS Administering authorities not legally separate from Local authorities
So...
- FCA required to apply retail categorisation
- Flexible opt-up conditions

Benefits of Retail Client Status

- Local authorities will benefit from full suite of MiFID's regulatory protections
- Additional disclosures/information (e.g. costs & charges)
- Suitability & appropriateness assessments – wider scope in MiFID II

Questions or Comments?

- All welcome.