MiFID II

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Investor Protection

- New requirements for best execution & conflicts of interest – more disclosure required
- Product governance requirements
- Costs and charges unbundling (incl. packaged products)
- Inducements, monetary benefits, non-monetary benefits
- Key changes on giving advice, assessing suitability and appropriateness
- Local Authorities – considered retail clients by default
- TCF to be applied for structured products

Authorisation, Branches & Passporting (EU & Third Country)

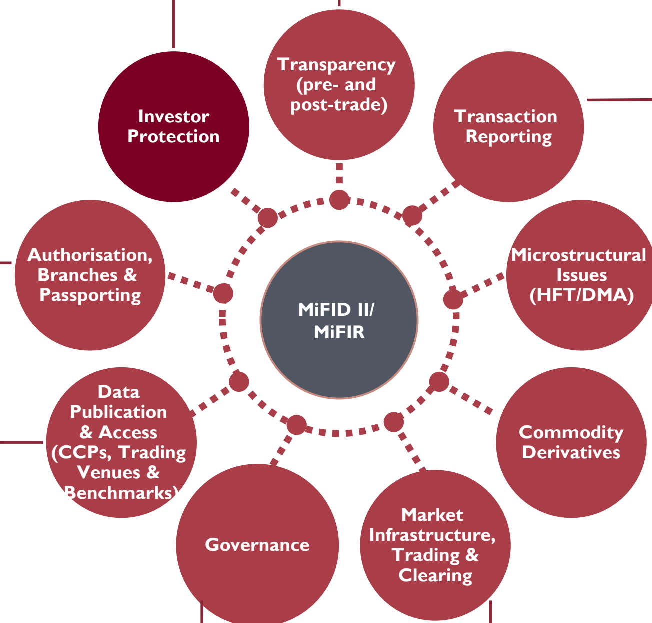
- Member States to determine if third country FI must establish branch to solicit business with retail/professional clients
- AIFMD to be changed to allow passporting
- Initial capital required for branches

Data Publication & Access (CCPs, Trading Venues & Benchmarks) (EU & Third Country)

- Enhanced governance requirements for trading venues; creation of OTF and new definitions for MTF
- Transparency and non-discriminatory access fees must be fair and non-discriminatory;
- Co-lo to be fair and non-discriminatory
- Third country trading venue can access CCP subject to equivalence assessment
- Licence requirement for benchmarks

Governance

- Roles of directors of firms to be specified by ESMA, incl. limits on directorships



Transparency

- Pre and post trade extended to new products (debt, OTC) and venues (SIs, OTFs).
- Data submitted to new Approved Publication Authorities (APAs)

Transaction Reporting

- Covers all asset classes in scope
- Increases to 65 data fields including many derived and new types
- Reportable data extends beyond economic fields and into HR/personal data

Microstructural Issues

- Algo library
- Clock sync
- Testing and controls (incl. real-time and preventative) to ensure resilience/stability
- Definition of independent, significant and HFT
- Venue testing environments

Commodity Derivatives

- Position reporting and limits regime (net by end user)
- Trading houses subject to MiFID for client business
- End user identification is an issue

Market Infrastructure, Trading & Clearing

- Eligible contracts to be centrally traded
- STP for trading, clearing, margin & collateral
- Indirect clearing arrangements

Source: KPMG

What does MiFID mean?

The Markets in Financial Instruments Directive

What is MiFID II?

It regulates firms who provide services to clients linked to ”financial instruments”.
The objectives of the regulation are to:

- Increase transparency and protection for end investors
- Make costs of trading and investing clear and explicit

Who is impacted by MiFID II?

All European (including UK) buy-side and sell-side institutions & Global fims with European operations

Implications for sell side under MiFID II?

Research providers must separately price research services from trading, not linking research to transaction volume in any way.

How can fund managers pay for research services under MiFID II?

- Use their own resources, via P&L
- Use clients' money via a Research Payment Accounts (RPA) – *Transaction method*
- Make a direct charge to clients investing in the fund – *Accounting method*

Implications for buy side under MiFID II?

Asset managers must:

- have a clear and published research procurement process in place.
- set client agreed budgets up front for specific research services.
- agree on research pricing with the research providers.
- track the usage and value of research via various systems like ONEaccess and Commcise.
- assess the quality of research via votes if not done before or more often.
- switch off all research that is not being paid for to avoid the risk of inducement

When does MiFID II come into effect?

3 January 2018

What is the definition of research under MiFID II?

“Explicitly or implicitly recommend or suggest an investment strategy and provide a substantiated opinion as to the present or future value or price of such instruments or assets". This means items such as:

- Analyst research reports and models
- Analyst calls and meetings

Corporate Access:

Meetings with corporates are not considered research and should be considered a separate service
→ Asset managers will pay for the logistics for arranging coporate access from their own P&L. It is important that the prices are at commercial levels and not linked to to payments for research or execution in order to avoid the inducement risk.

What are the expectations after implementation of MiFID II?

- Asset managers will become more aware of the cost for research, cutting budgets as a result.
- A reduction in number of brokers used; using 4-5 bulge brackets and 1-2 regional specialists.
- Several asset managers will employ more analysts in-house.
- Opportunity for independent research providers; or not as competition will be higher due to lower research budgets and that you have to pay ordinary brokers for research too.

How will MiFID II impact corporates?

Corporate Access is a vital part of the investment process
→ investors will continue to want meetings with corporates.

Asset managers will cut their research budgets and use fewer brokers
→ makes it important for a company to use the remaining brokers for roadshows.

Some investors will use less corporate access since they will pay for the logistics costs
→ they will be more selective about which companies to meet and not attend all seminars.

Instead of using a broker to set up meetings in the Nordic countries
→ the fund managers may do this themselves to a larger extent. But this will require more resources as this is a very time consuming task so it may be cheaper to pay a broker provide this service after all.

Corporates are unlikely to make ad-hoc trips to London, Paris, Frankfurt or New York just because an investor there wants to meet them. There are no extra budgets for this and no extra time either
→ they will stick to their traditional roadshow schedules and use the brokers with the highest market shares.

There may be some independent roadshow providers trying to break into this market, but there are two factors that are likely to make them less popular; firstly, they will have to charge the investor more than a broker
Secondly, they do not know the investor based as well as the broker hence will have difficulties in providing new potential clients to the corporate.

The cost cutting will put even more pressure on the sell side and they may drop coverage of some smaller companies. This does not matter if you are a company covered by up to 15 analysts, but if you are a small cap covered by 2 brokers and one gets made redundant
→ it could be of serious problem as the valuation may get lower reducing the strategic option for the company like issuing equity or taking on more debt.

With the buy side is likely to do more of its research in-house
→ it could be a good idea for the IR part of a company's website to outline the investment case. Not long, but list the merits of the company with enough information about a company on its website to make a balanced investment decision?

One asset manager I met last week though that companies should pay the cost for logistics to the brokers instead of them……but I am not sure what you think about that idea.

Some facts and figures about Carnegie

Market leading positions across all departments

#1 Brokerage Firm	#1 Research	#1 Equity Sales	#1 Trading / Execution	#1 Company & Expert Meetings	#1 High-Touch Trading	#1 Equity Research
Nordic 2017	Nordic 2017	Nordic 2017	Nordic 2017	Nordic 2017	Nordic 2017	Nordic 2017
EXTEL IDENTIFYING EXCELLENCE	EXTEL IDENTIFYING EXCELLENCE	EXTEL IDENTIFYING EXCELLENCE	EXTEL IDENTIFYING EXCELLENCE	EXTEL IDENTIFYING EXCELLENCE	Institutional Investor	Institutional Investor

LEADING… …MARKET… …POSITION

1 INVESTMENT BANKING

- Corporate Finance & M&A Advisers
  - Prospera (Nordic, Sweden)
  - Euromoney (Europe)

1 SECURITIES

- Equity Research & Trading
  - Institutional Investors All-Europe
  - Extel (Europe)
  - Greenwich (Europe)
  - Financial Hearings (Sweden)
  - Prospera (Sweden)

1 ECM

- Equity Capital Markets
  - Prospera (Nordic, Sweden)
  - Euromoney – Best Bank for Small Cap ECM (Sweden)

The leading independent Nordic investment bank with 56 analysts

FINLAND

- 8 analysts
- 4 sales
- 2 corporate access

SWEDEN

- 20 analysts
- 20 sales and sales traders
- 3 corporate access

NORWAY

- 18 analysts
- 7 sales and sales traders
- 2 corporate access

DENMARK

- 10 analysts
- 5 sales
- 2 corporate access

UK & CONTINENTAL EUROPE

- 21 sales and sales traders covering UK and Continental European clients trading in Nordic stocks
- 4 corporate access

USA & CANADA

- 9 sales and sales traders covering North American clients trading in Nordic stocks
- 1 corporate access

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Ratings and risk assessment structure

Current rating system as of October 2011

Buy (B): an upside of at least 10% to target price and with an attractive risk/reward profile.

Hold (H): the shares are trading close to their target price and are fairly valued.

Sell (S): unattractive risk/reward ratio as the shares are trading above their target price.

Not rated (NR), Under review (UR), Under bid (UB): the investment rating, if any, has been suspended temporarily.

Risk assessment

– The risk assessment is based on the analyst's evaluation of the company's equity beta based on the business risk (asset beta) and financial risk (gearing).

Low risk Estimated equity beta <0.75

Medium risk Estimated equity beta 0.75 to 1.25

High risk Estimated equity beta >1.25

Target price

Analyst valuation methods – Carnegie publish a target price on a majority of the stocks in our Research Universe. The target price is the analyst's assessment of expected total return over the coming six to 12 months based on various fundamental valuation methods. A commonly used method is DCF-valuation where future cash flows are discounted to today. Analysts may also use different valuation multiples, e.g. P/E ratio and EV/EBIT multiples, relative to industry peers to obtain target price. For companies where it is appropriate a target price could also be based on the analyst's assessment of a fair ratio in relation to the net asset value of the company.

Key risks – Target prices are changed when earnings and cash flow forecasts are changed. Thus, changes to estimates is a key risk to target price. Other reasons for changing target price include changes in the underlying value of a company's assets and when factors impacting the required rate of return change, which also could be seen as risk factors to the target price.

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