

## Suffolk Pension Fund Committee

<b>Report Title:</b>	Market in Financial Instruments Directive (MiFID II)
<b>Meeting Date:</b>	30 November 2015
<b>Chairman:</b>	Councillor Peter Bellfield
<b>Director:</b>	Geoff Dobson, Director of Resource Management Tel. 01473 264347
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### Brief summary of report

1. This report provides an outline of the Market in Financial Instruments Directive II (MiFID II) and the possible impact on the Suffolk Pension Fund, for consideration by the Committee.

### Action recommended

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| 2. The Committee is asked to consider the contents of the report. |
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### Reason for recommendation

3. To understand the possible implications of the Market in Financial Instruments Directive II (MiFID II) which is due to come into force in January 2017.

### Alternative options

4. There are no alternative options.

### Main body of report

5. The Local Government Association (LGA) has recently provided a briefing paper on the potential implications for LGPS funds regarding the implications of the Markets in Financial Instruments Directive II (MiFID II) due to be implemented on 3 January 2017. Their briefing paper is attached as **Appendix 1**.
6. The MiFID is the framework of the European Union (EU) legislation for:
  - a) Investment intermediaries providing services to clients in relation to shares, bonds, units in collective investment schemes and derivatives (collectively 'financial instruments')
  - b) The organised trading of financial instruments.
7. MiFID was applied in the UK from 1 November 2007 and is now being comprehensively revised to improve the functioning of financial markets in light of the financial crisis and to strengthen investor protection.
8. The potential implication is that from 3 January 2017, all LGPS funds will be defaulted to a classification of 'Retail Investor' as opposed to the current default

of 'Professional Investor' which would significantly limit the range of investment opportunities and products in which the Pension Fund could invest.

9. Lobbying at a national level is taking place to find a solution to this issue, as being classified as a 'Retail Investor' would preclude LGPS funds investing in infrastructure, an aspiration included in the Chancellor's recent speech at the Conservative Party Conference. DCLG are currently discussing the implications with the Financial Conduct Authority (FCA) to find a solution for LGPS funds.
10. We have contacted our investment managers to seek their opinion on the implications of MiFID II and a summary of their responses is in **Appendix 2**.
11. In general they are of the opinion that the LGA briefing paper presents the worst case scenario and there is a good probability that the FCA will adopt a common sense approach that multi-million pound investors who employ professional finance staff do not need the same protection as individuals and that the 'Professional investor' categorisation will remain in place without the need to 'opt up'.
12. The implications could be subject to any further changes the FCA proposes in their consultation for non-MiFID business due in December 2015 and the FCA Policy Statement on implementation of MiFID II due to be published in June 2016.

#### **Sources of further information**

Financial Conduct Authority - <https://www.fca.org.uk>