MIFID II - THE UPDATED MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE: CUSTOMER INFORMATION SHEET

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED
LONDON BRANCH

JULY 2018
EXECUTIVE SUMMARY
The Markets in Financial Instruments Directive – 2004/39/EC (MIFID) came into effect in 2007. MIFID laid out within the European Economic Area the conduct of business and organisational requirements for investment firms, authorisation requirements for regulated markets, regulatory reporting to avoid market abuse, trade transparency (for shares) and rules on the admission of financial instruments for trading. MIFID II builds upon this foundation with a revised directive and a new regulation (MIFIR).

MIFID II and MIFIR were adopted by the European Parliament and Council in mid-2014 with the aim of building upon the original directive in light of market developments and the Global Financial Crisis. The core aims are to make markets ‘more efficient, resilient and transparent’. The rules reinforce market structure, improve investor protection and introduce greater transparency to the European markets across in-scope products.

MARKET STRUCTURE
With the aim of MIFID II being to provide a fairer, safer and more efficient market, the following changes have been made to the market structure requirements:

In-scope instruments broadened
Equity-like instruments, bonds, derivatives, structured finance products and emissions allowances are now in scope for the extended market structure requirements.

Defined trading venues
The original directive is broadened to reduce the usage of ‘dark pools’, and push trading away from over-the-counter (OTC) and onto trading venues on which contracts can be executed including Regulated Markets and Multilateral Trading facilities (MTF). A new Organised Trading Facility (OTF) concept has been introduced for non-equity transactions.

Trading obligation
Certain derivative contracts that are both clearable and liquid will be mandated to trade on trading venues as opposed to OTC.

Best execution
The duty of best execution has been strengthened from the original directive such that firms should take “all sufficient steps” to achieve best execution.

New Terms & Conditions will be sent to clients in Q4 and this will include ANZBGL London Branch’s updated Best Execution policy

Systematic Internaliser (SI)
SIs have been redefined as ‘Firms which are organised to frequently and systematically deal on own account by executing client orders outside of a Trading Venue’. The SI definition is not new, but the thresholds have been lowered and registration mandatory in certain cases - such that a significantly greater number of firms and products are brought into scope. Firms who qualify for (or who opt-up to) SI status, face enhanced obligations similar to those of a trading venue. This includes pre and post-trade transparency (where applicable).

Firms can opt-up to SI status from the onset of MIFID II, but, mandatory SI obligations (where applicable) begin from September 2018.

ANZ London (operating under the legal entity ANZBGL) has decided to opt-in early as an SI for ToTV instruments in FX, Rates and Credit products (ex. G4 Rates, Commodities and CDS) from 3rd January 2018.

Controls for Algorithmic trading activities
Firms which engage in Algorithmic trading must demonstrate effective systems to manage risk and be compliant with a broad series of constraints on thresholds, limits, capacity as well as prevention on ‘spoofing’ (sending orders with no intention of having such orders executed) and other potential abuses.

MIFID II GOES LIVE IN JANUARY 2018 AND MAY HAVE AN IMPACT ON TRADES UNDERTAKEN BETWEEN YOU AND AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED (ANZBGL) (INCLUDING ITS GROUP ENTITIES). ANZBGL OPERATES THROUGH A BRANCH IN LONDON AND CONSEQUENTLY IS A THIRD COUNTRY INVESTMENT FIRM TO WHICH MIFID II APPLIES.

Your company has been identified as being impacted by MIFID II and, as such, there are certain actions which need to be taken in order to continue trading unimpeded from January 2018:

1. Exchange LEI details; and
2. Provide updated disclosures to you, including ‘Terms of Business’, and potentially receive certain consents from you.
ANZ has surveillance in place to identify and investigate signs of market manipulation for orders and trades generated by algorithmic systems. ANZ also monitors in real-time for signs of disorderly trading.

**INVESTOR PROTECTION**

With one of its key aims being to make markets safer, MIFID II expands investor protections:

**Documentation and data requirements**

Additional client details will be required for various purposes such as reporting. One of the most important requirements is the Legal Entity Identifier (LEI), a global system for identifying firms administered by Local Operating Units (LOU). For more information, visit https://www.gleif.org/.

For ANZBGL please use the following LEI:

1. Australia and New Zealand Banking Group Limited: JHE42UYNWWTJB8YTTU19

MIFID II firms will also need to update various disclosures to clients including 'Terms of Business', and obtain certain consents from clients.

**Client categorisation**

The current client categorisation regime and associated protections remain the same: Retail Client, Professional Client and Eligible Counterparty. Some amendments have been made to the provisions dealing with opting up to a higher categorisation with lesser protections.

**Inducements**

MIFID “Investment Firms” may only receive ‘minor non-monetary benefits’; this list is very prescriptive.

Specifically this means that if significant research resources are utilised in the provision of a benefit, such that it is no longer deemed ‘minor non-monetary’, then this must be unbundled and paid for separately as a service by Investment Firms.

**Research Services**

ANZBGL considers the following research services to constitute acceptable minor non-monetary benefits and their provision will not involve any charge to you (i.e. the ‘Standard Offering’):

1. Widely-published ANZ Research publications covering Australia, New Zealand, Asia, and the G3 (Economics, FX, Rates and Commodities).
2. Publicly-available Asia credit analysis (desk commentary and not investment).
3. Sales Notes, which cross reference published research and other overnight developments.
4. Conference attendance, roadshows, third party meetings and calls, to the extent that the service does not involve the allocation of significant resources.

ANZ considers the following research services to fall outside the scope of ‘acceptable minor non-monetary benefits' and are, therefore, subject to a charge which will involve an annual subscription charge of GBP 1,000 (i.e. an ‘Extended Offering’):

1. One-on-one analyst presentations.
2. Other bespoke research requests.
3. Conference attendance, roadshows, third party meetings and calls, to the extent that the service involves the allocation of significant resources.

**Manufacturing, distribution and lifecycle management of products**

There will now be a requirement for relationships between manufacturers and distributors to be formalised and full and transparent governance detailed to clients prior to conducting MIFID business.

**Reporting requirements**

There are various increased reporting requirements on firms. Transaction reporting to the National Competent Authorities has been extended to include new product types, additional fields of information, and new pre and post-trade transparency regimes requiring publication introduced for firms and SIs.

Firms will also be expected to provide a quarterly execution quality report and an annual best execution report which has the goal of enabling the public and investors to evaluate the firm’s execution quality.
 Costs and charges
MIFID II requires greater disclosure of costs and charges (and the impacts of those costs) associated with our provision of certain services to you.
We will be providing costs disclosures to clients during Q4 and will be making reports available on costs associated with transactions to clients on an annual basis.

WHAT DO YOU NEED TO DO TO ENSURE THERE IS NO DISRUPTION TO YOUR BUSINESS WITH ANZ FROM JANUARY 2018?

1. Provide us with your LEI
If you don’t have an LEI yet, visit: https://www.gleif.org/ for information on how to get one.

For ANZBGL please use the following LEI:
Australia and New Zealand Banking Group Limited: JHE42UYNW7TJ8YTTU19
ANZBGL London Branch will be unable to enter into reportable transactions with clients from whom we have not received an LEI. If in doubt, please reach out to your ANZ RM, Sales representative or email your LEI to MIFIDIIClientComms@anz.com

2. Read new terms & disclosures
Owing to the extent of the changes being introduced under MIFID II, it will be necessary to update our terms of business and general disclosures. We aim to send these updated documents in early Q4.

3. ANZ Research
Details of the ‘Extended Offering’ for ANZ Research will be presented to you during our client outreach. Should you require further information please contact us via one of the avenues below.

ANZ CONTACT INFORMATION
Please contact ANZ with any questions about MIFID II that you have. You may reach us via the following channels:

• Your Relationship Manager
• Via MIFIDIIClientComms@anz.com
• Further details are available via our FAQ which is found on the ANZ Institutional website https://institutional. anz.com/content/dam/institutional/en/documents/ANZ-MIFID-II-Client-FAQs-November-2017-01.pdf

ANZ Disclaimer:
© Copyright Australia and New Zealand Banking Group Limited (ANZ) 100 Queen Street, Melbourne 3000, ABN 11 005 357 522. ANZ’s colour blue is a trade mark of ANZ.

This document has been prepared by ANZ Bank New Zealand Limited (ANZ), and its branch, ANZ London. This document is intended for ANZ’s institutional, professional or wholesale clients, and not for individuals or retail persons. It should not be forwarded, copied or distributed. The information in this document is general in nature, and does not take into account your objectives, financial situation or needs. ANZ in no way provides any financial, legal, taxation or investment advice to you in connection with any product or service discussed in this document. Before making any investment or other decision, recipients should seek independent financial, legal, tax and other relevant advice having regard to their particular circumstances.

This document is solely for informational purposes and nothing contained within is intended to be a recommendation, invitation, solicitation or offer by ANZ to sell, or buy, receive or provide any product or service, or to participate in a particular trading strategy.

Distribution of this document to you is only as may be permissible by the laws of your jurisdiction, and is not directed to or intended for distribution or use by recipients resident or located in jurisdictions where its use or distribution would be contrary to those laws or regulations, or in jurisdictions where ANZ would be subject to additional licensing or registration requirements. Further, the products and services mentioned in this document may not be available in all countries.

Whilst care has been taken in the preparation of this document, ANZ does not make any representation as to the accuracy of the views expressed in this document. Further, ANZ does not accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect the accuracy of the information in this document. Preparation of this document and the opinions expressed in it may involve material elements of subjective judgement and analysis. Unless specifically stated otherwise, they are current on the date of this document and are subject to change without notice, and, all price information is indicative only. Any opinions expressed in this document are subject to change at any time without notice.

ANZ expressly disclaims any responsibility and shall not be liable for any loss, damage, claim, liability, proceedings, cost or expense (Liability) arising directly or indirectly and whether in tort (including negligence), contract, equity or otherwise out of or in connection with this document to the extent permissible under relevant law. Please note, the contents of this document have not been reviewed by any regulatory body or authority in any jurisdiction.

ANZ and its Affiliates may have an interest in the subject matter of this document. They may receive fees from customers for dealing in the products or services described in this document, and their staff and introducers of business may share in such fees or remuneration that may be influenced by total sales, at all times received and/or apportioned in accordance with local regulatory requirements. Further, they or their customers may have or have had interests or long or short positions in the products or services described in this document, and may at any time make purchases and/or sales in them as principal or agent, as well as act (or have acted) as a market maker in such products. This document is published in accordance with ANZ’s policies on conflicts of interest and ANZ maintains appropriate information barriers to control the flow of information between businesses within it and its Affiliates.

[ANZ holds an Australian Financial Services licence no. 234527. For a copy of ANZ’s Financial Services Guide please click here or request from your ANZ point of contact.]

[ANZ is authorised in the United Kingdom by the Prudential Regulation Authority (PRA) and is subject to regulation by the Financial Conduct Authority (FCA) and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request. This document is distributed in the United Kingdom by ANZ and ANZBGL London Branch will be unable to enter into reportable transactions with clients from whom we have not received an LEI. If in doubt, please reach out to your ANZ RM, Sales representative or email your LEI to MIFIDIIClientComms@anz.com]

[ANZ-BGL London Branch is unable to enter into reportable transactions with clients from whom we have not received an LEI. If in doubt, please reach out to your ANZ RM, Sales representative or email your LEI to MIFIDIIClientComms@anz.com]