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Additional Information

Level 1 Regulation
Markets in Financial Instruments Directive II (MiFID II) Directive 2014/65/EU- Investor Protection and Intermediaries

Topic
Reporting to clients

Subject Matter
Post-sale reporting

Question
How does a firm fulfil the obligation to report on the overall value of a client's portfolio depreciating by a 10% threshold on a particular business day if a firm's automated systems do not provide valuations throughout the day for all the portfolios it manages? In line with this question: could a firm use a single daily valuation point as the basis for the evaluation?

ESMA Answer

16-12-2016

Original language

[ESMA 35-43-349 MiFID II Q&As on Investor protection Ch. 8, question 1]

Article 25(6) of MiFID II requires firms to provide clients with adequate reports on the investment service provided. These reports shall include periodic communications to clients, taking into account the type and the complexity of financial instruments involved and the nature of the service provided to the client. In addition, Article 62(1) of the MiFID II Delegated Regulation requires firms to meet additional reporting obligations so clients are made aware when the overall value of their portfolio, as evaluated at the beginning of each reporting period, depreciates by 10% and thereafter at multiples of 10%. So, a firm is obliged to value the overall portfolio at the beginning of the reporting period and evaluate the overall portfolio at least once each day, but is not obliged to have systems in place that calculate valuations on an on-going basis throughout each day.

One way a firm could provide the required reports would be to set a fixed portfolio valuation point for each day, for example at 06.00 hours after any overnight reconciliation is complete, and identify whether the depreciation threshold is exceeded by comparing this value with the valuation of the portfolio at the beginning of the reporting period. Then, if the portfolio value is shown to have depreciated by 10% or more, the firm would inform the client by the end of that business day. Assuming its business day ends at 17.00 hours, this approach would give firms 11 hours in which to report to clients during working hours. Adopting one fixed valuation point for each day would also avoid multiple reports being triggered during volatile market periods.