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06/06/2017

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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

When fulfilling the obligation to report on a portfolio depreciating by the 10% threshold, how should the firm take account of a client making additions to the portfolio after the reporting period has started?

06-06-2017

Original language

[ESMA 35-43-349 MiFID II Q&S on Investor protection Ch. 8, question 4]

The obligation is to report if the overall value of a portfolio, as evaluated at the beginning of each reporting period (usually every three months), depreciates by 10% and thereafter at multiples of 10%.

If cash is added to a portfolio after the reporting period has started, the current value of the portfolio increases by the amount of client money transferred in, but the invested value at the beginning of the reporting period is unaffected. To identify if there are depreciations to report, the current portfolio value measured should exclude the value of cash added after the reporting period has started, so only the original cash or invested value is taken into account. Until a periodic statement accounting for this added cash is provided, when calculating the value of a portfolio to assess whether the 10% thresholds are exceeded, a firm should discount the value of any added cash from the current overall value of the portfolio.

If clients add cash that is invested or add investments to a portfolio (increasing the assets that are subject to devaluation), to see whether the 10% thresholds are exceeded, the value of any added investments should be added to the original starting value of the portfolio. Then, if the current value of the portfolio depreciates by more than 10% of the revised starting portfolio valuation, the obligation to report applies. Firms should avoid any behaviour that might incentivise clients to add investments/cash that is invested for the purpose of avoiding the reporting on a portfolio depreciation.