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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

Information to clients on costs and charges

Subject Matter

Information on cost and charges

Question

Which methodology should an investment firm use when calculating the 'costs related to transactions initiated in the course of the provision of an investment service' for its ex-post cost disclosure?

06-06-2017

Original language

[ESMA 35-43-349 MIFID II Q&As Investor protection Ch. 9, question 12]

This question relates to costs involved when an investment firm buys or sells (or engages in any other transaction in) a financial instrument for its client. These transaction costs are different from the transaction costs incurred by a financial instrument's manufacturer which result from an investment decision (e.g. a manager changes his fund's asset allocation), and which should be incorporated in the costs of the financial instrument.

The requirements on total costs and charges require investment firms to incorporate both implicit as well as explicit transaction costs. For retail products, the PRIIPs RTS provides for a detailed calculation methodology for different financial instruments, which ensures that both explicit and implicit transaction costs are captured. Therefore, in that case, for the calculation of transaction costs on an ex-post basis, ESMA would expect the investment firm to use the methodology as covered in paragraphs 12 to 20 (and possibly other relevant paragraphs) of Annex VI of the PRIIPs RTS.

An investment firm may assess that the costs involved in calculating the transaction costs using the method provided in paragraphs 12 to 20 of Annex VI of the PRIIPs RTS are disproportionate compared to their significance. In such cases, the firm may use an alternative approach (e.g. the method provided for in paragraphs 21 to 23 of the Annex VI of the PRIIPs RTS) to calculate transaction costs, provided that it identifies the actual transaction costs associated with the transaction, and that it clearly discloses to clients the basis on which transaction costs have been calculated.