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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
How should the ex-ante costs and charges disclosure requirements be applied to the service of portfolio management?

ESMA Answer

28-03-2019

Original language

[ESMA 35-43-349 MiFID II Q&As on Investor protection Ch. 9, question 24]

In accordance with Article 50(5) and Recital 75 of the MiFID II Delegated Regulation, an investment firm must inform the client, in good time before the provision of the investment service of portfolio management, about the costs and charges relating to (i) the investment and ancillary service(s) to be provided (service costs) and to (ii) the financial instrument(s) in which the client's portfolio could be invested in accordance with the mandate given by the client (product costs).

Due to the nature of the service of portfolio management (management on a discretionary client-by-client basis), no cost disclosure is due in relation to each investment decision taken by the firm. However, ex-ante information about costs and charges should be provided before the firm starts providing the service. The quality and completeness of the ex-ante information provided before the provision of the portfolio management service is thus critical.

ESMA is therefore of the opinion that ex-ante information relating to service and product costs where portfolio management is provided should be based on:

- the value of the assets (cash and/or financial instruments) under discretionary management (as disclosed by the client or prospective client before the firm starts exercising its discretionary mandate); and
- the anticipated (model or bespoke) portfolio corresponding to the client's investment profile, objective(s) and, in case of a bespoke mandate, strategy that will be adopted for the management of the client's portfolio, in accordance with the mandate given by the client.

Both service(s) costs and financial instrument(s) costs should be aggregated, as per Q&A 13. Additionally, firms may, as a good practice, proactively provide greater detailed ex-ante information about costs and charges. For example, firms could provide ex-ante information about costs and charges relating to financial instruments by category of financial instruments

with the same costs structure.