INTEGER WEALTH GLOBAL

An Introduction to MiFID Investment Firms – European Union & Ireland

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1. Introduction to MiFID Investment Firms

MiFID, or Markets in Financial Instruments Directive, is a European Union (EU) regulatory framework that governs the investment services and financial markets in the EU. The goal of MiFID is to protect investors, promote fair competition, and ensure market integrity.
The original Markets in Financial Instruments Directive (MiFID I) was introduced on 1 November 2007 to set out European Union (EU) regulation in respect of securities and financial markets.

In brief, MiFID, or the Markets in Financial Instruments Directive, was a set of European regulations governing equities markets in the European Union. It was intended to enhance transparency and reporting requirements to protect European investors.

MiFID investment firms are authorised by the regulator in the Member State where the firm is. organised. On the basis of this authorisation and compliance with the local rules (which of course are. harmonised in each Member State by MiFID), the firm can conduct business on a cross-border.

MiFID II is the revised version of MiFID that came into effect in 2018. It applies to many financial professionals and institutions, including:
investment firms, wealth managers, broker dealers, product manufacturers, credit institutions, trading venues, market operators, alternative investment fund managers, investment intermediaries, and data reporting services providers.

MiFID II requires financial firms to:

- Put in place terms of business with clients
- Provide clients with regular reports on the services they are providing
- Adhere to transparency rules for pre- and post-trade data
- Shift organized trading to regulated platforms or meet transparency requirements for over-the-counter trading
- Companies that carry out MiFID business are not eligible for small company exemptions under the Companies Act. This means they must obtain a statutory audit.

2. The Central Bank Responsibility

The prudential regulation and supervision of MiFID Investment Firms authorised in Ireland;
the regulation and supervision of the conduct of business of MiFID firms authorised in Ireland; and
the regulation and supervision of those provisions of MiFID II relevant to the financial services market in Ireland.

3. Background to MiFID

The original Markets in Financial Instruments Directive (MiFID I) was introduced on 1 November 2007 to set out European Union (EU) regulation in respect of securities and financial markets. On 3 January 2018 it was replaced by a revised package of rules, collectively known as MiFID II. MiFID II governs the provision of investment services in financial instruments. It applies to investment firms, wealth managers, broker dealers, product manufacturers and credit institutions authorised to carry out MiFID activities. It also impacts on trading venues, market operators, alternative investment fund managers, investment intermediaries, data reporting services providers as well as third-country firms providing investment services in the EU.

4. Summary of some of the changes under MiFID II

4.1 Conduct of Business & Investor Protection: The role of the compliance officer is enhanced under MiFID II. Compliance officers need to ensure that staff selling or advising on MiFID financial instruments understand the compliance requirements under MiFID II. There are also stricter remuneration controls in place for staff advising or selling to clients. This is to ensure staff act in the best interests of their clients. Disclosure of information to clients of investment firms has also increased. For example, advisory and portfolio management clients receive a detailed suitability assessment periodically.

4.2 Supervision Powers: Competent authorities, such as the Central Bank, and European Supervisory Authorities, such as the European Securities and Markets Authority (ESMA), or the European Banking Authority (EBA) now have the ability to restrict or suspend the marketing and/or sale of financial instruments under certain circumstances when elevated investor or financial stability risks exist.

4.3 Governance: MiFID II places stricter governance requirements on MiFID investment firms. Qualified senior management and directors must commit sufficient time to perform their functions

4.4 Broadened Scope: New financial instruments are within scope (such as emissions allowances and structured deposits). MiFID II has also removed or narrowed some exemptions. For example, MiFID II now brings investment firms whose sole activity is dealing on their own account using a high frequency trading technique into scope. Consequently, some firms may now require an authorisation under MiFID II.

4.5 Firm Authorisations: MiFID II ensures a standardised authorisation process across Europe. For further information on MiFID authorisations, please refer to the authorisation process section of our website.

4.6 New Trading Venue: The Organised Trading Facility (OTF) has been introduced which caters for trading in non-equity instruments (such as bonds, structured products and derivatives).

4.7 Transaction Reporting: MiFID II requires firms to report significantly more information including the identification of individuals or computer algorithms responsible for an investment decision.

4.8 Transparency: MiFID II strengthens the overall transparency regime for the financial markets. It does this by broadening the transparency requirements from equities and equity-like instruments to non-equity instruments. This will ensure a broader range of pre-trade and post-trade disclosures are made in relation to orders submitted to and transactions conducted on trading venues.

5. Important Information for MiFID Investment Firms

MiFID investment firms may be subject to additional legislation, please consult the legislation and regulatory requirements and guidance pages of this website for further information. These pages contains information in relation to the new prudential regime applicable to MiFID investment firms, the Investment Firms Regulation and Investment Firms Directive.

MiFID Investment Firms or Market Operators that are currently authorised, or who propose to make an application, to operate an MTF, may make an application to the Central Bank for permission to operate a Distributed Ledger Technology ('DLT') Market Infrastructure. Applicants seeking both MiFID authorisation and permission to operate a DLT Market Infrastructure, must submit both applications concurrently.

The Central Bank grants the DLT Pilot permission under Regulation (EU) 2022/858 of the European Parliament and of the Council on a pilot regime for market infrastructures based on distributed ledger technology. The DLT Pilot Regime applies to financial instruments that are issued, recorded, transferred and stored using DLT. The DLT Pilot Regime creates a controlled environment in in which DLT Market Infrastructures can develop and test DLT-based business models for a period of up to 6 years. Please refer to the DLT Pilot Regime for Market Infrastructures - Application form 2023.

6. Investment Firms Regulation & Investment Firms Directive ("IFR/IFD")

IFR/IFD will see the introduction of new prudential requirements for certain MiFID investment firms that is more tailored to the risks associated with the range of activities undertaken by such firms.

It does this through the linking of business models of investment firms, and the specific risks they pose, with the prudential and governance requirements applicable.

This introduction of more appropriate risk-sensitive prudential requirements will focus, not only on the risks the firm faces, but also the potential harm that a firm can pose to its clients and to the market.

7. Summary of Changes under IFR/IFD

7.1 Classification: There are new classifications introduced under the new regime, with firms which are systemic and performing bank like activities remaining subject to CRR/CRD (Class 1 and Class 1 minus) and the remaining firms moving to the IFR/IFD (Class 2 and Class 3). The requirements each firm must meet, is dependent on its classification.

7.2 K-Factors: For those firms moving to the new regime under Class 2, for the purpose of determining their own funds requirement they will need to calculate K-Factors. K-Factors can be split across three categories, capturing the (1) risks to customers, (2) risks to market and, (3) risks to firm. This feeds into the firm's own funds requirement.

7.3 Liquidity: Under IFR/IFD, Class 2 and 3 firms will be required to monitor and manage their liquidity requirements, supported by documented procedures. In addition, firms will be required to hold a minimum of one third of their fixed overheads in liquid assets.

7.4 Reporting: The regulatory reporting framework for investment firms will include: level and composition of own funds; own fund requirements and basis for calculation; activity profile and size; liquidity requirements; adherence to provisions on concentration risk and threshold reporting. Please see our Reporting Requirements page for further details.

7.5 Disclosures: Class 2 Firms and certain Class 3 Firms will be required to make disclosures including, but not limited to: risk management objectives; governance; own funds composition and requirements; remuneration policies and practices; and investment policy.

7.6 Consolidated Supervision: This will require firms to comply with the rules of IFR/IFD on both an individual and consolidated basis where they are part of an investment firm group. IFR/IFD also introduces the Group Capital Test which imposes reduced consolidated requirements where the group is deemed to be sufficiently simple.

This information is graciously obtained from the official website of the Central Bank of Ireland which website is accessible at https://www.centralbank.ie/