

# MiFID II solutions

Entity Exchange is a flexible, secure & efficient solution to repapering clients for MiFID II and other regulations.

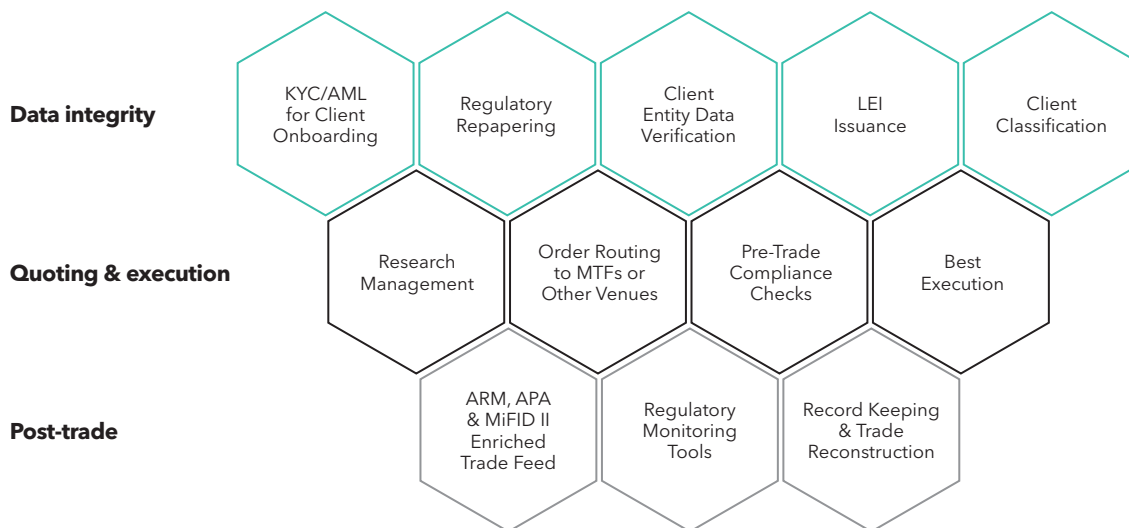
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# MiFID II solutions

MiFID II will require substantial client outreach to stay compliant. Do you have a plan to address this? Bloomberg is uniquely positioned to help clients navigate the regulatory maze and transition smoothly into the MiFID II environment.

## MiFID II's entity reference data compliance challenges



## The future of client reference data

Starting from the source, we obtain and digitize client data to help you fulfill your regulatory requirements.

### Entity exchange

- Facilitates both client onboarding and repapering associated with MiFID II changes in policy
- Delivers and maintains reference data direct from the source
- Flexible, secure and transparent communication with your clients
- Web-based encrypted transfer of sensitive and personal information
- Compliance with data privacy and storage regulations
- Audit trail to demonstrate regulatory compliance

### Entity verification

- Covers reference data attributes across 4 million entities
- Validates your client reference data to external sources

### Client classification

Collects, digitizes and stores questionnaires and affirmations on suitability and appropriateness to classify client relationships

### LEI issuance

Bloomberg is an accredited Local Operating Unit (LOU) of the Global LEI System. Entity Exchange can help facilitate the issuance, reconciliation and renewal of LEI information back to GLEIF

You define the content and Connect with your clients,  
We deliver the data

## **Bloomberg entity exchange provides a strategic solution for firms to implement MiFID II solutions**

Bloomberg Entity Exchange delivers a fast, efficient and flexible service that can help firms meet MiFID II's regulatory challenges with a strategic workflow. Key elements of the regulation that we encourage firms to be prepared for:

### **General principles & information to clients**

MiFID II requires firms to plan for client engagement. Firms need to demonstrate to their National Competent Authority that the financial instruments sold are fit for their client's risk appetite and market knowledge. Firms are now dutybound to disclose key information surrounding their financial products and all associated costs. Most important, this communication must be supported by a clean audit trail, demonstrating compliance with the intent of the regulation.

Article 24(4) "Appropriate information shall be provided in good time to clients or potential clients with regard to the investment firm and its services, the financial instruments and proposed investment strategies, execution venues and all costs and related charges."

Article 24(4b) "the information on financial instruments and proposed investment strategies must include appropriate guidance on and warnings of the risks associated with investments in those instruments or in respect of particular investment strategies and whether the financial instrument is intended for retail or professional clients, taking account of the identified target market."

### **Research management**

MiFID II introduces significant changes to the way firms communicate inducements and conflicts of interest and how they handle the pricing and distribution of their research.

Article 23(2) "the investment firm shall clearly disclose to the client the general nature and/or sources of conflicts of interest and the steps taken to mitigate those risks before undertaking business on its behalf."

MiFID II distinguishes between the rules that apply to the provision of independent investment advice and portfolio management [Articles 24(7b) and 24(8)] and more general investment services [Article 24(9)]. In both cases, an investment firm cannot accept and retain fees, commissions or non-monetary benefits paid or provided by any third party in relation to the services it provides clients.

An investment firm may need to set up a research payment account (RPA) funded by specific research charges, which are billed to the firm's clients. Market participants are exploring the modification of Commission Sharing Arrangements (CSA) as a mechanism to implement research payment accounts. However, CSAs do not currently meet MiFID II requirements as they allow research charges to be linked to transaction volumes. All this change will require new documentation to be shared between firms and a clean audit trail that shows the information exchanged. This can be achieved using Entity Exchange.

Separately, Bloomberg's Commission Management System (BCMS) offers the ability to manage your research budgets, commission and trading activity - providing the ability to manage payment activity, approvals and invoicing.

Bloomberg's Research Management Solutions provides the ability to capture and log all decisions made, meetings held and interactions that take place throughout the investment process. In addition, we also provide the ability to capture all research engagement statistics from research reports that are consumed on Bloomberg and track those that are marked as valuable. These can be linked and aggregated based on your portfolio.

### **Assessment of suitability & appropriateness & reporting to clients**

MiFID II requires firms to understand the nature of their client's business and to classify each client in order to ensure suitable marketing and sale of financial products. The directive clearly states that communication and consent should be part of this classification process, with the expectation that this data be maintained. Onetime communication with a client in order to obtain such classification could result in the reference data becoming stale. Firms need to plan for either periodic client assessment or move their process to a real-time data model such as Entity Exchange.

Article 25(3) "Member States shall ensure that investment firms ask the client or potential client to provide information regarding that person's knowledge and experience in the investment field relevant to the specific type of product or service offered or demanded so as to enable the investment firm to assess whether the investment service or product envisaged is appropriate for the client."

Article 25(5) "The investment firm shall establish a record that includes the document or documents agreed between the investment firm and the client that set out the rights and obligations of the parties, and the other terms on which the investment firm will provide services to the client. The rights and duties of the parties to the contract may be incorporated by reference to other documents or legal texts."

Annex II.2. Procedure "Firms must implement appropriate written internal policies and procedures to categorise clients. Professional clients are responsible for keeping the investment firm informed about any change, which could affect their current categorisation. Should the investment firm become aware however that the client no longer fulfils the initial conditions, which made him eligible for a professional treatment, the investment firm shall take appropriate action"

### **Onboarding**

MiFID II defines a number of trading venue types – Regulated Markets (RM), Multilateral Trading Facilities (MTF) and Organized Trading Facilities (OTF). The creation of MTF and OTF facilities will require venues to repaper their clients, clearly laying out the terms and conditions of execution on the new platform in accordance with MiFID II guidelines.

### **Security & reference data**

Under MiFID II, a number of sensitive personal reference data points are now required for transaction reporting. Entity Exchange facilitates the storage and transfer of personal data between firms in an encrypted, secure and auditable manner. Using Optical Character Recognition (OCR) software, data is captured from forms and documentation to create primary-sourced reference data attributes. This data is then permissioned between counterparties. Entity Exchange will also notify when documents approach their expiry.

Personal information about our users collected by Bloomberg through Entity Exchange is kept on secure servers. Bloomberg uses reasonable administrative, technical, personnel and physical measures to protect this personal information on such servers.

Bloomberg L.P. and its affiliates ("Bloomberg") are committed to compliance with their privacy obligations in the United States and throughout the world. This Intra- Group Personal Data Protection Statement ("Statement") sets out the privacy principles Bloomberg follows with respect to personal information that it transfers from the European Union, European Economic Area, and Switzerland (collectively, "EU") to the United States ("U.S.").

The relevant Bloomberg group companies have entered into an Intra-Group Personal Data Protection Agreement ("IGA") in order to ensure that responsibility for personal information transferred from the EU to the U.S. is clearly identified. The parties to the IGA are considered as data controllers, or data controller and data processor under applicable law.

## **Entity exchange ensures reference data is maintained & independently verified**

Entity Exchange provides a centralized, secure repository to enable trading counterparties to manage and share data and documents with confidence, satisfying all of the above mentioned MiFID II requirements. Our purpose-built solution is flexible, innovative and designed to enable clients to comply with evolving regulations efficiently.

### **Why should you use entity exchange for your outreach?**

Projects, driven by internal policy changes, audit results, sound practice demands or regulatory changes, are often unanticipated, destroying budgets and driving unsustainable costs. Firms can leverage Bloomberg's Entity Exchange platform to conduct outreach to clients, with the support of Bloomberg's Entity Exchange team, to alleviate some strains of client data collection.

An outreach goes beyond just informing your clients but requires you to move them to action. Outreach efforts are most effective when they are:

- Tailored to your client
- Planned
- Evaluated and refined for future efforts across your entire client outreach process.

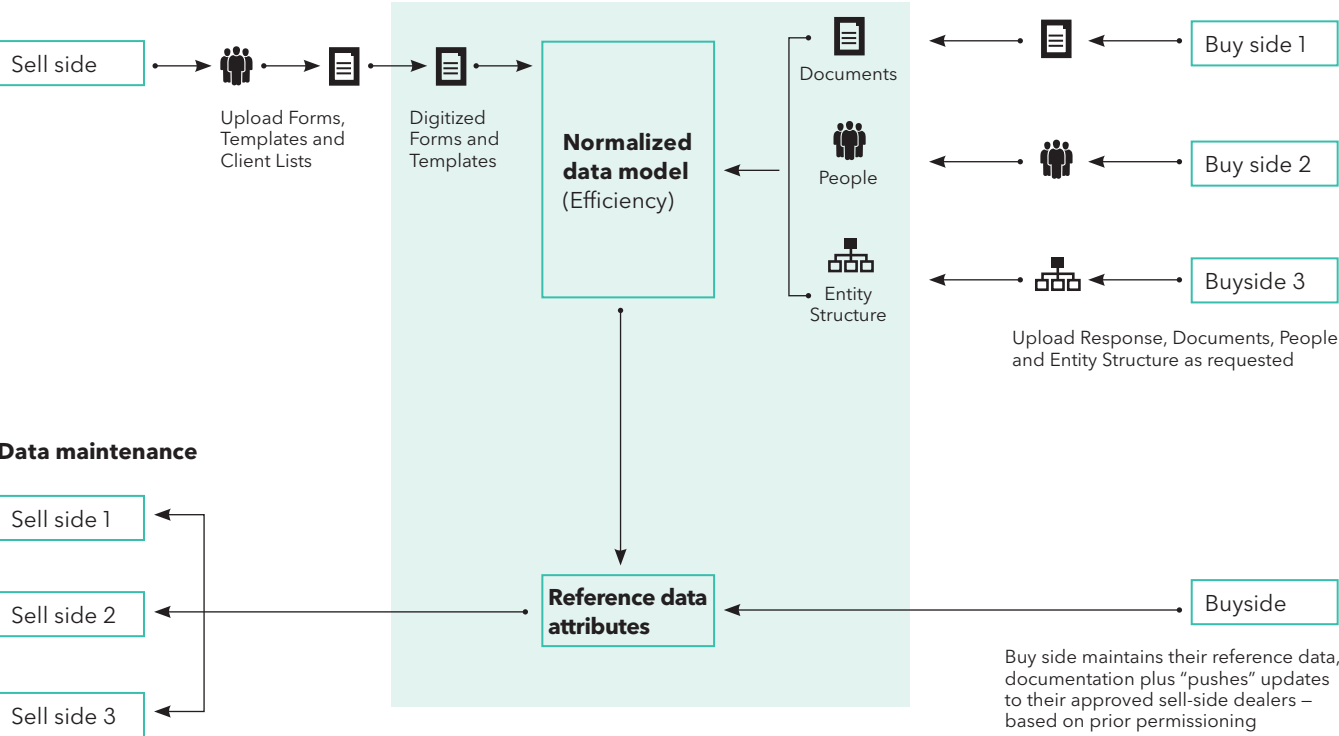
### **Entity data verification & enrichment**

Bloomberg is an industry leader in timely and accurate legal entity data. We have extensive coverage, with highly granular entity data, for four million public and private companies, funds, government agencies and municipalities. Extensive research is undertaken to maintain an accurate, near-real-time picture of how corporate structures change, and we monitor the impact of new regulations on entity data requirements. In addition, we can research entities on-demand.

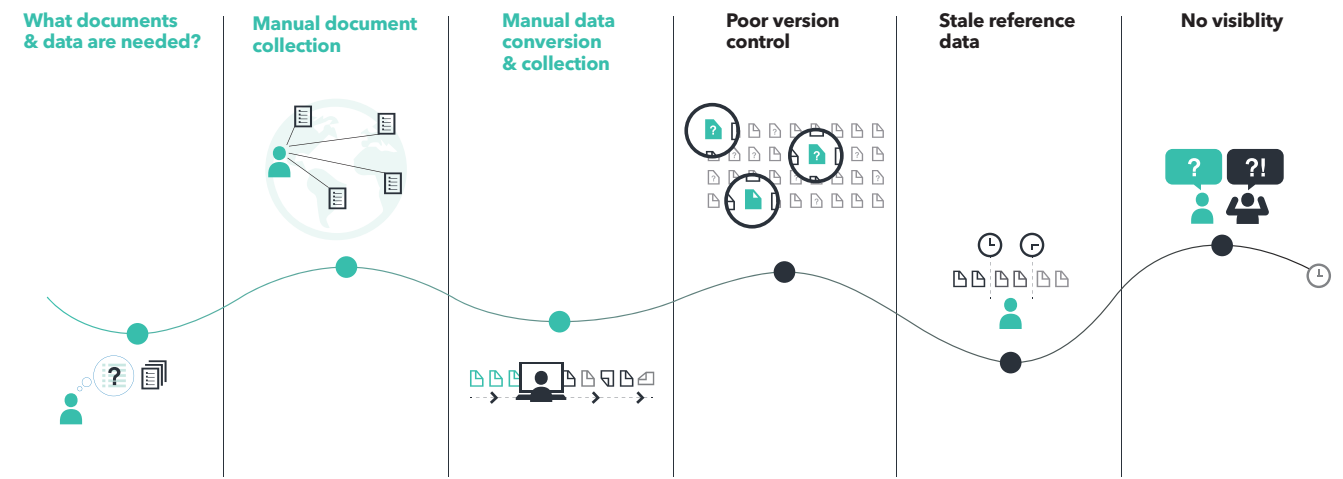
Bloomberg's Entity Verification service, can review your universe of entities, verify basic entity information and fill out incomplete entity profiles. We can highlight changes in information or status and help increase the quality of information to allow you to synchronize with internal client databases and/or limit the information requested via an outreach exercise.

Client outreach model

Entity exchange platform



The problem



What can go wrong?

Many regulations anticipate that firms will plan for client engagement. The last 10 years have seen an exponential growth in the data required, with an additional 300 data attributes now required to comply with tax reform, transparency initiatives and client due diligence. So, what types of mistakes do firms make in conducting their outreach?

Data collection

Manual data collection methods often result in an inconsistently applied process, subject to human error.

Technology

Choice of technology in an outreach is very important. Typically, firms will conduct their outreach via email, which can result in poor version control and difficulties in validating that the returned information corresponds with what was sent.

Security

Email is often used to deliver content to clients. This can result in data being distributed across global servers, which are easy to intercept.

Reference Data

One-time communication with a client in order to obtain these data points could result in reference data becoming stale. Firms need to plan for either periodic client communication or move their process to a real-time data model.

Visibility

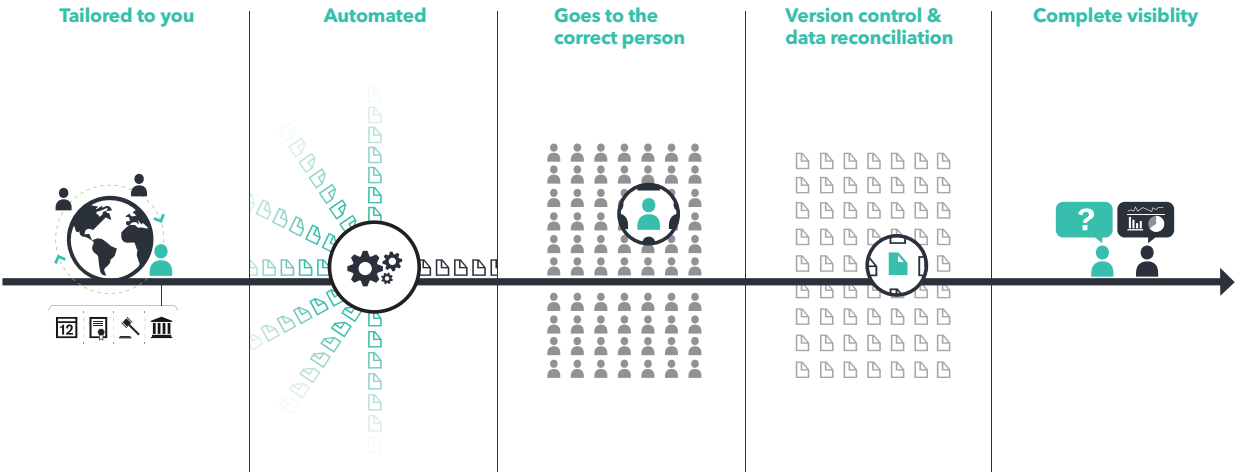
Stakeholder management is key; you will need to demonstrate that your program is running on time.

Audit trail

Analyzing the communication chain can be troublesome and costly without a clear audit trail.



The solution



What other outreach options are available?

Firms can leverage our Entity Exchange platform to conduct outreach to clients, with the support from Bloomberg’s Entity Exchange team, to help with client data collection. Bloomberg’s purpose-built solution is flexible, innovative and designed to enable clients to comply with evolving regulations efficiently.

Outreach projects can be completed more swiftly, with the technology alleviating client fatigue from similar requests coming from multiple institutions. The connections that firms create with clients over Entity Exchange will continue to pay dividends as future outreach becomes even easier and key reference data attributes are delivered from a golden source on an ongoing basis. Entity Exchange delivers a full audit trail, issue management capabilities and dashboards to enable project management across your entire client outreach process.

Entity data verification & enrichment

Bloomberg is an industry leader in gathering timely and accurate legal entity data. We have extensive coverage, with highly granular entity data, for four million public and private companies, funds, government agencies and municipalities. We undertake extensive research to maintain an accurate, near-real-time picture of how corporate structures change, and we monitor the impact of new regulations on entity data requirements. In addition, we can research entities on demand. Bloomberg’s Entity Verification service can review your universe of entities, verify basic entity information and fill out incomplete entity profiles. We can highlight changes in information or status and help increase the quality of information, thus allowing you to synchronize with internal client databases and limit the information requested via an outreach exercise.

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## Take the next step.

For additional information,  
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