



PREPARING FOR MIFID II
Are the UK Financial Institutions Ready?



There are significant changes on the way in the regulation of the financial industry. MiFID II (The Markets in Financial Instruments Directive) which comes into force in January 2018. Part of it stipulates that any firm providing financial services to clients linked to 'financial instruments' will have to record and store all communications intended to lead to a transaction. Compliance of this updated directive means that many more firms will need to be ready to meet the explosion in data that will accompany MiFID II enforcement.

HOWEVER....

A study of IT decision makers and Risk & Compliance Managers within UK financial services businesses, reveals a lack of preparation and understanding of the requirements of MiFID II legislation.

KEY FINDINGS:

- ✓ Almost three quarters (73%) of Risk & Compliance managers in Financial Sector admit they're not aware of penalties of up to 5 million euros or 10 per cent of annual turnover vs only 58 per cent of IT managers and decision makers
- ✓ 17 per cent of Risk & Compliance managers are unaware a company could receive a cease and desist order for non-compliance
- ✓ Almost a quarter of those surveyed (22%) say that, although they feel they understand the MiFID II legislation, they are not sure how it applies to their organisation
- ✓ Over a quarter (29%) do not yet have the technology or the infrastructure needed in place for compliance
- ✓ Only 10 per cent are currently communicating with partners and suppliers about their preparations for compliance with MiFID II

The full survey findings are listed below:

Q1 – MIFID II UNDERSTANDING

Financial Institutions in the UK are confident in their understanding of MiFID II, however, less confident in knowing how it applies to their organisation

Confidence in understanding MiFID II peaks in organisations with between 50,001 – 100,000 employees and then falls sharply in larger organisations

- Overall, 68% of IT decision makers & risk and compliance managers say they totally understand MiFID II and how it applies to their organisation
- Overall, 22% of IT & risk and compliance managers said they understand MiFID II but are not sure how it applies to their organisation

- Confidence levels are fairly similar between the IT team (70% totally understand) and the Risk & Compliance managers (65% totally understand)
- Confidence rises as the size of an institution increases, however this peaks with institutions with between 50,001 – 100,000 employees (88% are totally confident). Then, organisations with over 100,000 employees show a sharp fall in understanding (88% in banding 50,001 – 100,000 falling to 67% in the banding 100,001 – 150,000 employees and 65% in the banding with 150,001+)



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Q2 – AWARENESS OF PENALTIES FOR NON-COMPLIANCE

Financial Institutions in the UK are not clear on the penalties for non compliance

The IT team has a better overall understanding of the consequences of non-compliance, compared to risk & compliance teams

- Overall, nearly one fifth (18%) of IT & risk and compliance managers were unaware that a company can receive a cease and desist order for non-compliance to MiFID II
- Overall, over half (56%) say that although they do know there are financial penalties for non-compliance, they are unaware of how much these can be
- 17% of risk and compliance managers say they did not know a company could receive a cease and desist order for non-compliance and 10% were unaware a company could be fined
- 42% of IT decision makers and managers say they know a company can be fined up to 5 million euros or 10% of annual turnover compared to only 27% of the risk and compliance teams
- 62% of risk and compliance managers admitted to not knowing how much the financial penalties are for non-compliance

Q3 – LEGAL REQUIREMENT TO RECORD AND STORE RECORDS FOR ALL CALLS AND ELECTRONIC COMMUNICATIONS THAT COULD RESULT IN A TRANSACTION OR THE PROVISION OF CLIENT SERVICES

Over a quarter (29%) of those interviewed said that despite being aware of the need to comply in under a year (3rd Jan 2018) they do not yet have the technology or the infrastructure to comply

- Overall, 16% of IT & risk and compliance managers said they were not aware of a legal requirement to record and store records for all calls and electronic communications that could result in a transaction or the provision of client services
- Overall, 29% of respondents (combined 23% & 6%) said they were aware of this need, however, they do not yet have the technology or infrastructure to comply



One incident of financial fraud took place every 15 seconds, from January to June 2016. A staggering statistic reflecting a 53% increase on the same period in 2015.

- Financial Fraud Action



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Q4 – PREPARATIONS FOR MIFID II

Countdown to compliance has begun with 30% having plans this year to invest in technology and infrastructure for compliance

Just over a third say they have started to implement policy, process and system changes, however, only 10% have been communicating with partners and suppliers to check if they are compliant

- 36% of those interviewed said their organisation has developed policy and procedures to ensure compliance with MiFID II
- Only 34% have started to implement policy, process and system changes for compliance
- 20% have invested in skills and services already to help with compliance
- 30% have allocated budget for implementation in 2017 but say they need to understand more about what's needed
- 30% say they have already invested in technology and infrastructure to help with compliance
- Only 10% say they have been communicating with partners and suppliers about their preparations for MiFID compliance
- 39% of ITDMs/IT managers say they have developed policy and procedures to ensure compliance, vs 32% of risk & compliance managers

Q5 – BREXIT AND MIFID II

Brexit is causing some confusion over MiFID II compliance

- 14% simply don't know how Brexit impacts their requirement for compliance
- One quarter of those interviewed said that they believed Brexit will mean their organisation will be exempt from MiFID II compliance, but it wouldn't have been if the UK hadn't voted 'Leave'

Q6 – CONFIDENCE IN SECURITY CONTROLS TO SAFEGUARD COMPANY RECORDS OF TRANSACTIONS

Confidence in security controls to safeguard records of transactions is high – perhaps too high given the other answers in this study

- 93% of respondents are confident in their company's security controls (57% confident/36% are very confident)

Aeriandi commissioned research company Opinion Matters to poll 250 IT professionals from businesses with over 1000 employees. The survey was conducted in January 2017. The sample was split equally between Managers with Risk/Compliance in their job titles and IT Decision Makers/IT Managers

To find out more about how Aeriandi can help you become MiFID II compliant

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