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THE ALTERNATIVE INVESTMENT
MANAGEMENT ASSOCIATION

MiFID2

A Guide for Investment Managers

February 2017

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Executive summary

This guide (“Guide”) has been developed by the Alternative Investment Management Association (AIMA) in association with Schulte Roth & Zabel International LLP to help AIMA investment manager members to implement the recast Markets in Financial Instruments Directive (“MiFID2 Directive”) and its companion regulation, the Markets in Financial Instruments Regulation (“MiFIR”), which will apply from 3 January 2018. We refer throughout this Guide to MiFID2 to describe the entirety of the new regulatory framework, including the MiFID2 Directive, MiFIR and various pieces of subsidiary legislation and standards.

This Guide contains:

- An overview of the MiFID2 framework, explaining the evolution from the original MiFID1 to MiFID2, the policy intentions behind the new rules, and their legislative structure.
- An explanation of how MiFID2 impacts different types of investment managers according to their regulatory classification. This considers MiFID2 from the point of view of MiFID investment firms, Alternative Investment Fund Managers (AIFMs) established in the UK, and third-country (i.e., non-EU) investment managers. Annex 2 of this Guide contains a table summarising the application of the key aspects of MiFID2 reforms by type of investment management firm.
- A detailed overview of the key aspects of the new rules, as well as an exploration of how MiFID2 might impact various trading strategies.
- A summary of the steps that investment managers should consider in the context of their work to implement and respond to MiFID2. Annex 3 of this Guide contains a checklist of practical compliance steps to assist investment managers with planning their MiFID2 implementation projects. Annex 4 contains a checklist of MiFID2 implementation projects for third-country managers.

Background

Directive 2004/39/EC on markets in financial instruments (“MiFID1”) entered into effect on 1 November 2007. It was intended to improve the competitiveness of EU financial markets by creating a harmonised single market for investment services and activities, whilst ensuring a high degree of investor protection. It sought to improve conditions of competition, drive down costs for issuers and provide better and cheaper services for investors.

As is standard for many EU legislative instruments, MiFID1 required a future European Commission (Commission) review of the regime to evaluate its impact and suggest improvements. This review, which got underway in 2010, coincided with various G20 initiatives for financial sector reforms following the financial crisis.

Commencing with a Commission public consultation in 2010, the MiFID review focused on the areas of MiFID1 considered to require improvement, including rules on investor protection. It also sought to take account of market structural developments and new methods of trading, for example the emergence of dark pool trading of equities and high-frequency trading (HFT). Many issues have been heavily politicised, including the introduction of new rules on position limits and reporting for commodity derivative contracts.

After extensive negotiations amongst the EU institutions, the final Level 1 texts of the MiFID2 Directive and MiFIR were published in the Official Journal of the European Union on 12 June 2014. They entered into force on 2 July 2014 and had been due to enter into effect 30 months later, on 3 January 2017. This was subsequently delayed to 3 January 2018. Under the revised timeline, Member States are required to transpose the provisions of MiFID2 into their national legislation by 3 July 2017.

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Electronic copies of the full *MiFID2: A Guide for Investment Managers | February 2017* are available to AIMA member contacts via the AIMA website. The electronic copies are subject to a limited licence and are reserved for the use of AIMA members only.

For further details on AIMA membership, please contact Fiona Treble (ftreble@aima.org), who will be able to assist you.

About AIMA

AIMA, the Alternative Investment Management Association, is the global representative of the alternative investment industry, with more than 1,800 corporate members in over 50 countries. AIMA's manager members collectively manage more than \$1.8 trillion in assets. AIMA draws upon the expertise and diversity of its membership to provide leadership in industry initiatives such as advocacy, policy and regulatory engagement, educational programmes and sound practice guides. AIMA proactively communicates with the media and the general public to increase awareness around the value of the industry. AIMA set up the Alternative Credit Council, or ACC, to help firms focused in the private credit and direct lending space. The ACC currently represents over 80 members that manage \$300 billion of private credit assets globally. AIMA is committed to developing skills and education standards and is a co-founder of the Chartered Alternative Investment Analyst designation (CAIA) - first and only specialised educational standard for alternative investment specialists. AIMA is governed by its Council (Board of Directors).

For further information, please visit AIMA's website, www.aima.org.



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