

MiFID II FAQs

For Advisers, Discretionary Portfolio Managers and
Product Providers

01 March 2019

Morningstar Wealth Administration Limited is authorised and regulated by the Financial Conduct Authority under reference 463566. Registered in England and Wales under company No. 06016828 with a registered office address of 1 Oliver's Yard, 55-71 City Road, London EC1Y 1HQ. Morningstar Wealth Administration Limited is part of Morningstar, Inc

T: +44 (0)203 873 5566 E: advisersupport.MWP@morningstarwealthplatform.com W: www.morningstarwealthplatform.com
MFAQ/01032019/FP269

Contents

Summary	3
What does Morningstar Wealth Administration Limited do for Product Governance?	3
How is Client reporting handled?	5
How does Morningstar Wealth Administration Limited handle Transaction Reporting?	7
How does Morningstar Wealth Administration Limited monitor Best Execution?	7

Summary

MiFID II (The Markets in Financial Instruments and Derivatives II) is EU-wide legislation that came into effect on 3rd January 2018. As a UK FCA-regulated investment business, Morningstar Wealth Administration Limited (WAL) is obliged to comply with the regulation.

The spirit of the legislation is to improve customer outcomes by ensuring that companies manufacture and distribute financial products in a clear and transparent manner.

This document is designed to set out the way in which WAL will deliver its obligations under the legislation, considering the requirements of our client firms, whether they are advisers, Discretionary Portfolio Managers (DPMs) or a combination of the two. This is based on all the information available to us on the Directive, FCA policies, best practice guides and legal advice as at 31st December 2018 and is subject to change.

What does Morningstar Wealth Administration Limited do for Product Governance?

WAL is not a manufacturer or end distributor under the MiFID II regulation and therefore this area of the regulation has limited impact on the platform:

- All investors are defined as 'retail' investors and are advised by financial advisers who are regulated in the country in which they are providing advice.
- The DPM is charged with selecting funds that are suitable for retail advised clients. Since the funds are selected by the DPMs there is no requirement for WAL to provide fund factsheets or Key Investor Information Documents (KIIDs).
- The majority of the financial instruments held on the platform are either daily dealing funds, direct stocks and bonds, or Exchange Traded Funds (ETFs), and so would fall into the category of non-complex instruments.
- Where investment trusts are selected by a DPM, it is up to the DPM to determine their suitability for retail advised investors.
- Where a negative target market asset may be selected by a DPM this will form part of a wider portfolio for diversification purposes and will therefore not be reported as negative target market.

Given the above, we will not initially be passing any information to advisers on the target market and we will not be passing any summary information to product manufacturers.

How has Morningstar Wealth Administration Limited defined Distributors and Manufacturers under the MiFID II regulation?

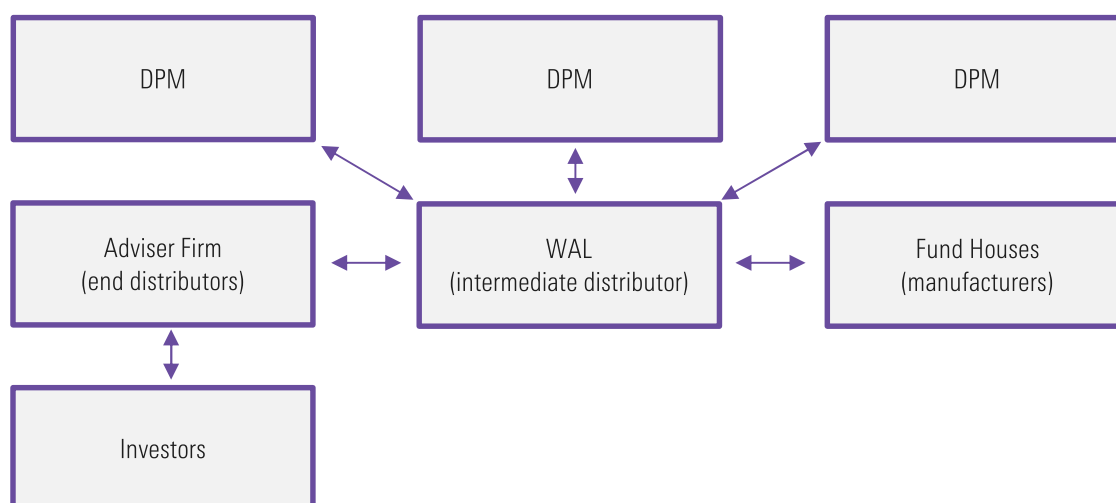
WAL has made the following determinations when defining distributors and manufacturers:

- **Morningstar Wealth Administration Limited:** deemed to be an *intermediate distributor* in MiFID II terms because we are a platform that offers models managed by DPMs, and advisers can select the most suitable model/s for their underlying investors.
- **Adviser firms:** deemed to be *end distributors* as they are engaging directly with investors.
- **Fund houses** for managed funds: deemed to be *product manufacturers* (products are defined as financial instruments). From our point of view, there are no manufacturers for direct stocks or bonds.
- **DPMs:** deemed to be *distributors*.

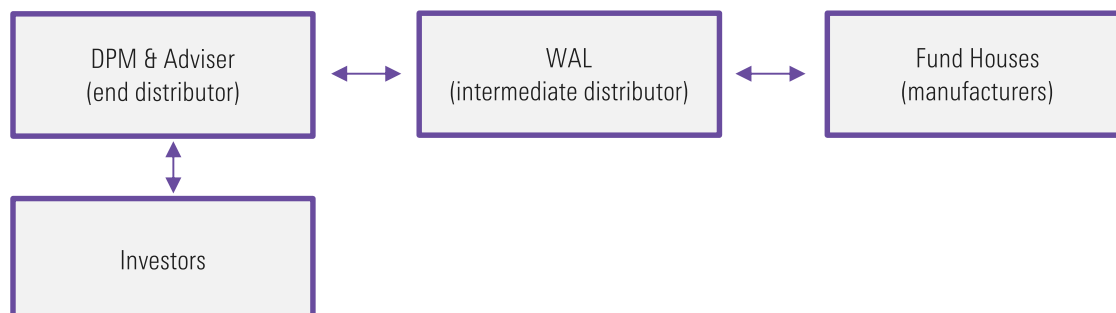
Our services as intermediate distributor:

- **Select Service** – this service is for adviser firms who do not have their own discretionary permissions. The adviser firm can select one or more DPMs.
- **Direct Service** – this service is for adviser firms who also have their discretionary permissions and can therefore act as both financial adviser and DPM for their own direct clients.

Distributors & Manufacturers - Select Service



Distributors & Manufacturers - Direct Service



How is Client reporting handled?

Ex-ante reporting

For Ex-Ante reporting we provide on the **estimated costs/charges** the following information:

- Total service cost
 - One-off charges
 - Ongoing charges
 - Transaction charges
 - Ancillary service charges
 - Incidental charges
- Total product cost
 - One-off charges
 - Ongoing charges
 - Transaction charges
 - Incidental charges
- Third-party charges: The total of the product cost and the third-party charges is displayed as a total aggregated cost. (VAT will not be identified separately.) This information is then used to provide information on 'what you might get back' in year 1 and subsequent years, based on:
 - no charges,
 - after charges, and
 - the cumulative effect of costs and charges on returns.

The data is shown in currency amounts (£, \$ or €) and in percentage terms.

How will Morningstar Wealth Administration Limited report the 10% drop in value?

MiFID II requires firms to meet additional reporting obligations to notify clients when the overall value of their portfolio, relative to its value at the beginning of each reporting period, depreciates by 10% and multiples of 10% thereafter ('depreciation reporting') within 24 hours.

Where an adviser uses a third-party DPM, the DPM has the responsibility for this communication. However, we recognise that DPMs running model portfolios on a platform do not typically have the client data. Therefore, we expect they will look to delegate this to adviser firms whilst using the platform to facilitate the information.

We have taken on board feedback from our adviser firms that as they have the key relationships with customers they will require the information so that they can inform and manage the conversations with their customers with regards to the fall in value of their portfolio.

Where a portfolio drops by 10% in value during a reporting period (calendar quarter), we will send email notifications to both the adviser and to the DPM whose models have been affected.

The method used is as follows:

- Beginning of the quarter is the starting period, e.g. April 1st.
- Performance is calculated on a time-weighted basis.
- If account performance shows a drop of more than 10% from April 1st, a notification is triggered.
- We will conduct a preliminary check to ensure that the drop is genuine, after which the notification will go out that a drop has occurred.
- If account performance drops by 20% from April 1st, another notification is sent to notify the adviser of a second 10% drop. The measurement is always taken from the beginning of the first day of the quarter.
- At the beginning of the next quarter on July 1st, the performance calculation resets for that quarter.

Ex-post reporting

Prior to investment, we will provide an illustration to clients outlining what they could expect to pay in costs and charges over the course of a year. Once the investor has been invested for a full year, we will provide a report outlining the costs and charges they actually incurred. The below questions outline what goes into the making and delivery of those reports.

Which products are included in the report?

The ex-post report includes GIAs, ISAs, SIPPs and all third-party products investing through the platform.

How are fees displayed?

The report will show both total costs and a breakdown of charges, including:

- Platform charges, in both % and £.
- Adviser fees, in both % and £.
- Intermediary charges
- DPM charges, in both % and £.
- Charges associated with the underlying investments, in both % and £.

Are investment fees paid at portfolio and/or fund level?

Portfolio level. Advisers and investors can request fund disclosure if desired.

Will investment fee calculations account for monies in/out or fund switches?

Yes.

Are fees net or gross of VAT?

Gross of VAT where applicable.

Do you show the DPM and adviser?

Yes, we provide the DPM and adviser name as at the report end date.

When will the report be delivered?

The report will be delivered once a year and will cover the 12 months from the anniversary of the account being opened. If the account was opened prior to 1st January 2018 then the anniversary date will begin from the end of Q1 2019 covering the 15 month period. If the account closes within the 12-month period, then the report will be sent out covering the period the account was active. The annual ex-post report will be included with the quarterly report that follows the anniversary.

Timings for ex-post annual reporting

	Q1	Q2	Q3	Q4
If the investment anniversary occurs in quarter ending:	31 March	30 June	30 September	31 December
Then the ex-post report will typically be despatched by:	30 April	31 July	31 October	31 January of the following year

How does Morningstar Wealth Administration Limited handle Transaction Reporting?

We report on all required transaction according to the regulations.

All new trust and company accounts (excluding bare trusts and single member personal pensions) will need to provide a LEI on account set up. You will be able to provide this to us via an input field on the adviser portal.

If we have requested a LEI from you for one and you have not provided it, please be aware that:

- If the account contains exchange traded assets it will not currently be trading
- We may not be able to process any withdrawal or account closure requests

Please ensure that you send us the LEI number as soon as possible.

How does Morningstar Wealth Administration Limited monitor Best Execution?

An updated version of our Best Execution Policy is available in the [Legal and Policies section of our website](#). The RTS28 report and accompanying execution quality report are also available.

Disclaimer

The information in this document is for use by Morningstar Wealth Administration Limited's Adviser, Discretionary Portfolio Manager and Product Provider firms only. This guidance is provided at a general level only. This information is not intended as advice about the MiFID II regulatory regime: for specific information about MiFID II we recommend that each organisation seek their own legal advice.

Please refer to the [FCA MiFID II guidance and policy statements](#) for more information on the regulations.

Please contact us at advisersupport.MWP@morningstar.com for any questions or feedback.