

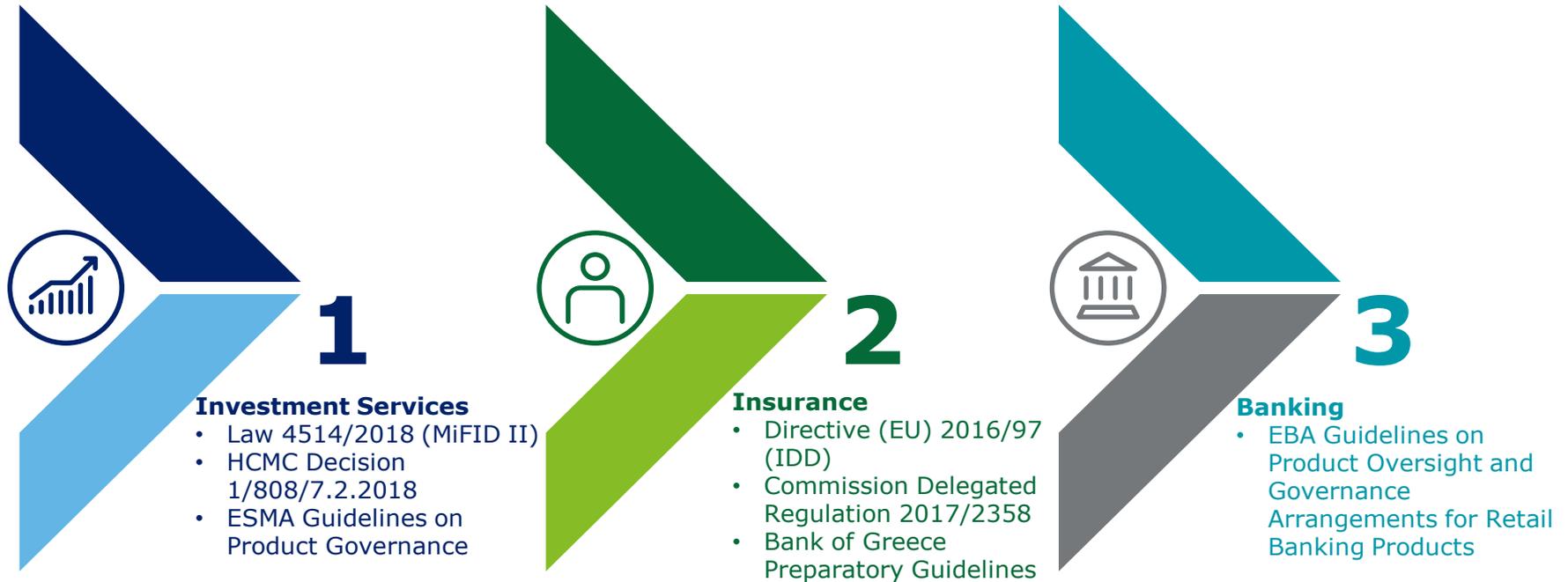


# **From Corporate Governance to Product Governance: MiFID II and beyond**

September 2018

# Product Governance Regulatory Universe

Product Governance across all activities and services



# MiFID II Product Governance

## General considerations



The financial regulatory focus in Europe on Product Governance is forcing fundamental changes on how financial products are expected to be manufactured and distributed.

The MiFID II approach to Product Governance has created a **benchmark** for investment services and products, but the same principles can be applied across all activities and services.

A well-designed and well-executed Product Governance process is central to an integrated conduct risk framework and operating a successful business strategy.

Firms should *not* underestimate the complexity of the challenge, especially when operating on a multi-jurisdictional basis, or offering a wide range of products.

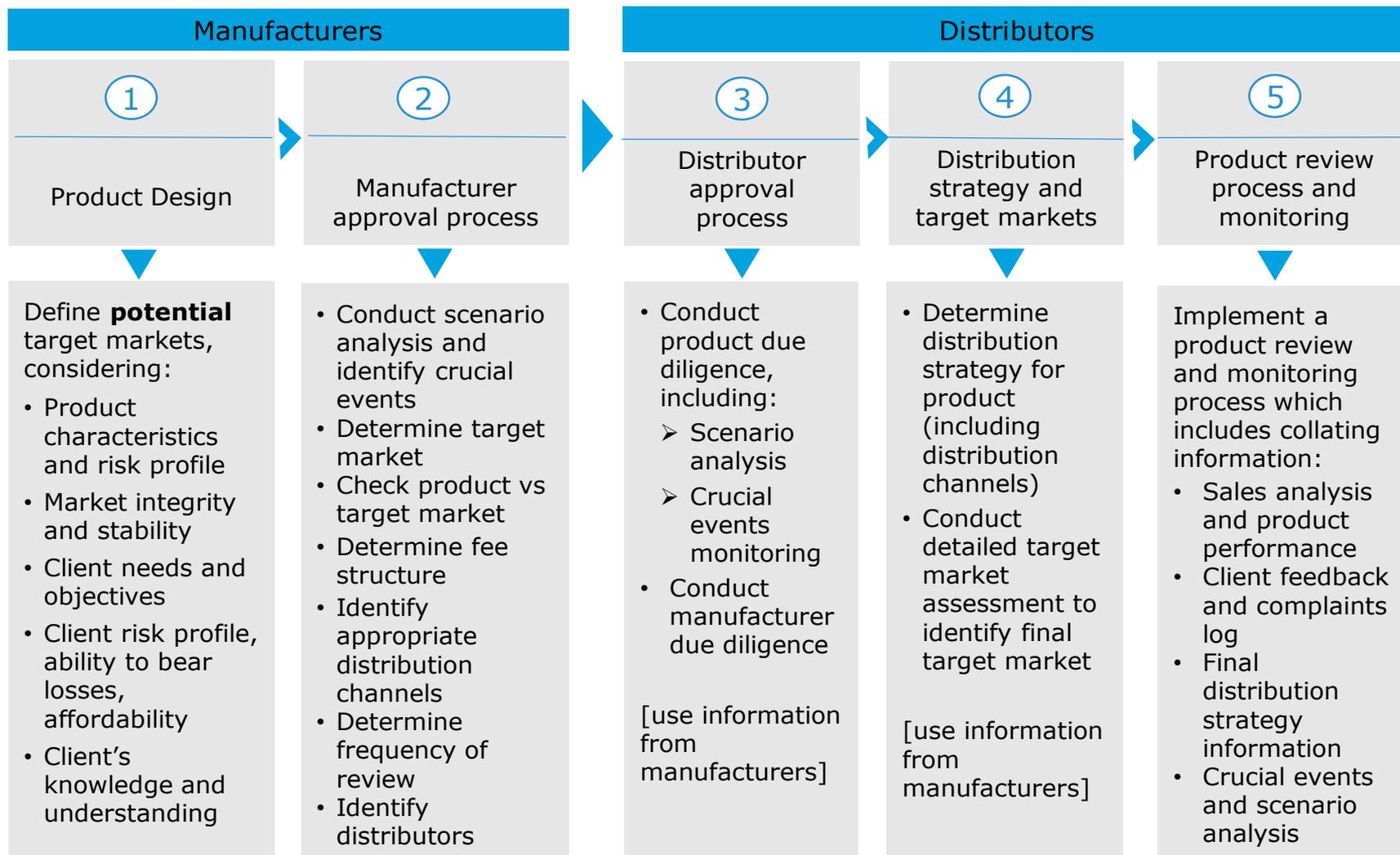
New regulation has impacted the entire product lifecycle, and firms will need to ensure effective information flow and interaction between all parties in the product value chain.

If the risk of client detriment is to be managed actively, then any issues which are emerging downstream in the product manufacture and distribution process need to be identified as soon as possible.

Stress-test and scenario analysis are important tools here, but they need to be complemented by active monitoring of actual experience, based on collation and analysis of all relevant information, in a well-developed control framework that feeds into the conduct risk oversight mechanism.

# MiFID II Product Governance

## Product Governance process



# MiFID II Product Governance

The four key drivers in developing a Product Governance framework



# MiFID II Product Governance

## The role of Compliance

### **Manufacturing of Products**

The Compliance Function monitors the development and periodic review of product governance arrangements in order to detect any risk of failure to comply with the relevant obligations

Compliance reports are submitted to the management body and systematically include information about the financial instrument manufactured and on the distribution strategy

### **Distribution of Products**

The Compliance Function oversees the development and periodic review of product governance arrangements in order to detect any risk of failure to comply with the relevant obligations

Compliance reports are submitted to the management body and systematically include information about the products the firm offers or recommends and the services provided

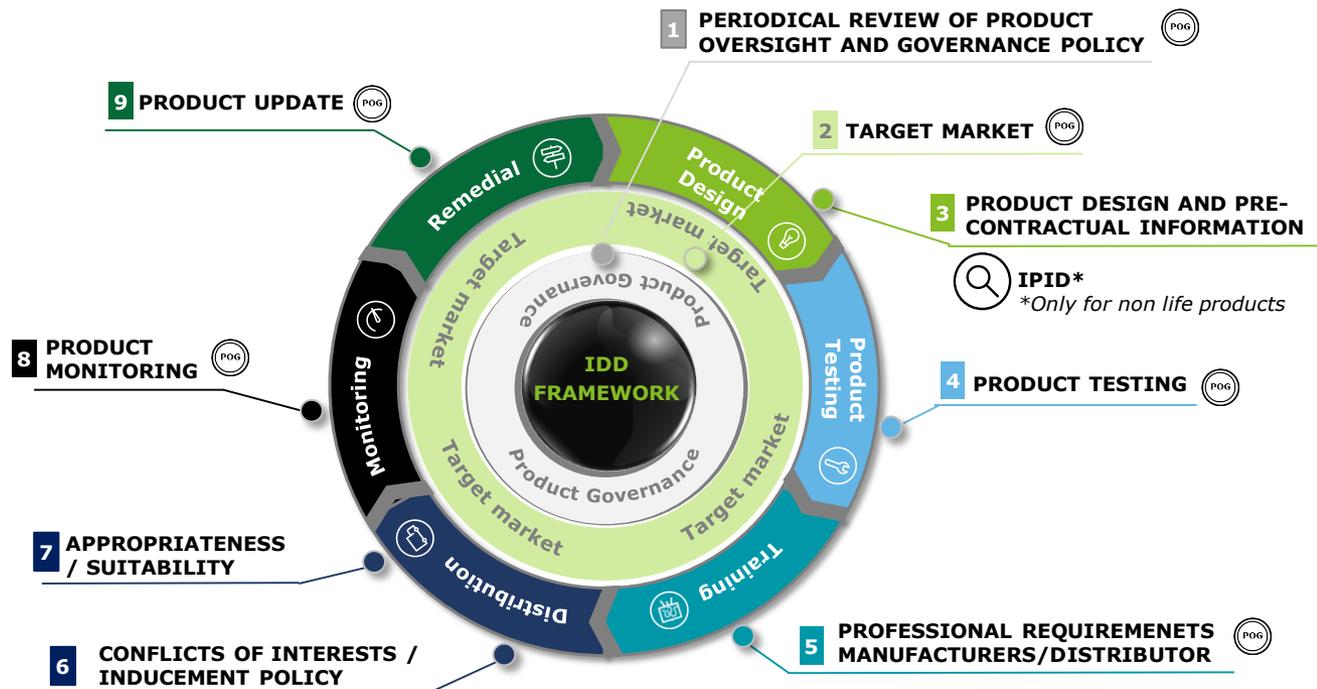


Responsibilities  
of Compliance  
Function

# Insurance Distribution Directive: the MiFIDization of insurance Product Oversight and Governance (POG) under IDD



Some of the features of the MiFID II Product Governance arrangements are already being reflected elsewhere, in broader regulatory requirements to incorporate increased control and oversight over the product lifecycle of non-MiFID instruments.



# MiFID II Product Governance and IDD POG

## Common features

Both **MiFID II** and **IDD** have been designed to enhance consumer protection. Both frameworks introduce rules for the maintenance, operation and review of product oversight and governance arrangements as well as rules for product distribution arrangements for **financial instruments** and **insurance products** accordingly.

### Manufacturers

- Proper management of conflicts of interest
- Management body's responsibility
- Expertise of personnel involved in designing products
- Positive target market identification
- Negative target market identification
- Product testing/scenario analysis
- Product monitoring/review
- Remedial actions
- Appropriate distribution strategy for the identified target market
- Provision of information to distributors
- Documentation of process/compliance reports to the management body [*available to the competent authorities upon request*]

Client -  
product  
alignment

### Distributors

- Arrangements and for obtaining all necessary information on the product(s) from the manufacturer(s)
- Management body's responsibility
- Provision of sales information to the manufacturer
- Obtaining all necessary information on the (positive and negative) target market as well as distribution strategy from the manufacturer
- Regular review of product distribution arrangements
- Documentation of process/compliance reports to the management body [*available to the competent authorities upon request*]

# Product Governance Frameworks

Meeting regulatory and clients' expectations



# Product Governance Frameworks

What response are the regulators looking for?

- 1 Look to the **spirit** and not just the letter of new regulation
- 2 Evidence action through **good record keeping**
- 3 Revise your **business model** not just your compliance
- 4 Know your **customer / counterparty**
- 5 **Align** your interests with those of your customers



The new framework has a significant impact on firms' businesses and employees

Client interaction and the quantity & quality of information made available to the market will change materially

Leadership, Governance and Culture will be essential for embedding the new approaches



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