

MIFID 2 PRODUCT GOVERNANCE

CHRISTOPHE ZACHARIASEN
Compliance Global Markets France

September 2018



BNP PARIBAS

The bank for a changing world

BNP PARIBAS KEY FIGURES



With strong roots in Europe's economic history, BNP Paribas is both a **leading European bank** and a **prominent global institution**. As the **'Bank for a Changing World,'** we put **you at the centre of our world**, innovate on your behalf, and **support you through changing times**.



73 COUNTRIES

(APAC, EMEA, US)



198,011 EMPLOYEES GLOBALLY

Staff numbers as of March 31st 2018



FITCH



MOODY'S



S&P

REVENUES HY 2018

€22.0BN

NET INCOME HY 2018

€4.0BN

attributable to equity holders, excluding exceptional items

LIQUIDITY RESERVE

€308BN

as at 30 June 2018

SOLVENCY RATIO

11.5%

as at 30 June 2018

Source: BNP Paribas, Bloomberg, April 2018. For S&P, rating for Long Term Foreign Issuer Credit is quoted. For Moody's, rating for Senior Unsecured Debt is quoted. For Fitch, rating for Senior Unsecured Debt is quoted.

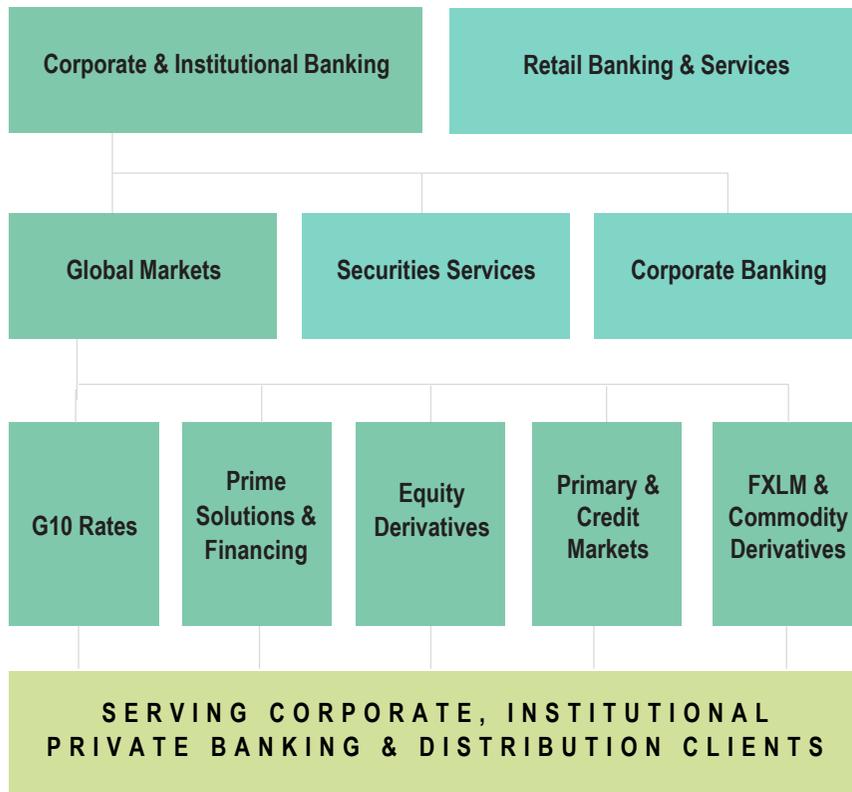


BNP PARIBAS

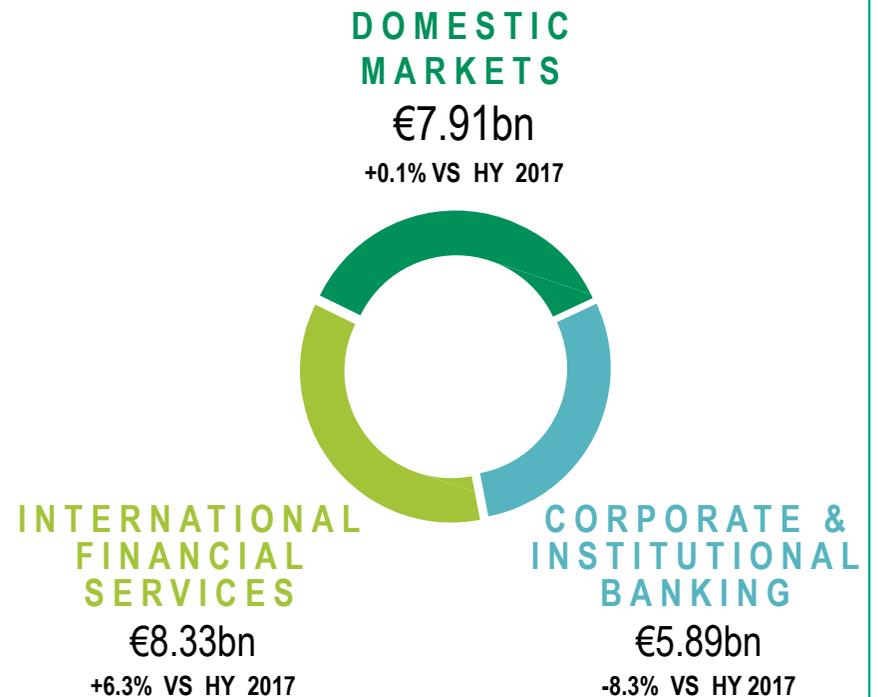
The bank for a changing world

OUR GROUP STRUCTURE

Our integrated business model is composed of three core areas: **Retail Banking**, **International Financial Services** and **Corporate & Institutional Banking**. This diversity creates a business model which remains stable through changing market conditions, bringing a solid foundation from which to **build long-term relationships with you, our clients**.



REVENUE BREAKDOWN — HY 2018



MIFID 2

Several factors came into play as the MiFID II project expanded from its original remit of revising MiFID:

- the increasing pace of technological change (especially the rise of automated trading) and growth in new market structures
- the unexpected results of MiFID itself, in increasing data fragmentation and encouraging a shift towards more efficient trading technology
- calls for the radical reform of the financial services industry after the 2008 financial crisis and
- the “Europeanisation” of financial services regulation with the creation of new European super-regulators including ESMA, and the drive towards a single rule-book for the EU’s financial markets.

Topic	MiFID I	MiFID II / MiFIR
 Products scope	<ul style="list-style-type: none"> ▪ MiFID I was more focused on equities 	<ul style="list-style-type: none"> ▪ MiFID II scope is broadening and expanding beyond equities
 Investor Protection	<ul style="list-style-type: none"> ▪ Client categorization (retail, professional, eligible counterparty) ▪ Suitability / appropriateness (conduct of business rules and requirements for investment services) ▪ Investment advice (detailed definitions of investment advice and personal recommendation) ▪ Inducement (conduct of business and compliance rules) ▪ Best execution (promote best execution results when executing orders for clients) ▪ Record keeping and recording 	<ul style="list-style-type: none"> ▪ Investor Protection is being enhanced, e.g.: <ul style="list-style-type: none"> • New execution quality / execution venue reporting • Enhanced information to clients requirements (costs and charges) • Unbundling of research requirements • New product governance requirements
 Market Structures	<ul style="list-style-type: none"> ▪ Transaction reporting ▪ Systematic Internaliser ▪ Alternative venues (MTF) ▪ Pre and post trade transparency (disclosure obligations) 	<ul style="list-style-type: none"> ▪ New trading venues (OTF) ▪ High frequency trading better managed / monitored ▪ Pre and post trade transparency enhancement ▪ Systematic internaliser new provisions
Who is affected: Investment banks, Portfolio Managers, Hedge funds, Stockbrokers, Brokers dealers, Corporate Finance firms, Many futures / option firms, Some commodities firms		



Product Governance within Global Markets

BNP Paribas' Global Markets offers consistent client service and innovative solutions for investment, hedging and financing opportunities across asset classes, or market intelligence. The main clients of Global Markets are Global institutions, corporate clients, private banks and distributors

Directive 2014/65/EU of European Parliament and Council of 15th May 2014 and the Commission Delegated Directive 2017/593 of 7/04/2016 on markets in financial instruments ('MiFID II') sets out new requirements relating to Product Governance. The new rules govern the framework for manufacturing, offering and recommending Financial Instruments, Structured Deposits and Services. Firms that design financial products are now subject to enhanced requirements, including a process for pre-sale internal approvals, a requirement to identify the target market for the product, the type of client for whom the product is intended

In the context of Product Governance, BNP Paribas Global Markets ('BNP Paribas') can act as manufacturer, distributor or both. When acting as manufacturer and/or distributor, BNP Paribas has put in place the following arrangements.

- **Governance Processes**
- **Target Market Identification**
- **Conflicts of Interest**
- **Distribution Strategy**
- **Information to distributors**
- **On-going Monitoring**



Product Governance within Global Markets

Governance Processes

BNP Paribas has put in place an extensive governance process to review all Investment Products that are sold to Clients either directly or via third party distributors. Approvals will be managed by internal approval committees in line with the existing BNP Paribas governance framework.

Target Market Identification

When launching an Investment Product, BNP Paribas will identify the Target Market for the Product. Clients for whom the Product is not compatible will also be identified ('Negative Target Market').

In line with regulatory guidance, the Target Market for each Investment Product will be assessed based on the following:

- Client type
- Knowledge and experience
- Financial capacity
- Risk tolerance
- Client objective and needs



Product Governance within Global Markets

Conflicts of Interest

In accordance with the BNP Paribas Group Code of Conduct, BNP Paribas has procedures in place to identify and manage conflicts of interest (refer to <https://cib.bnpparibas.com/MIFID>). In the context of Product Governance this will be particularly relevant when BNP Paribas is acting as both manufacturer and distributor. Any identified conflicts will be reviewed via the relevant approval processes.

Distribution Strategy

BNP Paribas will also define a distribution strategy that is consistent with the identified Target Market. In particular with respect to the use of third party distributors, BNP Paribas has a governance process in place to ensure that a third party distributing a BNP Paribas Investment Product has the required expertise. Distributors should define their own Target Market on a more concrete level and should take into account:

- the type of clients they provide investment services to;
- the characteristics of the Investment Product; and
- the type of investment services they provide.



Product Governance within Global Markets

Information to distributors

BNP Paribas will provide the distributor with adequate information in order to understand the Investment Product. The type of information that may be provided to the distributor will include:

- Target Market
- Marketing material
- Scenario Analysis as part of the KID for Packaged Retail and Insurance-based Investment Products ('PRIIPS')
- Term Sheet

On-going Monitoring

When acting as a manufacturer, BNP Paribas will regularly review Investment Products under the established governance framework. The review will include feedback from distributors as well as an assessment of how the Investment Product is performing and whether it continues to meet the needs of the identified Target Market. Management information will be collected from distributors in accordance with agreed industry standards. The following information may be required by the manufacturer:

- reports of any decisions taken to broaden the Target Market/distribution strategy including the proportion of sales made outside the Target Market (including within the Negative Target Market)
- summary information on the types of client
- summary of any complaints received
- information that may indicate a distributor has wrongly identified a Target Market or that a Investment Product no longer meets the needs of the identified Target Market



Product Governance within Global Markets

Disclaimer

This document has been prepared in good faith by BNP Paribas. This document is provided to you by BNP Paribas or any of its affiliates for informational purposes only, BNP Paribas has no obligation to keep the contents of the document updated and inform recipients of changes. It is intended for your use only and may not be quoted, circulated or otherwise referred to without BNP Paribas' express consent. This document is not a research report or a research recommendation and does not constitute a personal recommendation. This document should not be considered as an offer or a solicitation to engage in any trading strategy or to purchase or sell any financial instruments. The information and opinions contained in this document have been obtained from sources believed to be reliable, but BNP Paribas makes no representation, express or implied, that such information and opinions are accurate or complete. In any event, information in this publication is intended to provide only a general outline of the subjects covered. This material is not intended to provide, and should not be relied on for, legal, tax, accounting, regulatory or financial advice. Other financial institutions or persons may have different opinions or draw different conclusions from the same facts or ideas analysed in this document. No BNP Paribas group entity accepts any liability whatsoever for any direct, indirect or consequential loss arising from any use of material contained in this document. BNP Paribas does not provide legal or regulatory advice and, in all cases, recipients should conduct their own investigation and analysis of the information contained in this document and should consult their own professional advisers.

BNP Paribas is authorised and supervised by the European Central Bank (ECB) and by the Autorite de Controle Prudentiel et de Resolution (ACPR) in respect of supervisions for which the competence remains at national level, in terms of Council Regulation n° 1024/2013 of 15 October 2013 conferring specific tasks on the ECB concerning policies relating to the prudential supervision of credit institutions. BNP Paribas is incorporated in France with Limited Liability. Registered Office: 16 Boulevard des Italiens, 75009 Paris, France. 662 042 449 RCS Paris www.bnpparibas.com. © BNP Paribas. All rights reserved.

