



Supporting you through the transition to MiFID II/MiFIR

November 2017

Understanding the challenges & opportunities of regulatory change

All regulatory change brings both challenges and opportunities in its wake, and MiFID II and MiFIR are no exception. J.P. Morgan Asset Management is working to meet the regulatory obligations outlined by MiFID II/MiFIR for implementation by 3rd January 2018.

It is important to us to help our clients to understand the implications of the upcoming regulation for their organisations and make their transition to the new regime as smooth as possible. Alongside this commitment, we have continued to deepen our partnership with key industry bodies and remain actively engaged in ongoing discussions with them in the run-up to implementation.

In this document, we answer the key questions that our clients have asked us ahead of these regulatory changes. If you have a question that is not covered here, please contact your Client Advisor, who will be happy to help.

A handwritten signature in black ink, appearing to read 'Massimo Greco', with a large, stylized flourish above the name.

Massimo Greco

Head of EMEA Funds Business



List of Abbreviations

- AMC.** Annual Management Charge
- EC.** European Commission
- EEA.** European Economic Area
- EFAMA.** European Fund and Asset Management Association
- EMT.** European MiFID Template
- EPT.** European PRIIPs Template
- ESMA.** European Securities and Markets Authority
- EU.** European Union
- EWG.** European Working Group
- FCA.** Financial Conduct Authority
- IA.** Investment Association
- LGA.** Local Government Association
- MiFID II.** Markets in Financial Instruments Directive
- MiFIR.** Markets in Financial Instruments Regulation
- NCAs.** National Competent Authorities
- NURS.** Non-UCITS retail schemes
- PRIIPs.** Packaged Retail and Insurance Based Investment Products regulation
- TISA.** Tax Incentivised Saving Association
- SICAVS.** Société d'Investissement à Capital Variable
- UCITS.** Undertakings for Collective Investment in Transferable Securities



1 Is J.P. Morgan Asset Management ready for MiFID II/MiFIR?

We believe we are ready as we have established a project team and supporting governance framework in order to:

- carry out gap analysis
- undertake an impact assessment
- develop an implementation plan and corresponding programme of work to meet the regulatory obligations outlined by MiFID II/MiFIR.

In addition, we continue to engage with trade associations, external counsel, NCAs and our peers and clients to work towards establishing a uniform understanding of requirements and corresponding solutions.



2 Which are the most significant areas of change?

For J.P. Morgan Asset Management, the key areas of change are:

- product governance and target market;
- costs and charges information;
- client categorisation;
- research payments;
- trade transparency;
- transaction reporting; and
- best execution.



3 How will you approach the issue of paying for broker research?

Since the initial drafts of the MiFID II Directive, J.P. Morgan Asset Management has been working to determine the most appropriate course of action with regards to payment for external research. As a result, for accounts considered in scope of the MiFID II Directive, from 1st January 2018 our Equities, Fixed Income and Multi-Asset Solutions platforms will transition the costs associated with the purchase of external research from being paid for by trading commissions to being paid for directly by J.P. Morgan Asset Management.

Any account that is managed by, or contracted to one of our UK legal entities is considered to be a MiFID II account. Several of our Luxembourg SICAVs, managed by our UK entity will be included. So will our OEICS in their entirety. However, there is some complexity in the territorial scope of MiFID II due to the different interpretations of the Directive by each EU NCA. Not all NCAs have published final rules on how they will implement the Directive, and therefore the determination of which accounts (including our funds) are considered MiFID II accounts continues to be reviewed and may be subject to change. There are also some complexities when it comes to trading done outside of the EEA, such as in the US.



4 Will J.P. Morgan Asset Management continue to provide materials such as Market Insights to clients or will this not be permitted due to MiFID II?

For the purposes of MiFID II the JPM Market Insights and Portfolio Insights programmes are marketing communication and are not in scope for any MiFID II/MiFIR requirements specifically related to investment research. Furthermore, the J.P. Morgan Asset Management Market Insights and Portfolio Insights programmes as non-independent research have not been prepared in accordance with legal requirements designed to promote the independence of investment research; nor are they subject to any prohibition on dealing ahead of the dissemination of investment research.



5 How do you define “target market”?

The issue of how “target market” will be applied under MiFID II has been widely debated by industry bodies and firms alike. In common with the wider funds industry, we intend to use the five categories for target market as set out by ESMA. These are:

- Client type;
- Knowledge and experience;
- Ability to bear losses;
- Client objectives and needs; and
- Risk tolerance.

In addition we consider the distribution strategy of the fund; whether execution only, execution only with appropriateness, or an advised channel.



6 How do you define the types of client your funds are intended for?

The majority of our funds are intended for retail and professional clients. Additionally, following comments from the FCA, we regard UCITS as appropriate for all client types, and therefore all UCITS funds are available to all investor knowledge and experience levels. Where this is not the case, we will reflect it in the target market data.



7 How are you helping distributors meet their MiFID II obligations?

We are working to meet the regulatory obligations outlined by MiFID II/MiFIR. We remain actively engaged in various industry-wide discussions, including the EWG, and fully support the standardised EMT for data provision between asset managers and distributors.

We intend to provide MiFID II compliant data, including the target market, ex-ante and ex-post costs and charges data, using this format only. The German data will be provided in the format requested by the German Financial Services Industry.

We will make representative data available to distributors and platforms for all MiFID II in-scope UCITS, SICAV and Investment Trust fund ranges from the end of November 2017. Regular monthly data feeds will begin in January 2018.



8 How can Distributors share their sales information with you?

Distributors have a regulatory obligation to provide information to manufacturers to support the manufacturer's product review process. This specifically includes information on sales made outside the target market.

Given the nature of our product range, we do not anticipate a significant volume of sales outside the target market. However, for any sales made outside the target market, we will need to have visibility of this activity so that we can meet our regulatory obligation to ensure that products are being distributed correctly.

Our preferred method to receive this information is via the TISA Target Market Reporting Specification which provides a framework for distributors providing target market sales data back to manufacturers.



9 Do you plan to make any immediate changes to your product range due to MiFID II/MiFIR?

We review our fund range and share class offerings on a frequent basis and will continue to adjust it as appropriate to meet our clients' needs.

J.P. Morgan Asset Management currently offer three share classes in the SICAV range, I, C and X, that are intended to be retrocession-free. Eligibility requirements for each share class can be found in the relevant prospectus. We will continue to monitor the marketplace in respect of any future developments in this area.



10 Which of your products are “complex” and “non-complex” according to MiFID II?

We recognise that distributors will be interested to know our views on whether our products are “complex” as defined by MiFID II. We believe our UCITS fund range is non-complex as they are not structured UCITS. We are following the FCA's stance that NURS and investment trusts are neither automatically non-complex nor automatically complex. Under the non-complex assessment criteria, we have assessed that our NURS fund range as well as investment trusts are non-complex. However, non UCITS products managed by our Alternatives businesses are considered complex.

However, the Portfolio Strategies Funds and Specialist Investment Funds umbrellas are considered complex, as are products created by our Alternatives businesses.



11 How will you publish costs and charges information?

We intend to use the EMT to supply costs and charges data to distributors and platforms, which includes pre- and post-sales product cost figures.



12 How often will you supply costs and charges information?

At present, we intend to supply costs and charges information on at least an annual basis and we are keeping abreast of developments in the industry regarding frequency.

The data will be provided at share class/ISIN level and will go into the same level of detail as set out in the regulation. Product and service costs will be aggregated and split into the buckets below:

CATEGORY	DESCRIPTION
Product Costs	One-off charges (entry & exit fees)
	Ongoing costs (AMC and other expenses)
	Transaction costs
	Incidental costs (performance fees)
Service Costs	One-off charges related to the provision of an investment service
	All ongoing costs and charges paid to investment firms for their services provided to the client
	Any charges that are related to ancillary services
	Incidental costs



13 Will you make any changes to your Distribution Agreements?

Regulators and industry bodies have stated that Distributors are responsible for their own adherence to Product Governance rules, eliminating the need to duplicate these obligations within a revised distribution agreement. As a result, we will not be changing our Terms of Business or distribution agreements to reflect the data reporting requirements of MiFID II/MiFIR.



14 How will you interact with other market participants when it comes to MiFID II/MiFIR?

We continue to take part in a wide variety of industry association meetings, peer group forums and bilateral and unilateral discussions with regulators across Europe on topics across the whole scope of the MiFID II/MiFIR legislation.

In the UK, we play an active role within a number of associations, such as the IA and TISA. In terms of the Local Authority element of MiFID II, we have been engaging with both the LGA and the IA to discuss market-wide strategies to implement the new legislation. In parallel, we have been engaging directly with the FCA on a variety of subjects.



15 What about the overlap between the Packaged Retail and Insurance Based Investment Products regulation and MiFID II/MiFIR?

We are aware of the overlap between PRIIPs and MiFID II/MiFIR in relation to costs and charges information to be provided to clients prior to investing. The challenge is that the industry has moved to adopt separate disclosure templates for each piece of legislation in order to address their specific features; for example, the EPT for PRIIPs and the EMT for MiFID II.

However, we prefer to adopt market standard solutions for the provisions of data disclosure and have therefore consolidated our PRIIPs and MiFID II/MiFIR Programme costs and charges initiatives into a single team to ensure an efficient and coordinated implementation.



16 How will Brexit affect the way the regulation is implemented?

In respect of the UK, the FCA has been one of the main architects of MiFID II/MiFIR and there is unlikely to be any material change to financial services regulation within the UK after Brexit. However, a post-Brexit environment could increase the potential for “mutual equivalence”, where the EC has the power to assess a Third Country legal and supervisory regime as being equivalent to MiFID II/MiFIR.

The MiFID II/MiFIR implementation date of 3 January 2018 falls well before the date of the UK’s expected exit from the EU. As a result, we do not expect it to have any impact on either our approach or our timeline. The UK has two years to officially leave the EU once Article 50 is triggered: as Article 50 was triggered on 29 March 2017, the earliest exit date will be 29 March 2019.

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