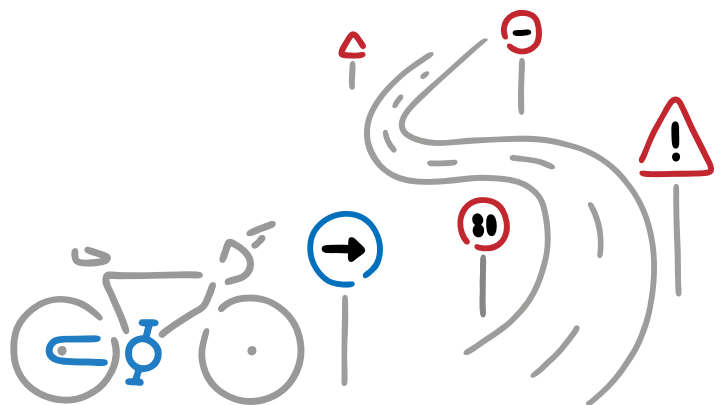


project case

Customer Inducement Reporting- Implementation of MiFID II guidelines in day-to-day operations

“The great flexibility of calculo made it possible for us to implement the customer’s specific requirements and respond to changing conditions in a timely and cost-effective manner.”

Andreas Hütt, MiFID II Project Manager and Head of Business Development, Sowatec



Customer Inducement Reporting

For one of the world's major banks, with headquarters in Zurich, Sowatec created an automated software solution based on calculo. It calculates third-party inducements for their range of financial products and prepares the data for customer reporting.

The project

The European Union's Markets in Financial Instruments Directive (MiFID II) seeks to strengthen investor protection by creating more transparency around third-party inducements received by banks and investment advisors.

By 2018 at the latest, MiFID II requires banks and financial advisors to disclose all third-party fees received in relation to their portfolio. However, meeting these requirements entails a huge additional administrative and operational burden for banks and asset managers

Aufgrund dieser regulatorischen Bestimmung muss unser Kunde in der Lage sein, gegenüber seinen Kunden Fremdprovisionen auszuweisen und setzt dabei auf die Softwarelösung calculo.

Challenge

Bisher hatte das Schweizer Finanzunternehmen kein zentrales System, das die Gebühren für ihre vielen Investmentprodukte zusammenfassen, berechnen und auf Kundenebene aufbereiten konnte. Jede der Geschäfts- und Produktabteilungen war in erster Linie mit ihren eigenen Angeboten und Retrozessionen vertraut.

Um die MiFID II-Kundenberichterstattungspflicht in einen einfachen und effizienten Prozess umzusetzen, suchte unser Kunde nach einer zentralen und automatisierten Systemlösung.

Goal

- A single calculation system to replace manual and semi-automated processes
- Disclosure of investment product related third-party inducements in accordance with MiFID II regulations, for all investment product
- Automated processes for data import, calculation and reporting
- Flexibility to adapt the system to new requirements or products

Solution

calculo is a software solution based on BRM (Business Rules Management) technology. The software imports master and transaction data via freely configurable interfaces. Data import, calculation and reporting processes are largely automated. calculo allows automated calculation of third-party commissions on the various investment products and centralised preparation of the data for client reporting.

	Condition Management	Inducement Calculation	Data storage & Aggregation	Internal Reporting & MIS Export	MiFID Client Reporting
Third Party Funds	Provider Management	calculo			Standard reporting tool
Internal Funds	Internal Funds Tool	calculo	Internal Funds Tool		
Pension Funds	calculo				
Structured Products	Structured Products Tool	calculo			
Private Equity	Private Equity Tool	calculo	Private Equity Tool		

Functional scope of calculo within the MiFID II process

Benefits

- Transparent reporting of third-party commissions in accordance with MiFID II regulations
- Increased efficiency through use of a single, centralised calculation system for all inducements
- Automated processes for data import, calculation and reporting
- The system solution’s open interface architecture affords tremendous flexibility and adaptability

In conversation

Andreas Hütt, MiFID II Project Manager and Head of Business Development at Sowatec AG on rolling out calculo for customer inducement reporting at a prominent global bank.

What challenges did the EU Markets in Financial Instruments Directive (MiFID II) create for the bank that lead to this project?

MiFID II requires financial institutions to disclose those inducements to customers that are received on the customer’s investments. As part of a larger programme to implement MiFID II requirements, the calculo project was brought into existence specifically to create transparency around inducements (commissions from third parties).

How had inducements been treated so far?

Until then there were no legal requirements to summarise and report third-party inducements at a customer level. Each product area could thus calculate and handle third-party fees independently from each other.

With what hurdles was the project faced during implementation, and how were these overcome?

One challenge was that MiFID II requirements were only in draft form when the project started. The transcription into national law had not yet occurred. The project requirements thus relied to a large part on interpretations and working hypotheses. These were substantiated and refined in the course of the project. Flexible project planning involving six software releases allowed iterative implementation of the necessary revisions.

Also, some of the source data required for the calculation was supplied in significantly greater volumes than expected. In some instances, data volumes ten times larger than anticipated had to be processed. calculo’s open interface architecture however made it possible to conduct two-stage pre-processing and performance optimisations without having to discard the original interfaces.

“ calculo allows automated calculation of third-party commissions on the various investment products and centralised preparation of the data for client reporting.”

Sowatec AG

Mattenstrasse 14
CH-8330 Pfäffikon ZH
T +41 44 952 55 55

Sowatec Solutions AG

Taunustor 1
D-60310 Frankfurt
T +49 69 77 07 62 30

Sowatec (Luxembourg)

S.à r.l.

33, rue Gabriel Lippmann
L-5365 Munsbach, Luxembourg
T +41 44 952 55 55

Have the project objectives been attained thus far?

The calculo solution for regulatory reporting is in productive use and meets all requirements under MiFID II (as of the end of 2015). All project objectives have thus been met in full.

What in your opinion were the key factors for success?

The close cooperation between Sowatec and the Swiss bank on the project management and architecture level, as well as the great flexibility of calculo. These made it possible for us to realise the customer's requirements and to respond to changing regulatory stipulations in a timely and cost-effective manner.