

Markets in Financial Instruments Directive - MIFID II General Information

On 3 January 2018, the body of rules known as the MIFID II came into force in the Member States of the European Union; this is a highly relevant reform implemented through Directive 2014/65/EU (MIFID II), of Regulation 600/2014/EU (MiFIR) and, through a group of 29 Delegated Acts which develop and complement the aforementioned Directive MIFID II and Regulation MiFIR. This reform responds to the need to increase the level of protection of the users of investment products and services, which have become significantly more sophisticated in recent years.

The reform seeks to increase the requirements for transparency to the investor, and demands greater control and governance of the entities which provide investment services. This document seeks to summarise certain aspects of the reform which the CCG considers relevant for its customers and to demonstrate the CCG's commitment to the best practices that it has been applying in relation to its customers.

We wish to bring to your attention that the body of MIFID II and MiFIR regulations includes changes in two different areas: Protection of the Investor and the Functioning of the Markets (infrastructures and transparency); in this communication we will focus upon the new elements concerning the Protection of the Investor under the MIFID II.

Who does it affect?

The legislation affects all customers of institutions belonging to the CCG which provide investment services, be they Retailers, Professionals or Eligible Counterparts. We detail below those changes which we understand to be the most relevant to the way in which you, our Customer or Potential CCG Customer, will deal with us.

The MIFID II measures in favour of investors

The MIFID II reinforces the rights of investors in the area of Pre-Contractual and Post-contractual information concerning services and transactions in the sector of investment services, recommendations for suitable investments and pricing transparency, in particular, requiring institutions which provide investment services:

- To set out more detailed information concerning the potentially suitable and unsuitable audiences for the investment products and services that we offer our customers.
- To improve the detail, scope and frequency of the pre-contractual and post-contractual information concerning commissions, costs, fees and incentives that we provide to our customers.
- To improve the information and measures related to the execution of transactions and the execution venues selected for the said execution.
- To set out clear terms concerning the type of advice that our customers have access to.
- To adopt measures which ensure greater quality in the Commercialisation and Advisory Services offered to our customers by means of appropriate staff training in relation to the services that we provide. CAJAMAR Rural Savings Bank, Credit Union.

The following sections of this document describe the features of the MIFID II which the CCG believes may be of interest to you.

Product Governance

The MIFID II requires manufacturers and distributors to adopt measures making it easier for customers to better understand investment products and services; especially to understand whether such products and services are aimed at them or not. As such, at the CCG, acting fundamentally as a "Distributor" of third-party products, we shall use different variables such as the MIFID customer type, the level of knowledge and experience concerning the products and the financial markets, the level of risk tolerance, customer objectives and needs, the time limit for the investment and the type of service via which a specific MIFID product may be accessed, in order to determine the potential audience for each investment product that our customers can access and contract. Likewise, in order to facilitate an understanding the type of products that we offer at the CCG, we will identify the potentially unsuitable audience.

We wish to bring to your attention that in relation to most of the MIFID products that we offer, mainly Investment Funds, it is the manufacturers who provide the definition of the potentially suitable and unsuitable audience; the CCG passes this indication on in order to make it easier for our customers to understand the most suitable investor profile for each product, but this does not remove our obligation to assess the appropriateness and/or suitability of the MIFID product concerned.

Incentives

The MIFID II introduces significant changes in institutions' ability to receive monetary or non-monetary benefits from third parties in relation to the provision of investment services to customers. As such, it will be essential to act in accordance with one of the hypotheses that the regulations provide for:

- (1) The commercialisation of the institution's own and third-party products, combined with customer access to comparison or monitoring tools when evaluating which products to take out, or periodic reports on the performance, costs and commissions applied.
- (2) Assisted distribution (non-independent) of a range of products (which can be sold by the Group itself) always accompanied by product suitability monitoring on at least a yearly basis.
- (3) Assisted distribution (non-independent) of a range of the institution's own and third-party products.

At CCG, depending on the scenario that you choose in your dealings with us, you will receive different accompanying services designed to increase the quality of the primary service (advice) in proportion to the level of the incentives received, guaranteeing that the provision of the relevant service is not biased or distorted.

Investment advice

The MIFID II obliges financial institutions that provide an advisory service to our customers, to specify the nature of it by specifying whether the advice is Independent or Non-Independent taking into account the investment adviser's capacity to benefit from incentives, as well as providing information about the nature of the advice provided sufficiently in advance.

For this purpose, consistent with the general practice in the Spanish banking market, in the initial MIFID II implementation phase, the CCG shall provide its customers with Non-Independent Advice, enabling us to obtain monetary or non-monetary incentives whilst ensuring an improved quality of service in the interest of our customers.

In order to improve the "customer experience" and strengthen the added value of our services to customers, the CCG is to evolve and extend its advisory model, with an offering of different levels of service, of both a one-off and recurrent nature.

Transparency concerning risks and costs

The MIFID II further reinforces the obligations of financial institutions to provide their customers with a general description of the nature and risks of financial instruments, as well as greater detail in the information concerning commissions, costs and incentives. That description should explain the risks inherent in each instrument in a sufficiently detailed manner so as to enable you, our customers, to make investment-related decisions with sufficient information.

At the CCG, we are committed to ensuring that our customer has access to full and comprehensible information concerning the characteristics of the MiFID products that we offer or which you can access on your own initiative; likewise we seek to make it easier for our customers to access information concerning commissions, costs and incentives.

As such, you can find the regulatory information prior to investing via the specific Product Sheets designed by the CCG and, subsequently, on investing and during the lifetime of your investments with us, we will provide you with an annual (from January 2019 onwards) Communication on Commissions, Costs, Fees and Incentives which will inform you, in an aggregated manner, of those aspects connected to MiFID services and instruments which you contracted the previous year with the CCG.

Improved execution

The MIFID II does not substantially change the requirements that financial institutions have been adhering to when it comes to adopting and applying our Order Execution and Management Policy.

The regulatory changes that the MIFID II set out are related to the information that we must make public concerning: the five main execution venues used by categories of MiFID financial instruments in terms of contract volume, as well as information concerning the quality of the execution. As has been the case until now, the CCG does not provide order execution services, instead it uses third-party execution brokers to do this, as such, for the most part, we sit back whilst they adequately fulfil their obligations when it comes to executing our customers' orders.

We will make the aforementioned information public on the web page of every institution forming part of the CCG and on the web page of the CCG itself.

Our customers will receive the appropriate information concerning the CCG Order Execution and Management Policy. This policy sets out that the CCG is obliged to adopt all reasonable measures to enable the execution of orders, even when it receives and relays them to third parties for execution, in the most favourable conditions for the customer.

Recording and Registering Commercial Customer Communication

In the context of the obligations which the MIFID II imposes on institutions providing investment services to maintain a record of all of the services, activities and transactions that they perform, the new regulations expressly require us to put measures in place to register the recorded telephone conversations and electronic communications with our customers related to the transactions performed when dealing on their own account and to the provision of services which are related to the receipt, transfer and execution of orders from our customers at least. This obligation applies even if these conversations or communications do not lead to the execution of such transactions or to the provision of such services.

In order to ensure that our customers and potential customers are adequately informed of the aforementioned measures, this communication serves to expressly notify them that in application of our obligation to register, we will record the communications and telephone conversations as a result of which transactions are performed or may be performed. These measures shall respect the requirements of the Data Protection regulations in force.

Other key issues under MIFID II

Complementing the above, which are essentially the areas where the changes will be most relevant, it is worth remembering that there are many other aspects which remain and to which CCG is committed in the interests of providing its services with the highest quality standards, as follows:

> **Classification of customers for the purposes of the code of conduct**

The MiFID requires us to classify our customers based on certain predefined categories which are: Retail customers, Professionals and Eligible Counterparts. Retail customers receive a higher degree of protection than Professionals and Eligible Counterparts and benefit from a wide range of investor protection measures. The MIFID II will put the information requirements which actually apply to Retail customers on practically the same level as those classified as Professional customers.

> **Assessment of Suitability and Appropriateness**

When providing investment advice and managing portfolios, financial institutions must assess whether the product or service is suitable. For all other services a suitability test should be carried out where the product is complex or the initiative for the transaction comes from the institution.

> **Conflicts of Interest**

Financial institutions providing investment services must ensure the proper and transparent handling of the conflicts of interest which may arise, especially when this may result in prejudice to the customers. For this purpose, at CCG we maintain and apply a Conflict of Interest Management Policy which includes appropriate and proportionate measures for the situations in which our activity could result in such potential conflicts.

> **Safeguarding financial instruments**

Financial institutions providing investment services must take the necessary measures to safeguard customers' ownership rights when they have financial instruments belonging to them at their disposal.

We hope that you will find this information useful.

As always, should you require any further information, please visit your regular branch for assistance or contact us using any of your personalised channels.

