



Inducements Procedure

Contents

GENERAL PRINCIPLES	3
REGULATORY BACKGROUND	3
ESMA guidance	8
Automated inducement process description	11
Standard reporting: frequency of reporting	11
On request reporting: client contract termination	11
Calculation principles.....	11

GENERAL PRINCIPLES

PURPOSE

The MiFID II Directive 2014/65 deals with the payment to, and/or receipt from, a third party of inducements in relation to the provision of services to clients of investment firms. In doing so, it distinguishes between the rules that apply to investment services generally, and those that apply specifically in the context of portfolio management and investment advice. Generally, MiFID II permits investment firms to accept inducements in circumstances where certain requirements are satisfied. However, it prohibits inducements paid to, and/or received by, an investment firm carrying out portfolio management or providing investment advice: such firms are only permitted to pay or receive minor non-monetary benefits (“MNBs”) that fulfil certain requirements.

Commission Delegated Directive 2017/593 (the “Delegated Directive”) contains more detailed rules on inducements, including specific requirements governing inducements in relation to research. The European Securities and Markets Authority (ESMA) also deals with inducements in its Q&A on MiFID II and MiFIR Investor Protection Topics.

REGULATORY BACKGROUND

Inducements

According to Article 24(9) of MiFID II, an investment firm is only permitted to pay, or be paid, an inducement (namely, a fee, commission or non-monetary benefit) in connection with the provision of an investment service or ancillary service where the relevant payment:

- is designed to enhance the quality of the relevant service to a client of the investment firm; and
- does not impair compliance with the investment firm’s duty to act honestly, fairly and professionally in accordance with the best interests of its clients;

In addition, the investment firm must clearly disclose to the client, the existence, nature and amount of the inducement or, where the amount cannot be ascertained, its method of calculation. This disclosure must be made in a manner that is comprehensive, accurate and understandable to the client and must be made prior to the provision of the relevant investment/ancillary service. Where applicable, the investment firm must inform the client on mechanisms for transferring to the client an inducement received in relation to the provision of an investment/ancillary service.

Payments or benefits received or provided by an investment firm which enable or are necessary for the provision of investment services and which are inherently incapable of giving rise to conflicts with the investment firm's duties to act honestly, fairly and professionally in accordance with its clients' best interests are not considered to be inducements. This includes, for example, custody costs, settlement and exchange fees, regulatory levies or legal fees.

According to the Delegated Directive, an inducement should not be accepted if it results in the provision of the relevant services to the client being biased or distorted.

The Delegated Directive also provides further information as to when an inducement will be designed to enhance the quality of the relevant service to the client. Specifically, such an inducement must meet three conditions on an ongoing basis, namely, it must:

- be justified by the provision of an additional or higher level service to the relevant client, which is proportionate to the level of inducements received – the Delegated Directive provides examples of such services;
- not directly benefit the recipient firm, its shareholder or employees without tangible benefit to the relevant client; and
- be justified by the provision of an on-going benefit to the relevant client in relation to an on-going inducement.

An investment firm must hold evidence that any inducement that it pays or receives is designed to enhance the quality of the relevant service to the client.

Regarding disclosure, MNBs may be described in a generic way while other non-monetary benefits must be priced and disclosed separately. Where an investment firm discloses the method of calculating the amount of a payment or benefit in advance of providing the relevant service in its prior disclosure, then it must disclose the exact amount of the payment or benefit on an ex post facto basis.

An investment firm must inform its clients on an individual basis about the actual amount of payments or benefits received or paid at least once a year, as long as (on-going) inducements are received by the investment firm in relation to the investment services provided to the relevant clients.

EWUB

Inducement paid: The list of Business Introducers is non exhaustive as it can be updated on a regular basis and at minima confirmed by Private Banking as part of this procedure review.

Independent advice and portfolio management

MiFID II prohibits an EU investment firm which carries out portfolio management or provides investment advice from accepting and retaining third party inducements (fees, commissions or monetary and non-monetary benefits) in relation to the provision of services to clients. However, such an investment firm may accept MNBs that are:

- capable of enhancing the quality of service provided to a client; and
- of a scale and nature such that they could not be judged to impair compliance with the investment firm's duty to act in the best interests of the client.

In addition, the investment firm must clearly disclose the relevant MNB.

The Delegated Regulation sets out in more detail the benefits that qualify as acceptable MNBs as well as further details on returning inducements to clients and disclosure.

EWUB

Inducement received: In order to maintain an independent investment selection responding best to the needs of the customer, the Bank does not receive any inducement related to discretionary portfolio management activity.

Inducement paid: the Bank does not perform any investment advisory service for the time being.

Minor non-monetary benefits

According to the Delegated Directive, the following benefits qualify as acceptable MNBs:

- information or documentation relating to a financial instrument or an investment service which is either generic in nature or personalised to reflect the circumstances of an individual client;
- written material from a third party that is commissioned or paid for by a corporate issuer (or potential issuer) to promote a new issuance by the company, or contractually engaged and paid by the issuer to produce such material on an on-going basis, provided the relationship is clearly disclosed in the material and that the material is simultaneously made available to any investment firm wishing to receive it or to the general public;
- participation in conferences, seminars and other training events on the benefits and features of a specific financial instrument or an investment service;
- hospitality of a reasonable de minimis value, such as food and drink during a business meeting or a conference, seminar or the training events mentioned above; and
- certain other MNBs which a member state deems capable of enhancing the quality of service provided to a client and are of a scale and nature that is unlikely to impair compliance with an investment firm's duty to act in the client's best interests.

An MNB, in order to be acceptable, must be reasonable and proportionate and of such a scale that it is unlikely to influence the investment firm's behaviour in any way that is detrimental to the relevant client's interests. In addition an MNB must be disclosed to the clients as a generic information included in any relevant investment service or ancillary service confirmation or correspondence with client (in line with the Gift policy):

“Please be informed that some minor non-monetary benefits such as participation to conference or other gifts with value less than EUR 250 or equivalent in other currencies might have been received from or granted to business introducer or counterparty as a commercial relationship. This does not impair the independence of EWUB SA as investment or ancillary service provider to its clients”.

The Delegated Directive imposes additional requirements on an investment firm in relation to the transfer of a third party inducement paid in respect of the provision of independent advice or portfolio management to a client.

EWUB

In order to maintain an independent investment selection responding best to the needs of the customer, the Bank only accepts invitations to conferences and seminars with topics considered relevant to the Bank activities.

The following MNBs are acceptable and approved by HR and Management as Training.

- *participation in conferences, seminars and other training events on the benefits and features of a specific financial instrument or an investment service;*
- *hospitality of a reasonable de minimis value, such as food and drink during a business meeting or a conference, seminar or the training events mentioned above;*

Research Inducements

According to the Delegated Directive, research provided by a third party to an investment firm may be considered as an inducement under MiFID II.

Research will not be an inducement if the firm either directly pays for it out of its own resources, or from a separate research payment account ("RPA"), which is controlled by the investment firm and which meets a number of conditions. In particular, if an RPA is being used, the RPA must be funded by a specific research charge to the client. In addition, as part of establishing an RPA, the investment firm must set up and regularly assess a research budget and then agree with the client:

- the research charge as budgeted; and
- the frequency with which the specific research charge will be deducted from the clients' resources over the year.

The investment firm must regularly assess the quality of the research purchased based on robust quality criteria and its ability to contribute to better investment decisions. In order to do so, the investment firm must establish all necessary elements in a written policy and provide the policy to its clients.

When an investment firm makes use of the RPA it must provide its clients with certain information both before the provision of the investment service and annually. Moreover, where the competent authority or a client so requests, the investment firm must provide specified information, including a summary of the providers paid from the RPA, the total amount paid over a defined period and the benefits and services received by the investment firm.

Significantly, the Delegated Directive suggests that an investment firm which funds research through an RPA may collect the research charge alongside a transaction commission, provided that the separate costs of the two are clearly distinguished and the payment is not linked to the value/volume of transactions. The purpose of this document is to design a process sufficiently robust to perform a Best Execution when the Bank perform a security transaction for a client as stated by the new regulation MiFID II.

EWUB

The research received from brokers (included in transaction fees) will fall in the scope of inducement. The Bank decided to only use paying researches and publications and to pay for them itself, from a EWUB bank account, without charging it to the clients. The investment research policy describe:

- i. the research and publications used and received;
- ii. the set-up of a dedicated payment EWUB account for all paying researches and publications;
- iii. the controls and remediation actions to ensure no such research costs are paid or supported by clients, and that no other (free) researches are used, qualifying as Research inducements.

The publication and research received by GM is paid for by the Bank and not charged to the client. PB only received general financial communication and newsletters, considered public and hence of out Inducement scope.

ESMA guidance

In addition, according to ESMA Q&A issued in June 2017, we note the following items:

Payment for Research	<p>While a research payment account (RPA) can only be funded by a specific research charge to the client, which must be based on a research budget set by the firm, ESMA considers that a <u>budget can be set for a group of client portfolios or accounts</u> where the firm has established a <u>similar need for third party research</u> in respect of the investment services rendered to its clients.</p> <p>Firms <u>should not set a budget for a group</u> of client portfolios or accounts that <u>do not share sufficiently similar</u> investment objectives and research needs.</p> <p>A firm should be able to clearly evidence and demonstrate its approach to setting and managing a budget for a given group of client accounts and that it is consistent with using the budget in the best interests of its clients, as required by Article 13(6) of the MiFID II Delegated Directive.</p> <p>A firm is still required to <u>identify a specific research charge</u> for individual clients to fund the RPA, even where a budget is set for several portfolios. A firm will therefore need to have a <u>transparent method for making a fair allocation of costs in such cases</u>. This may involve the firm pro-rating the cost of the research budget across all client accounts benefitting from it based, for example, on the value of each client's portfolio, to establish a specific charge for individual clients.</p> <p>A firm may also choose to set a <u>firm-level research budget</u> to help it control overall costs, but this does not replace the need to set budgets for discrete groups of client portfolios and accounts as described above.</p>
Research Policy	<p>A firm should describe its approach in a written research policy <u>provided to its clients</u> under Article 13(8) of the MiFID II Delegated Directive.</p>
<i>Research Payment Account</i>	<p>Under Article 13 of the MiFID II Delegated Directive, where an investment firm chooses to use an RPA, this must be funded by a research charge to the client.</p> <p>The nature of this deduction as a charge means that once it is deducted from a client, the funds belong to the firm. However, this research fund should be managed in an RPA controlled by the investment firm and it should be used specifically for purchasing external research to benefit the client. ESMA is of the opinion that it is important that the investment firm makes its best efforts to align as much as possible the timing of the charges paid by the client to the firm, and the expenditure on research paid from the RPA by the firm to the research provider.</p>
Unrequested research provided free of charge	<p>Firms need to have in place <u>policies</u> and <u>systems to assess</u> the nature of any service, benefit or material paid or provided by any third party to determine whether they can provide or accept it.</p>

	<p>It is not acceptable for firms to receive research for free where no assessment has been made under the above inducements rules or there is no payment arrangement in place that complies with Article 13 of the MiFID II Delegated Directive.</p> <p>A firm providing independent investment advice or portfolio management services can only receive research in relation to those activities by complying with Article 13 of the MiFID II Delegated Directive. In this context, firms should not accept research for ‘free’.</p> <p>In relation to services or activities other than those covered under Articles 24(7) and 24(8), a firm providing or receiving research services must assess whether the provision or receipt of the research service meets the quality enhancement test (and the other conditions in Article 24(9)) or decide whether it intends to pay for the research directly or through a separate RPA under Article 13 Delegated Directive.</p> <p>Where a firm does not want to accept research material, they should take reasonable steps to cease receiving it or avoid benefitting from its content, for example by automatically blocking or filtering certain senders/materials where practicable, and / or requesting a provider to stop providing research, and / or using the compliance function of the firm to monitor, assess and determine whether the material can be accepted before it reaches those parts of the firm that would make use of it.</p> <p>firm could also consider having a process whereby staff can report to compliance or senior management any cases of unsolicited research being provided to them from a third party where no payment arrangement or agreement is in place.</p> <p>Where the provider of research is a firm which also provides execution services under MiFID, and is subject to Article 13(9) of the MiFID II Delegated Directive, the provision of unsolicited (or ‘free’) research would not meet the obligation on them to price services separately, and ensure its supply does not potentially influence the execution services they supply. On that basis, firms should have systems and controls in place to enable them to cease providing unsolicited research.</p>
Research received from non-EU firms	<p>Firms should therefore treat research from a third country provider in the same way as any other third party benefits.</p> <p>EU/EEA firms subject to MiFID II inducements rules must comply with these requirements (Article 24, paragraphs (7), (8) and (9), and the relevant level two provisions) irrespective of the status or geographical location of the research provider. Alternatively, they could receive research using the paying arrangements set out in Article 13 of the MiFID II Delegated Directive.</p>
When a research could be considered a minor non-monetary benefit	<p>Firms should have in place policies and systems to assess the nature and scale of any service, benefit or material provided by any third party to determine whether it can be considered as a minor non-monetary benefit or as research subject to Article 13 requirements.</p>

	<p>“Non-substantive material or services consisting of short term market commentary on the latest economic statistics or company results” that firms providing independent investment advice or portfolio management may treat as minor non-monetary benefits.</p> <p>For any third party benefits to be an acceptable minor non-monetary benefits, a firm should assess and ensure they are “reasonable and proportionate and of such a scale that they are that they are unlikely to influence the firm’s behaviour in any way that is detrimental to the interest of the relevant client.”</p> <p>Short market updates with limited commentary or opinion may be capable of being considered as information that is a minor non-monetary benefit consistent with Recital 29 and Article 12(3)(a) of the MiFID II Delegated Directive.</p> <p>Material repeating or summarising public news stories or public statements from corporate issuers (e.g. public quarterly results reports or other market announcements) could also be considered as information that constitutes a minor non-monetary benefit.</p> <p>A minor non-monetary benefit can include “written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company... provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any investment firms wishing to receive it or to the general public”. This exemption can allow investment firms to receive ‘pre-deal’ material directly relating to a new capital raising event by an issuer, which is produced by a third party such as another investment firm who is placing and / or underwriting the issue (often referred to as ‘connected research’), provided that the nature of the material is made clear and it is available at the same time to any prospective investor.</p> <p>Article 12(3)(b) also allow investment firms to accept material from a third party where they are “contractually engaged and paid by the issuer to produce such material on an ongoing basis”, again subject to the relationship being clearly disclosed within it and the material being made available at the same time to any investment firms wishing to receive it or to the general public.</p> <p>Recital 30 of the MiFID II Delegated Directive finally clarifies that “any non-monetary benefit that involves a third party allocating valuable resources to the investment firm shall not be considered as minor and shall be judged to impair compliance with the investment firm's duty to act in their client’s best interest.”</p>
<p>Research related to fixed income, currencies or commodities (FICC)</p>	<p>MiFID II inducements restrictions in Article 24(7) and (8) do not provide any carve out for third party analytical work on fixed income, currencies and commodities (FICC) or other assets. However, depending on its nature, specific material relating to FICC markets may be capable of being either research that would be acceptable if received in accordance with Article 13 of the Delegated Directive, or a minor non-monetary benefit under Article 12 of the same.</p>

Automated inducement process description

The process of inducement computation in T24 is done based on commission rates per Business Introducer (hereafter "BI") applied to AuM or revenues in T24

The inducement are of 3 mains types:

- one-off fixed commission of EUR x
- x% of AuM, calculated in T24 as "Client AuM in Local Currency (EUR) * Commission rate per Business introducer*period"
- x% of revenue, calculated in T24 as "EWUB revenue on Client in Local Currency (EUR) * Commission rate per Business introducer*period"

Some additional conditions might apply in specific cases:

- the above rules can be applied cumulatively (i.e. some BI can have only one of the above or mix of the above);
- it is possible that the % of AuM and/or revenue declines (e.g. a BI receives 30% in year 1, 25% in year 2, 20% in year 3 and 0% afterwards).

Further details on the automated inducement computation and controls in T24 are described in the Business Requirements Definitions ("BRD") given to IT in December 2017 for development.

Standard reporting: frequency of reporting

MiFID II requires to send the inducement reports to clients at least once a year. EWUB has chosen to produce one report per year.

After receiving the standard inducement report, the client can ask for more detailed breakdown. This breakdown will be based on a period of the last standard report he has received.

The first inducement reports will be sent at the end of Q1 2019 for the reporting period from January 1st 2018 to December 31st 2018.

On request reporting: client contract termination

If a client decides to end his relation with EWUB, the bank must provide an inducement fees report showing all inducements fees paid to BI (if applicable) from the first day of the current reporting period to the date of contract termination. This can be done at the time of the termination or at the end of the reporting period (year-end).

Calculation principles

Inducements fees must be expressed in amount. In order to calculate the costs in percentage, the "Daily average portfolio value" (DAPV) will be used as denominator.

- **For client coming via BI, this figure equals the value of client average AuM at of client's portfolio including average cash balance on portfolio-related cash accounts and deposits and is calculated in portfolio currency.**
- **For Execution/Advisory/Custody/Settlement this figure equals the value of Daily Average Assets in clients' portfolios. This figure should not take into account cash balance and deposits on portfolio-related cash accounts and should be calculated in portfolio currency.**

When no cost is indicated under a category (not applicable because of the tariff structure of EWUB or because of the nature of service or instrument) or no cost was recorded over the period, "0" should be displayed as the total cost for this category / cost item.
