

Target Market Definition

How to efficiently define the target market and incorporate it in the general advisory rule set

Why is it an issue now?

Under MiFID II, as well as under PRIIPs, all product manufacturers and distributors are obliged to define a target market for their products which are in line with the overall clients needs and requests.

MiFID II is defining the core principles but not giving clear guidance for the whole market even though the principles are applicable for all market participants.

regulator is the one date as of **5th of October** giving guidance and asking the market for consultation ("consultation paper"). This paper reflects the most prominent guidelines give from many market participants and industry representatives.

This methodology is the heart of the product life-cycle therefore a very sensitive and important topic within MiFID II.

Our point of view

Due to the room of interpretation given by the directive it is important to set-up and clearly consider the current approach which is formed at the market. Even though the definition is not unique, and **is unlikely to be** due to the potential national interpretation of the target market criteria, there is a clear direction how the to-be solution will look like.

This methodology needs to be incorporated, operationally and technically, in the **processes, especially in the advisory ones**. This means that the complete **suitability and appropriateness** process has to interlock with the target market definition of the product.

Having taking into account the afore mentioned topics this can only be done completely and without creating a huge burden to the employees facing the client, with a rock-solid IT solution. Therefore the definition of the advisory process with an integrated rule set considering the whole business set-up is key in this area of MiFID II. The key areas of the target market principle are the following:

1. type of clients to whom the product is targeted
2. Knowledge and Experience
3. Financial situation
4. Risk tolerance
5. Clients' Objectives
6. Clients' Needs

How we help in practice

- PwC brings in the regulatory and compliance knowledge in the several different locations which needs to be considered in the set-up of the rule set.
- Moreover, due to the large PwC network, we can leverage on the experience we have from 70+ MiFID II project across Europe.
- PwC brings in experts from different competence areas to have the comfort covering all affected areas such as legal, compliance, advisory and IT.
- The definition of the rule set and the knowledge of the cross-border impact is a key deliverable for many ongoing MiFID II projects what we will bring in as well.

The benefits of getting it right

- When choosing PwC you receive one team with the knowledge of 70 + MiFID II projects across Europe
- We will bring in the best practice approaches of your specific peer group across Europe
- You will benefit from the market experience we have in defining a solid rule set
- You have the assurance to get experts covering several geographical as well as content areas in one team
- Applying the best practice approach saves you internal resources
- You are always up to date! Our close contact to national and EU authorities ensures you a fast and high quality information flow

Getting the conversation started

- Do you have already a target market definition and is it MiFID II compliant ?
- Does your target market definition consider your **Suitability and Appropriateness** process ?
- How does your current target market concept look like?
- To which extent did you start integrating the target market definition in your advisory process?
- What is the opinion of your national legislator on the target market obligation in your home country?
- How do you plan to, or how did you, align with 3rd parties such as product manufacturer when you are distributing their products?

Highlights of our approach

1

Strategic decision on target market. Based on the current client / product / service offering set-up a balanced decision shall be taken how the to-be target market should look like.

2

Target Market Definition. A basic set of attributes for the definition of the target market has to be defined such as purpose of the investment or risk tolerance of the client.

3

Definition of Rule-Set. The set of criteria has to be integrated in the product life cycle process depending on the distribution channel (advisory, execution only or portfolio management) and the target markets (clients and / or countries).

4

Solid Suitability and Appropriateness Testing. The above mentioned Rule-Set and the Target Market Definition have to be in line with the criteria of the S&A testing due to the direct dependency of the product's characteristics and the client's needs.

5

IT Implementation. A last, but important and complex, step is the integration of the Rule-Set in an IT supported solution to give the investment firm the degree of freedom to serve their clients without any inefficient processes.

Delivering value to clients – sample case studies

- PwC supported in the definition of the target market and in the review of an existing rule-set for a Swiss based large private bank, having clients in 20+ countries.
- In cooperation with a software vendor PwC is defining and testing a country layer rule-set for a large core-banking vendor covering the suitability and appropriateness testing as well as the target market matching.
- Aligning the target market with the S & A test of the investment firm.
- Moreover all triggers of reporting duties the investment firm has according to the services / clients / products have been defined and integrated in the IT-module.
- Focus of the work is to assure compliance to the target market's jurisdictions and on the definition of solid cross border rules.

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