

THE MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE (MIFID)

The MiFID has established a new institutional framework for the harmonisation of markets in financial instruments in Europe. This document provides detailed information on the MiFID and how it affects you as an investor. What is the MiFID?

The EU Markets in Financial Instruments (MiFID) Directive 2004/39/EC sets out a new institutional framework for the operation of markets in financial instruments. MiFID applies in the European Economic Area (EEA), i.e. in the 27 member states of the EU plus Iceland, Norway and Liechtenstein.

This Directive has been incorporated in Cypriot Law with the Investment Services and Activities and Regulated Markets (MiFID) Law 144(I)/2007 that took effect on the 1 November 2007.

According to section 4(2) of Law 144(1)2007, persons entitled to provide investment services are:

- (a) Cyprus investment companies authorised to operate under S. 6 (2),
- (b) Investment companies of Member States according to section 77(1) and S.80(1),
- (c) Third Country investment companies under S.78(1) as well as banks and co-ops.

What are MiFID provisions all about?

More specifically, the MiFID sets out the way in which:

- An agency or provider of investment services is to be controlled and monitored
- Transactions are to be held between investment firms and customers in financial markets
- Investment services are to be provided to customers

How does this benefit investors?

By promoting the harmonisation of European markets, MiFID has increased transactions in investment and financial services. For example, MiFID has had an immediate positive impact on investors by stipulating for:

- their categorisation according to their market knowledge and experience;
- the achievement of best results in the execution of orders;
- the evaluation of the suitability and appropriateness of financial instruments;
- the prevention of investments that may burden them with more risk than they can afford;
- their notification about commissions, charges and inducements;
- transparency about conflicts of interest in the provision of investment services.

The most important change, however, has been the greater protection it has offered especially to investors who may not have sufficient knowledge and experience.

Whom does the MiFID concern?

MiFID covers companies and agencies – such as Brokers, Fund Managers, Organised Markets (e.g. stock exchanges), Commercial Banks, Investment Banks, etc – which provide investment and financial services in the EEA.

Which products and services are covered by the MiFID?

Securities

The MiFID covers all categories of securities transferable in the capital market, except means of payment, such as:

- Company shares and other securities, which can be assimilated with company shares, partnerships or other entities, as well as share certificates;

- Bonds and other forms of debt paper, as well as certificates relating to this kind of securities;
- All other securities giving the right to acquire or purchase these securities or involving a settlement in cash the amount of which depends on securities, currencies, interest rates or yields, commodity prices or other financial indices and measures;
- Non-complex products;
- Complex products.

Money market instruments

- All categories of instruments usually traded on the money market, such as treasury paper, certificates of deposit and commercial paper, except means of payment;

Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures and which may be settled physically or in cash.

