

# FINANCE & SERVICES **MIFID II: OPPORTUNITY OR CONSTRAINT?**

Product Lifecycle Management: A solid solution for  
the development and distribution of products



## **INTRODUCTION**

MIFID II (Markets in Financial Instruments Directive) will be put in place by January 1, 2018. This reform of financial markets and the distribution of financial products is a master regulatory framework that along with two other tightly linked regulations (PRIIPS and IDD) to be put in place in 2018 aims to build a unified European market.

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Targeting a unified European  
Market

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## SUMMARY

**MIFID II reinforces investor protection** by bringing transparency to the way products are conceived and distributed and how costs are charged. Regulators pay dedicated attention to conflicts of interest, including the concept of “best execution”.

**In addition, MIFID II introduces the principle of “Product and Sales lifecycle”, a concept well established in other industries, such as aeronautics, automotive and life sciences.** To manage product and commercialization lifecycles, these industries have put in place collaborative approaches that are efficient, help to handle the complexity of development, manufacturing and distribution of highly regulated products, and enable adoption of a global strategy for the whole product lifecycle.

**Financial services companies impacted by MIFID II, including investment products manufacturers and distributors, have begun to organize themselves by enriching their processes and investing in their existing IT systems.** Managing product lifecycle with a software solution, such as the one from Dassault Systèmes, is a strategy that is particularly well-suited to sustainable compliance with the numerous MIFID II requirements.

Right now, some financial services institutions have taken this opportunity to modernize their referential and product governance for MIFID II.

### What are the requirements for product governance?

To reinforce investors’ protection, **MIFID II defines the governance required for the production and distribution of investment products, closely monitoring the entire lifecycle to strengthen investor protection.**

In practice, producers are required to put check points in place with an internal approvals process that requires a strong management commitment. It also requires setting up tools that provide an operational view of the development process, the commercial follow-up and the capacity to demonstrate it to a regulatory entity.

In addition, the concept of “target market” requires that a client’s investment characteristics be taken into account right from product conception, reshaping the relationship between distributors and manufacturers. The product has to match precisely the needs of the target clients and provide a very detailed level of information about costs and risks that the investor will have to acknowledge.

### On the distribution side

MIFID II requires that sales forces and distribution staff be well trained and understand precisely the product’s features in order to be able to define a target distribution market. It also implies monitoring by the manufacturers of possible deviations in the distribution and information communication processes, i.e., processes that require a tight collaboration between distributors and manufacturers and a digital continuity of information.

The information made available for clients, apart from being clear and accurate, must be comprehensive, relevant and up-to-date. The PRIIPS regulation standardizes part of the information required and the content to be provided to retail investors.

In addition, monitoring during the product lifecycle and the proper handling of client complaints are other, no less important, parts which the regulator will be watching closely.

### Similar to other industries

There are clear similarities between MIFID II product governance and the requirements that exist in other manufacturing industries.

In the aeronautics industry, for example, an aircraft is subject to certification throughout its development cycle. Product lifecycle management records and manages the process from the early architectural design stage to how the product is manufactured, operated and maintained. It also considers how information is recorded from operations, tracing and demonstrating development throughout the process. **This provides greater security and protection of the “consumer passengers”. These activities are so important that they account for 20 percent of the non-recurring development costs for an aircraft program.**

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Investor protection is taken into account from the inception of the product

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MIFID II introduces the principle of “Product and Sales lifecycle”, a concept well established in other industries

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A demanding Product Governance for product design

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Product Governance at the distribution level as well

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A parallel with aeronautics and life sciences

The same process is also applied in life sciences. Pharmaceutical companies must have robust levels of traceability and need to demonstrate ex-ante the effectiveness and non-hazardous nature of a drug, all supported by sufficient clinically proven, statistically robust trials (back testing of products). Documentation and client information requirements are extremely strict, including an exhaustive description of any side-effects.

Any packaging errors lead to the destruction of a batch of medicine. Any documentation that is not sufficiently clear about side-effects may result in a delayed product launch, or the product being banned altogether, and include fines at the level of several billion dollars, similar to what has been regularly witnessed in financial services over the last few years.

We could give numerous other examples in the construction, automotive or other industries where the level of complexity can be due to the design of the products themselves, the myriad regulations that apply, or the multiple product variants and the number of countries in which they are distributed. **The common denominator in all these industries is that they have enabled the product, compliance, IT and marketing teams to contribute to the key stages of the lifecycle in order to manage increasing regulatory, technical and organizational complexity, and by doing so, limit the inherent risks and financial costs.**

### Software solution for managing the fund lifecycle and its compliance with MIFID II

Dassault Systèmes offers a solution that is both a methodical and collaborative software platform that covers the whole lifecycle of products and services—from ideation, design and implementation through to decommissioning—in an environment that involves very different functions (product, R&D, sales, marketing, legal and compliance).

In the context of MIFID II, the features concerning governance for the launch and maintenance of products are implemented dynamically and digitally. Visibility of related processes and projects is immediate and ongoing. Documentation and the latest updated and approved versions are directly accessible by all concerned parties. Finally, the match between products and clients is included in the product design data itself and carried throughout the lifecycle of the product.

Through the coordinated linking of data, product characteristics, projects, individuals involved and the related deliverables, this systemic approach to manage the fund lifecycle helps make product launches and services, and their maintenance within a catalogue, more effective and more efficient, with quality, traceability and transparency. The software package becomes the receptacle for data, deliverables and reference documents, and supplies the governance mechanisms that are required.

### CONCLUSION

Many industries have had to undertake a digital transformation of their business processes. This was a precondition for survival with the ever increasing segmentation of the value chain in an increasingly complex and competitive environment, whether in regulatory, technical or organizational terms. There's no reason why the financial services industry shouldn't apply this transformational approach, benefiting from the cumulative experience of other industries.

The management and governance of the product referential is more and more critical with the MIFID II, IDD and PRIIPS regulations. Financial institutions have to face increased pressure on time-to-market, traceability, renewed agility and mass customization, while complying strictly with those regulations.

In addition, it's also an opportunity for the sector to establish a stronger collaborative relationship with the regulators. By using regulatory constraints as a driver of transformation, they can turn a burden into a competitive advantage rather than a cause of increased expenditure.

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PLM approach as a concrete answer to MIFID II

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MIFID II and other regulations, an opportunity for transformation



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