

# MiFID II Product Governance: Guidelines on Information Exchange Between Manufacturers and Distributors

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# Introduction

MiFID II sets out clear expectations for manufacturers to make available to distributors appropriate information on the financial instruments and the product approval process, including the identified target market of the instrument<sup>1</sup>. It also requires distributing firms to have in place adequate arrangements to obtain such information, and to understand the characteristics and the target market for each financial instrument.

Manufacturers will be expected to provide distributors with information on:

- i. the appropriate channels of distribution;
- ii. the product approval process;
- iii. a target market assessment that enables distributors to understand and recommend or sell the product.

Distributors will be required to provide manufacturers with information including:

- i. sales;
- ii. reviews on whether the product and the distribution strategy remains consistent with the needs, characteristics and objectives of the target market.

The key references for further reading are [MiFID II](#), [MiFID II Delegated Directive](#), and [ESMA Final Report: Guidelines on MiFID II Product Governance Requirements](#).

It is recommended that these guidelines are read in conjunction with the UK Finance guidelines on target market identification.

One of the challenges of complying with such requirements is that firms will need to have a reasonable expectation that the information

received by the other party will provide sufficient content for that party to comply with its own obligations.

With a view to facilitate the process for information exchange between manufacturers and distributors, UK Finance has developed a set of guidelines relating to the information which could be exchanged between the parties, and the potential process for such information flow.

**The guidelines do not set out mandatory requirements for firms, and UK Finance invites individual firms to consider whether any different or additional information might be appropriate to be shared in the context of a specific product or distribution channel.**

For example, users should consider that proportionality may be a factor when determining the relevant information sharing exercise for certain products or distribution scenarios. In addition, firms may wish to consider whether information detailed in these guidelines should be adapted to the specific circumstances where firms are collaborating in the design of the individual products.

It is recommended that firms should assess the likelihood of receiving any such information from firms that are non-MiFID regulated firms. In such circumstances, firms should use reasonable efforts to try and obtain information that allows them to comply with their MiFID II product governance requirements. Where the non-MiFID regulated firm refuses the provision of information, firms may consider adopting a conscious risk management approach and consider whether, based on public information or other information at their disposal, they are able to discharge their obligations under MiFID II rules.

# Information to be provided from the manufacturer to the distributor

Manufacturers may wish to provide distributors with the following information:

Suggested Timing	Type of information	Comments
Pre-trade	Generic Target Market	<p>Information on the potential target market should state the type of clients for whose needs, characteristics and objectives the financial instrument is compatible.</p> <p>Where appropriate on consideration of the product characteristics, this information should also include any applicable group of clients for whose needs, characteristics and objectives are not compatible.</p>
Pre-trade	Distribution Strategy	Information must be provided on the appropriate channel of distribution.
Pre-trade	Further information on the approval process	<p>Further information on the approval process should be provided where relevant or appropriate. For example, a manufacturer might consider the following appropriate:</p> <ul style="list-style-type: none"> <li><i>i. for products where scenario analysis is carried out: share or discuss information on the results of such analysis where the results are not conclusive;</i></li> <li><i>ii. for products that are subject to trade by trade approval: share or discuss with the distributors any significant approval consideration, conditions or requests (for example the product has received internal approval, but it was requested that any marketing material produced by the distributor are reviewed by the manufacturer before the offer period).</i></li> </ul>

Following the initial launch of the product, manufacturers will be expected to review the financial instruments on a regular basis to consider whether:

- i. the product remains consistent with the needs, characteristics and objectives of the target market;
- ii. is distributed to the identified target market;

- iii. is reaching clients that have been included in the “negative target market”.

Firms should determine the periodicity and the scope of such reviews, although it is not expected that firms should carry out a “distributor-by-distributor” or a “trade-by-trade” review.

In order to facilitate such reviews, manufacturers will need to receive the following information from distributors:

Suggested Timing	Type of information	Comments
Post-sale	Incorrectly identified target market	<p>In such a case, the manufacturer and distributor should discuss whether:</p> <ul style="list-style-type: none"> <li>i. the incorrect identification might cause detriment to the investor and, if so, whether any client outreach is appropriate;</li> <li>ii. a change to the distribution strategy or identified target market for products currently being distributed (open launches) or in the pipeline for distribution should be agreed;</li> <li>iii. termination of the distribution is appropriate.</li> </ul>

# Information to be provided from the distributor to the manufacturer

Distributors may wish to provide manufacturers with the following information:

Suggested Timing	Type of information	Comments
Frequency to be determined by the manufacturer in conjunction with the distributor	Summary data on complaints	<p>The distributor should provide the manufacturer with summary information on complaints received by the distributor's clients relating to the product (e.g. its design or performance), including the number of such clients.</p> <p>The information should:</p> <ul style="list-style-type: none"> <li>i. be presented in an aggregated and anonymised format;</li> <li>ii. form the basis of discussion between the manufacturer and the distributor, with the purpose of assessing whether any message should be taken from such complaints is relevant when determining whether the target market and/or distribution strategy for the product was appropriate.</li> </ul>
	Material variation from suggested target market or distribution channels	<p>The distributor should monitor the distribution of products based on its own identified target market. In the context of a periodic review, the distributor should provide the manufacturer with its own target market, which should be consistent with the target market provided by the manufacturer and, in relation to this, summary metrics relating to:</p> <ul style="list-style-type: none"> <li>i. variations on the intended distribution strategy (e.g. where products were intended to be sold with advice only and the distribution has occurred via alternate channel);</li> </ul>

		<ul style="list-style-type: none"> <li>ii. sales outside the target market (where products have been sold to clients that are not in the target market, but are also not identified under the negative target market).</li> </ul> <p>Such information can be provided, for example, as a percentage of overall sale for a specific product.</p>
	<p>Sales to the negative target market</p>	<p>The distributor should be able to provide information to the manufacturer about whether products were sold to the negative target market (if identified). It would be expected that, when the manufacturer has identified a negative target market, that such information is replicated by the distributor in its own target market.</p> <p>The distributor would be expected to be able to explain what considerations (e.g. the suitability assessment) have justified the distribution to the negative target market.</p>
	<p>General feedback</p>	<p>The distributor may want to also consider the opportunity to provide additional feedback to the manufacturer with respect to any:</p> <ul style="list-style-type: none"> <li>i. marketing material (completeness, accuracy, comprehensibility) received from the manufacturer;</li> <li>ii. identified training needs;</li> </ul> <p>additional results from the distributor's internal review, for example:</p> <ul style="list-style-type: none"> <li>i. the product was sold to a wrongly identified target market;</li> <li>ii. the products no longer meet the needs of the identified target market (e.g. it has become illiquid, volatile, or issues with the product design have been discovered).</li> </ul>