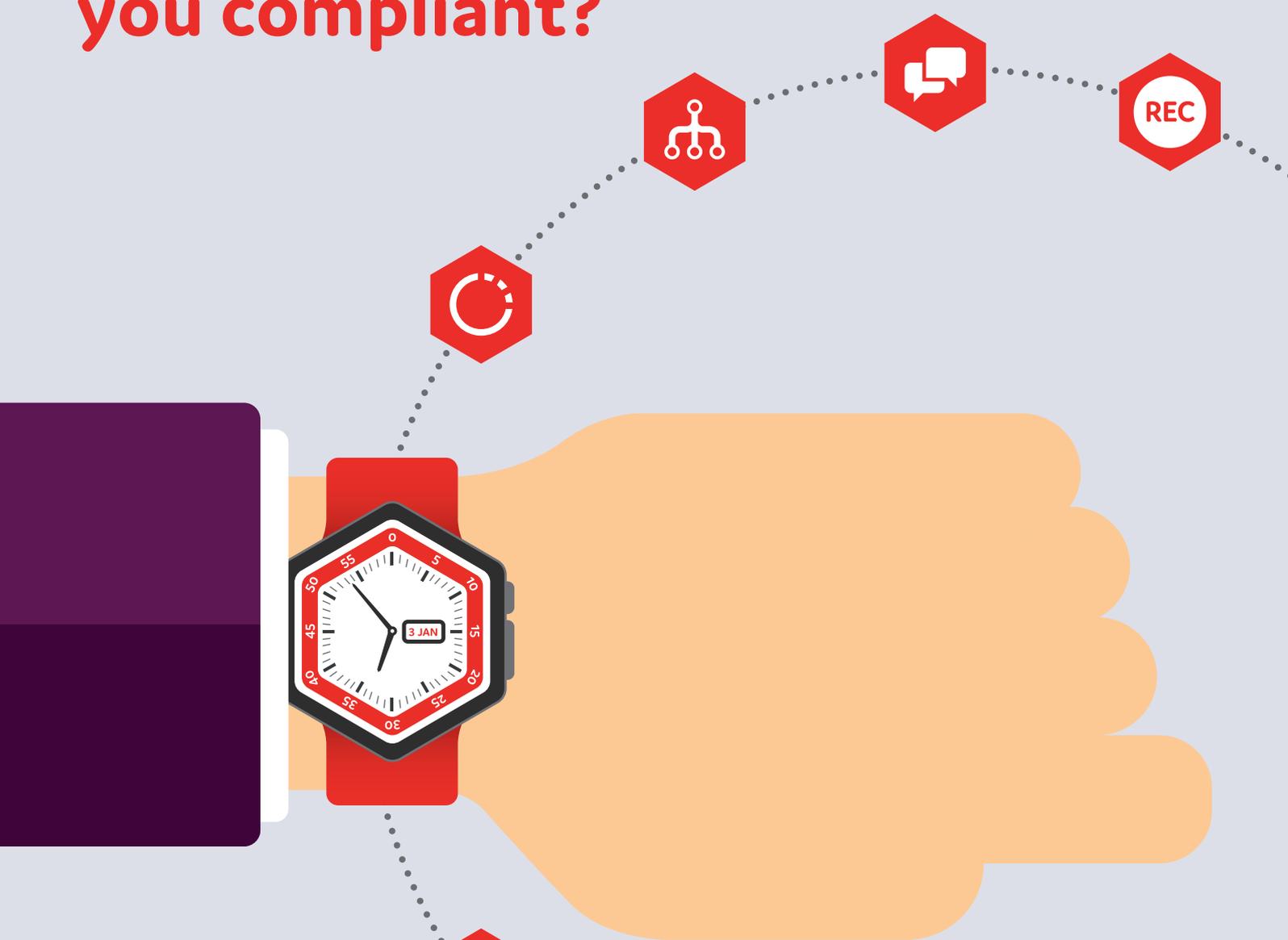


WHITE PAPER

MiFID II: Are you compliant?



Red Box
RECORDERS

CAPTURE. SECURE. INNOVATE

Foreword

At Red Box Recorders, we commissioned research to give a snapshot of attitudes, preparedness and concerns ahead of the recent MiFID II implementation. Speaking to IT decision makers and senior compliance managers across the industry showed that while institutions were well aware of the looming deadline, it didn't mean they had solid implementation plans in place to be fully MiFID II compliant in time, particularly surrounding the regulatory requirements for areas such as call recording.

The importance of the regulation to all kinds of financial businesses is not in doubt, neither is the impact its implementation will have on the industry for years to come. The question comes when we look at how companies are making their compliance investment work. Looking at where they choose to prioritise capital and the types of systems they put in place will determine how they perform in the years to come.

The deadline has passed, so organisations must act now, if they have not done so already. After digesting the thousands of pages of guidance that have been published by the regulator, Red Box has pulled together this paper outlining where we see the potential issues and primary opportunities for businesses to ensure compliance, but to also make solutions work beyond compliance. By putting in systems that will help to unlock the true potential of the data they collect, organisations will be able to leverage valuable insight to improve performance and customer experience.

Richard Stevenson

CEO Red Box Recorders

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About our research

The study was conducted in partnership with Censuswide research agency speaking to a sample of 100 IT decision makers and senior compliance managers across the UK in October 2017.

Full results are available on request.

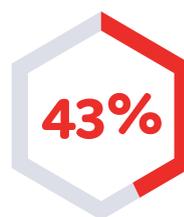


Introduction

*Our research of UK based IT decision makers and senior compliance managers found that with only a couple of months to go, nearly **three quarters (73%)** of those we surveyed said they were not completely ready for the implementation of the directive, with **43%** complaining there hasn't been enough information from regulators on how to prepare.*



**Not completely ready
for the directive**



**Not enough information
from regulators**

Many businesses were simply unaware of the need to change how they operated or were perhaps unsure of the investments required in technological and connectivity infrastructure to support compliance. Add to this the confusion of how a British exit from the EU could affect the future enforcement of the directive and you have a perfect storm of ignorance and inertia.

*Of those surveyed, only **15%** said that their MiFID II knowledge was complete and there was a notable difference in awareness across the two functions, with **80%** of senior compliance managers saying they were fully aware of the MiFID II regulations, compared to just 68% of ITDMs. However, nearly 9 out of 10 agreed that MiFID II would have an impact on the way they do business moving forwards.*

Implemented on 3rd January 2018, MiFID II focusses additionally on the buy side of transactions and places new obligations on organisations to further document when and how their transactions take place, looking at the framework of trading venues/structures in which financial instruments are traded.

With substantial penalties promised for non-compliance with key areas of the legislation, including call recording, it's clear that the changes can't be ignored. So, what do you need to know, and how can companies turn the need for compliance into an opportunity to use the data collected into a powerful tool for their business to function even more effectively?

Overview and current readiness

MiFID II has a number of key objectives comprising:

- increased investor protection
- alignment of regulation across the EU in certain areas
- increased competition across the financial markets
- introduction of reinforced supervisory powers

To meet these aims, MiFID II contains a broad range of complex provisions. These include:



Protection for investors

MiFID II aims to introduce significant controls to avoid conflicts of interest that encourage greater transparency before and after sales take place and to prohibit commissions payable in respect of investment advice and portfolio management.



Business procedures

MiFID II provides for increased powers of supervision, coordinated with the European Securities and Markets Authority (ESMA). This means that interventions will be permitted on both a pre and post execution basis, with wider general powers to oversee governance processes and to intervene where deemed necessary.



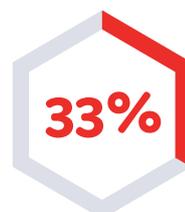
Organisational implications

MiFID II further emphasises the importance of compliance, audit and risk management functions, in production and marketing of new financial instruments, reporting and conflicts of interest. Measures to prioritise the interests of clients and the integrity of the financial markets see more robust requirements for management functions.

Shockingly 1 in 6 (16%) of our survey sample of financial services professionals were unaware of the MiFID II compliance deadline with 1 in 3 (33%) admitting they didn't feel personally prepared for the implementation of the directive.



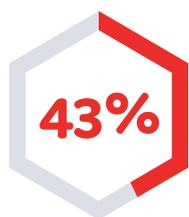
Unaware of MiFID II compliance deadline



Didn't feel prepared for implementation

Recording - what's required?

*Looking specifically at communication recording, **43%** of those we surveyed were not fully aware of the requirements around capturing client communications, including how long they should be retained for. **1 in 13 (8%)** currently have no systems in place to record and capture their communications.*



Not fully aware of the requirements



No systems to record and capture communications

MiFID II gives direction on the recording and storage of communications laying out the obligations for financial services organisations to ensure their compliance with the regulations.

What this actually means for recording

Recording



Investment firms must arrange for records to be kept of all services, activities and transactions undertaken including recordings of telephone or electronic communications.

Such telephone conversations and electronic communications shall also include those that are intended to result in transactions.

What we do



Red Box Recorders' converged capture solution ensures you **capture everything**: back office, front office and mobile communications - audio calls, video calls, IM, SMS and PC screens, across phones, mobiles, turrets and PCs.

Recorded communications are automatically tagged with **rich metadata**, and customisable fields can also be added to help identify records. Time data is captured in UTC format to the nearest second for voice recordings.

Storage



The records kept must be provided to the client involved upon request and shall be kept in a durable medium for a period of five years and, where requested by the competent authority, for a period of up to seven years.

What we do



Quantify search and replay delivers **powerful search and smart replay functionality** making it easy to reconstruct trades and find records when required.

With a Red Box Recorders solution, you are in control of your **retention policy**. There are no limits to how long calls can be retained for so this can be set in line with compliance obligations.

Red Box Recorders also provides simple and easy control over your storage infrastructure, including flexible local and networked storage options such as **WORM (Write Once Read Many)** storage platforms.

We also offer **seamless integration into leading compliance archiving and analytics solutions**.

Retrieval



The records shall be retained in such form allowing reconstruction of each key stage of the transaction. It must be ensured that records can't be manipulated or altered. Organisations must also ensure data allows IT or any other efficient exploitation when the analysis of the data cannot be easily carried out due to the volume and the nature of the data.

What we do



Red Box Recorders provide an assured recording guarantee with up to **99.999% platform availability** to ensure you do not miss any stage of a transaction.

Our Quantify Search and Replay and Event Reconstruct features make it easy to **find records and reconstruct trades**.

Replay Authorisation gives you fine control of who can replay recorded communications. Through a highly efficient compliance workflow, it provides a secure and traceable way for managers to **approve and decline replay requests from users**.

With WORM storage options, you can ensure full compliance around **protecting records** from being manipulated.

Monitoring



The monitoring of records of relevant telephone conversations and electronic communications is necessary to assist the firm in ensuring that it is meeting the recording requirements and also adhering to its wider regulatory obligations under MiFID II including the deterrence and detection of market abuse.

What we do



Monitor your entire set up of servers/telephony systems through Red Box Recorders Insight. This can be provided as a management tool for your IT team or delivered as a **fully managed service** from Red Box Recorders.

Graphs, charts and reports help you summarise and visualise your system performance and trends.

The system will alert to any recording issues (inactive devices, no calls, constant calls, and silent calls, and storage status) to ensure all communications are recorded and saved).

Red Box Recorders also supports SNMP if you're using your own monitoring software.

Daily System Check is an automated tool giving you peace of mind that **every device is recording** across the communications estate.

Red Box Recorders also offers transcription of all calls. The text output can be used to **audit and analyse 100% of calls** for insight and fraud detection.

Reviewing



The monitoring should be conducted regularly and when necessary on an ad-hoc basis. Due regard should also be given to any emerging risks.

What we do



Quantify Quality Management can be used to run scheduled and ad-hoc **quality spot checks**. Spot check forms can be built in line with your requirements and based on specific templates.

The consolidated data set provided by Red Box Recorders' transcription service also enables **detailed and comprehensive analysis of calls** to spot trends and potential risks.

Key considerations when choosing a recording supplier

With these key obligations of the directive established it is crucial that financial services institutions pay close attention to how MiFID II will actually affect the day to day running of their business and how they will ensure that the rollout of a communications recording solution is not only a simple process, but also reliable.

Key questions to ask include:



How will the chosen solution integrate with our current systems?

Some providers require a change of supplier or equipment or will maybe tie you into a service while you use their recording solution. Whether you work with a turret system or an existing telephony supplier, will your recording solution integrate seamlessly? You also need to ensure that you have the level of flexibility in place to make changes as your business grows and evolves.



What level of confidence do we have in the call recording product?

MiFID II places the obligation on organisations to be responsible for the ongoing recording of all communications. It is not simply enough to have the system in place, it must work reliably and consistently. Having assured access to recordings is key ideally with 99.999% platform availability.



How are you storing the recordings once they have been captured?

Privacy and security are the cornerstones of any systems that involve the retention of customer data. Once consumer's trust is lost due to breaches in protections it is impossible to regain so the safeguarding of data must always be a top priority. WORM storage integration also helps to safeguard the integrity of the files under the directive.



What type of management system is required?

Whether your company requires full service management with ongoing testing and automatic flagging of any issues with recordings or you have more time to invest within your team to monitor in-house. Either way, having a long term and reliable management process is crucial to maintain confidence in your recordings system and your compliance.



Which types of communications do you use in your business?

MiFID II requires the capture of all methods of communications from back office, front office or mobile. Anything that has played a part in the decisions that have led to sales. This includes mobile calls, instant messaging and Skype calls. Organisations need to ensure all of these are captured and saved to provide a full record of the process.



How will you reconstruct the conversations?

The whole point of the directive is to be able to forensically reconstruct the communications, what was said and when. What solutions do you have in place to tie each of the different elements together and look at the process as a whole, for both external and internal investigations.

International context

90% of those surveyed said they believed Brexit made MiFID II regulations more ambiguous and the lack of clarity in the current political situation only makes this more difficult to gauge.



Believe BREXIT made MiFID II regulations more ambiguous

The question remains what will happen to regulations when the United Kingdom leaves the European Union?

What is clear is that while the UK has voted to leave the EU MiFID II will still apply to our institutions not least because we were still bound by EU law when it came into effect in January 2018.

Perhaps more importantly than just timings, the scope of MiFID II covers businesses based anywhere who do business with organisations within the EU. This means that if UK based firms want to trade with or provide services to European counterparties, they must be equipped to demonstrate 'regulatory equivalence' with MiFID II. The FCA supports this thinking as is advising as such, added to the principles of the regulation are also shared by the G20 group looking to harmonise reforms to increase protection for individuals following the 2008 crisis.

This combined with the increasing move to international equivalence with other global regulations such as Dodd-Frank in the United States and signals from the UK government suggesting any rowing back from MiFID II regulations highly unlikely in a post-Brexit UK industry means the directions contained in the directive look like they are here to stay.

Beyond compliance

Over half of individuals (52%) we spoke to in our research said that they have extensive plans to invest in technology and infrastructure to meet compliance.



Have extensive plans to invest in technology and infrastructure to meet compliance

The main driver for implementing the changes that are contained in the MiFID II legislation is to ensure compliance but it doesn't have to be seen purely through the lens of obligation. Many businesses are already taking the chance to look at how they can turn their compliance investment into an opportunity. Not only by ensuring they take this time to bring their systems up to date with the latest developments and beyond, but also to look at how they can use the data they are collecting to help run their businesses more effectively and better serve their clients.

Technology such as transcription generates large structured data sets full of insight that would traditionally only have been accessible by listening, which is time and resource heavy. Transcribed call data can improve how organisations meet the MiFID II regulations by increasing the number of calls audited and speeding up the process of reconstruction, however it also provides a consolidated data set that can be utilised for highly valuable business intelligence.

Our industry leading systems allow you to integrate with global compliance archiving and analytics platforms through our partners, allowing you to unlock the insight in your data.

Businesses need to consider what data will help them to operate more effectively. What are the kinds of information that will help them to not only flag issues and deal with them effectively, but also to evolve the way they work as an organisation to stop problems before they arise.

By turning the compliance requirement into an opportunity to transform your communication systems and leverage valuable data insight, MiFID II becomes a chance to drastically improve the way financial services organisations around the globe operate.

The time to act is now.



What makes us different

How we work

- **Compliance** - We understand the regulatory landscape and can ensure you meet these requirements
- **Capture everything** - Back office, front office and mobile
- **Seamless integration** - With leading archiving and analytics solutions
- **Highly accurate transcriptions** - Audit 100% of call and tap into the consolidated data for insight, fraud detection and risk management
- **Simple and quick** - We can manage the entire process to deliver compliance to you within six weeks
- **Assured recordings** - Our experience and platform availability means we can be entrusted to deliver for you with 99.999% assured recordings
- **Risk reduction** - Our products reduce the risk of disruption to your business
- **Future proofed** - Our systems are designed to evolve and adapt to future developments to reduce your ongoing investment

Our process



Step 1:

The Red Box Recorders team will hold a discovery session to discuss the telephony systems already in place and explain the process of implementing new technology. They will also pinpoint exactly what solutions you need to ensure compliance with the internal compliance team to ensure a bespoke package is agreed for your company with clear actions and timings.



Step 2:

Once agreed, you will be assigned a project manager who will host a kick off meeting and ensure all milestones are agreed and feasible.



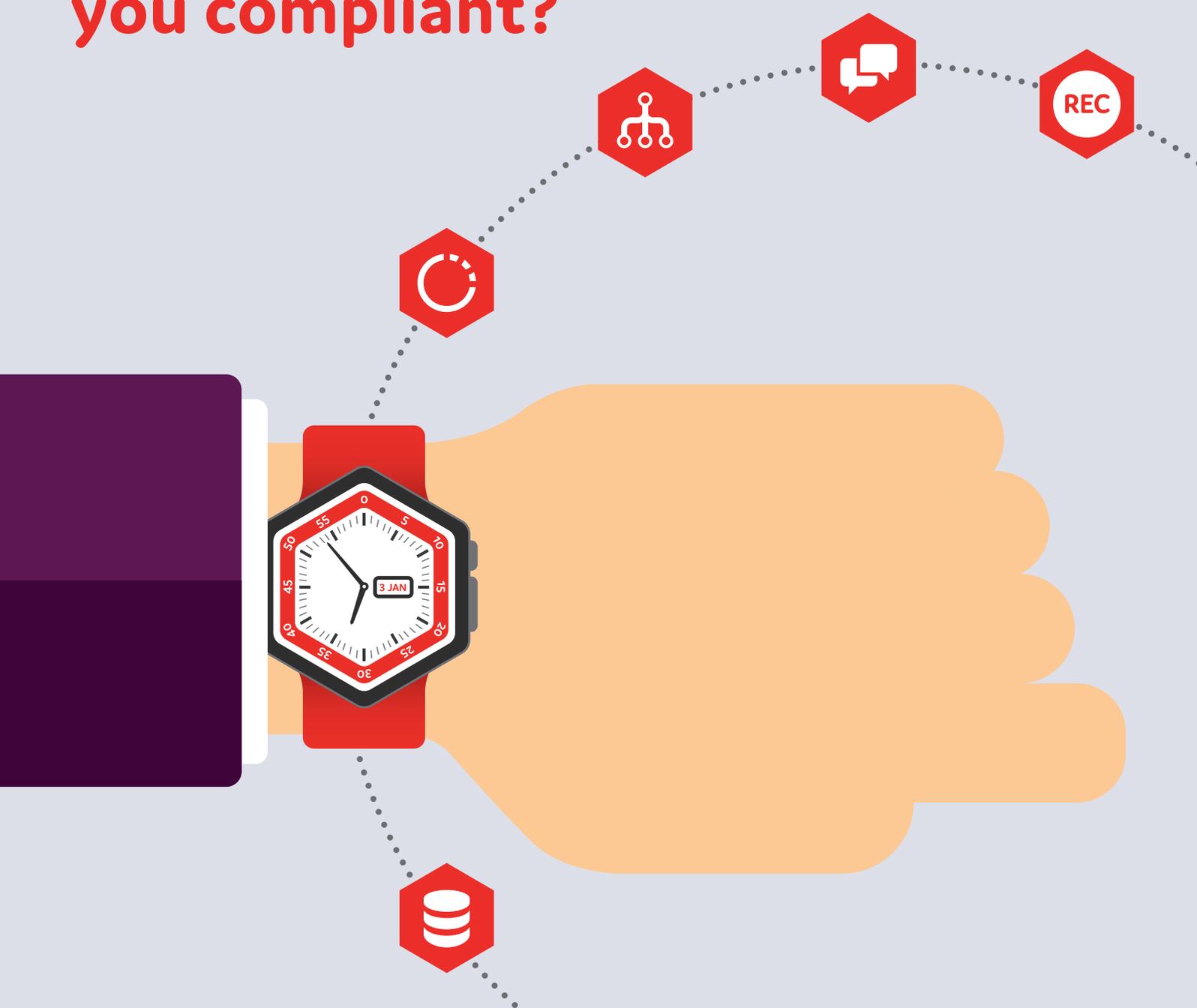
Step 3:

Our experienced testing team can go through each solution to ensure your system is working correctly and ensuring communication compliance for your company.

Contact us today to discuss your communications compliance requirements ahead of the January deadline.

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