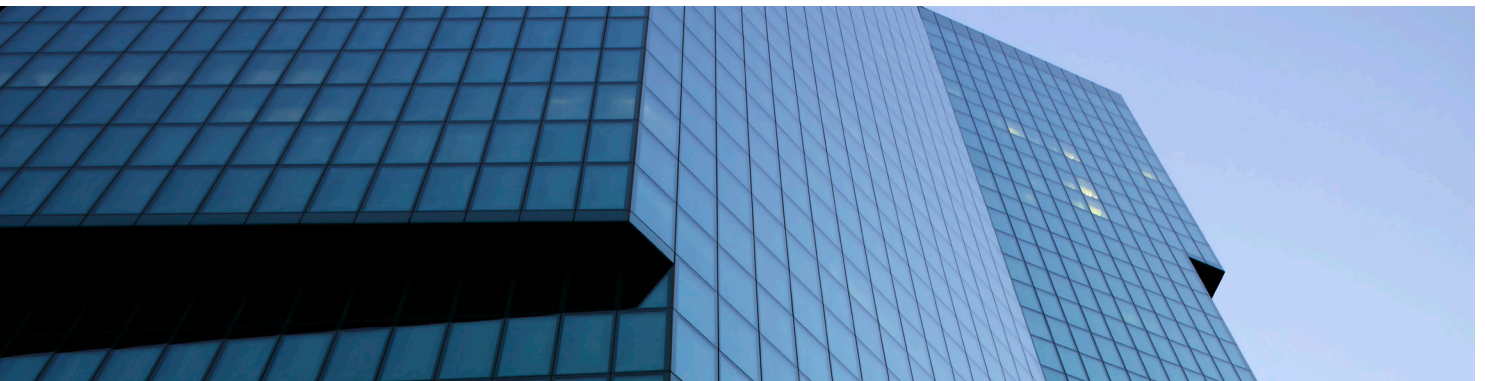


Data Challenges for Wealth Managers

Advisory 2.0: What Are the Data Challenges for Wealth Managers and How Can They Be Addressed?



The advisory job has dramatically changed over the last several years, under the pressure of the regulators, but also because of new demands from end investors who really want to be at the center of the decision-making process.

Regulatory Challenges

Due to increased regulatory requirements, more and more information is needed as Wealth Managers need to be able to justify portfolio allocations and investments for a client.

Regulatory compliance is a must but does not provide competitive value-add. Implementation and operations are rather costly, complex and might even distract Wealth Managers from focussing on their core business.

Similar to its European counterparts MiFID II and PRIIPs, the Swiss FinSA requires Wealth Managers to adhere to certain processes like suitability and appropriateness assessments. Detailed reference and regulatory data for each financial instrument (target market, cost & charges, risk indicators, ESG) is a key factor for being compliant.

In addition to challenging data requirements, the regulations require different pre-trade document disclosures to be conducted as part of the advisory process and execution-only. For instance, retail investors need to receive FinSA KIDs or equivalent documents already pre-trade

“if available” – thus, requiring full process integration of sourcing the up-to-date documents in a timely manner from trusted sources and offering them on request at the point-of-sale, including ensuring archiving, reporting and audit trail.

Sustainability Challenge

With new and constantly evolving ESG regulations from the EU, the need for high-quality, transparent and granular financial product data is a top priority. Advisors need to fulfil EU SFDR and Taxonomy requirements, as well as to address ESG product suitability as mandated by MiFID II and IDD regulations. A key factor is the ESG product categorization and factors as provided by product issuers/manufacturers and disseminated through the industry standard European ESG Template (EET). In Switzerland, the SBA guidelines on integration of ESG-preferences and ESG-risks into investment advice and portfolio management as well as the voluntary Swiss Climate Scores proposed by the Federal Council also need to be considered.

Crypto Challenge

Crypto Assets are also becoming regulated: it already started in Hong-Kong with the HKMA/ SFC releasing a joint circular on intermediaries' virtual asset-related activities to be followed by the Singaporean MAS, and Europe will follow with the regulation of Markets in Crypto-Assets (MiCA). Besides having to adapt to these new

crypto regulations, another challenge is to process the data of these new assets according to the classifications, requirements, delivery channels and quality that institutional clients are used to for traditional assets.

Tax Challenge

There is also a growing need for the identification of tax-related costs affecting a client's investments – like the tax implication disclosures under the MiFID II Product Governance Guidelines. Advisors have to disclose and evaluate the tax implications of their clients' portfolios, and therefore, need enriched tax data on instrument level, in order to make tax-intelligent investment decisions. These requirements can become hard to meet with current national and cross-border tax rules mostly available in the form of heavy tax manuals provided by consulting tax experts.

Suitability Challenge

Suitability is a regulatory matter that goes beyond previously mentioned challenges: it is a marker of credibility for the financial institution and positions it as a partner and guide for an investor. Financial professionals dealing with investors must ensure that they are offering the most suitable product for an investor's profile, including goals, needs and risk tolerance in regards to ESG, crypto, costs, etc.

How Can These Challenges Be Addressed?

Wealth Managers can:

- Look for the expertise of data vendors to get reliable data and documents to automate their processes. Data providers strive to adapt the data offering to regulatory changes.
- Look into alternative solutions, such as risk indicators or services that are able to analyse the tax consequences of financial products and provide advisors with a tax efficiency score on a security level.
- Try to raise synergies wherever possible, e.g. same technical interfaces, consistent data formats, services already combining data/business logic/software.
- Find a reliable vendor that offers adequate and tailored data delivery capabilities.
- Rely on one source to deliver all the data points to be compliant with legal/ regulatory requirements related to tax, investor protection, sustainability, market and reference data covering all asset types.
- Find a vendor that is able to provide crypto data with extensive coverage and with the same quality standards that are applied in traditional assets.

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