

DIM 10% Reporting requirement

MiFID II

At Transact we have developed functionality to help third party Discretionary Investment Managers (DIMs) and advisers with permission to manage investments comply with their obligation to report where a client's overall portfolio value depreciates by 10% (and multiples of 10%) during a quarter.

Background regulation:

Article 62(1) of MiFID II delegated regulation (EU) 2017/565 states "investment firms providing the service of portfolio management shall inform the client where the overall value of the portfolio, as evaluated at the beginning of each reporting period, depreciates by 10% and thereafter, at multiples of 10%, no later than the end of the business day in which the threshold is exceeded or, in a case where the threshold is exceeded on a non-business day, the close of the next business day". Article 4(8) of MiFID II (2014/65/EU) defines 'portfolio management' as "managing portfolios in accordance with mandates given by clients on a discretionary client-by-client basis where such portfolios include one or more financial instruments".

Transact reporting periods:

Our reporting periods ('Reporting Period') will start on 3 January 2018 and run from 3 January 2018 - 5 April in 2018 and then thereafter:

- 6 April - 5 July
- 6 July - 5 October
- 6 October – 5 January
- 6 January – 5 April

Quarterly calculation:

$$\frac{((\text{Current Balance} + \text{outflows}) - (\text{Period Start Balance} + \text{inflows}))}{(\text{Period Start Balance} + \text{inflows})} * 100 = \text{Growth/Loss percentage}$$

The start date will always be the beginning of the Reporting Period, it is not a rolling 90 day period.

Process:

- Where a client's Wrapper or Portfolio is linked to a DIM, or an adviser with discretionary investment permissions, we will do the following:
 - Run a daily check to determine if the client's Portfolio has dropped by 10% or more since the period start date. We will report where the total of all facilities that the DIM, or adviser, manages for a client has dropped (e.g. an adviser might see the whole Portfolio but a DIM may only see specific Wrappers).
 - This check will be run every working day first thing in the morning.
- A new email notification called – **Portfolio Depreciation Alert** will be sent to both the DIM and the adviser linked to a client's account.
- A new spread sheet report will be published to both the DIM and the linked adviser's Pickup Page called - **Portfolio Depreciation Report – [Clients Name]**
 - One report will be generated per client affected.
 - The report will contain a breakdown of whole or part of the client's Portfolio, the start and current balance and a list of inflows and outflows so that the underlying data can be used to perform further calculations- if required.

Questions and answers

Will Transact contact the client?

No, Transact is providing alerts and reports to help firms carrying out portfolio management to meet their obligation to inform a client where there is a 10% (or multiple 10%) depreciation in the value of the investments they manage over a quarterly reporting period. We understand there are a number of different discretionary business models, client scenarios and desired approaches to meeting this obligation and as a result consider it is most appropriate for DIMs or advisers to communicate 10% drops in value to clients. For example, the client might have other investments off-platform, which are managed under the same discretionary mandate. In these circumstances we recognise that even if the overall value of the investments in the relevant client's Transact Portfolio has dropped by 10% an alert to the client may not be necessary if other assets held off-platform have appreciated during the same period and that only the DIM or adviser managing the whole portfolio of investments can determine if an alert will be needed.

Why is Transact sending advisers a Portfolio Depreciation Alert when there is a DIM linked to the Wrapper?

In our experience, advisers are typically the first point of contact for clients, particularly where they have a query about the performance of their investments, or need to discuss a communication received from another provider. The adviser firm receiving the Portfolio Depreciation Alert at the same time as the DIM provides the opportunity to liaise with the DIM and the affected client. We understand that some advisers may have an agreement with the DIM to inform the client of a depreciation on their behalf.

What are the different approaches for DIMs and advisers with permission to manage investments?

With DIMs, we will use the aggregate position of all the Wrappers within the client's Portfolio that the DIM is managing to calculate whether the value has depreciated by more than 10%. For advisers with permission to manage investments, the calculation will be based on the aggregate of all Wrappers in the Portfolio, because we

will not know which Wrappers are not managed on a discretionary basis. We anticipate further development in early 2018, to allow such advisers to exclude Wrappers they are not managing under their discretionary investment permission.

Which transactions are considered inflows in the calculation?

Cash deposits and transfers in are considered inflows. Dividends, distributions and re-invested fee rebates are not; on the basis that they are not generated from the investments under the control of the DIM or adviser with permission to manage investments. No distinction is made between invested and un-invested inflows.

Which transactions are considered outflows in the calculation?

Cash withdrawals and investment transfers out are common examples of outflows. Any costs and charges deducted and paid to Transact, an investment product provider or the Adviser are not considered outflows.

What happens if the Portfolio value depreciates by more than 10% more than once in the period?

A Portfolio Depreciation Alert will only be sent the first time the value depreciates by more than 10% in the period. A subsequent alert will only be sent when the value depreciates by more than 20% in the period and in 10% increments thereafter. The valuation point is reset on the first day of the next reporting period.



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