

MiFID II cost transparency



Securities Services.
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MiFID cost transparency explained

MiFID, the European Markets in Financial Instruments Directive, aims not only to increase competition and transparency on the financial markets but also to provide investors with better protection.

Because of this, **cost transparency** is an important aspect of the directive, given that charges have an impact on investors' returns. We also inform you therefore about which charges including taxes apply to your stock exchange transactions.

KBC Securities Services has always placed strong emphasis on cost transparency.

- When the asset manager places an order on your behalf, depending on the type of management, they will provide you with a clear **estimate of the charges** including taxes applying **to the order** before confirmation. It is an estimate because the final charges clearly depend on the price at which your order is executed on the exchange. This is also referred to as **ex-ante disclosure**, that is, the details of costs and charges that KBC Securities Services provides before an order is transmitted.
- A statement is generated after each order containing the final charges you paid for the order. This is **ex-post disclosure** – the details of the costs and charges after the order has been executed.

The following elements are new to MiFID II – the updated European directive that came into force on 3 January 2018:

An even more extensive cost breakdown for each stock exchange order

From now on, you also receive **an estimate of the impact of the charges including taxes on your return**, as both an **absolute amount** and a **percentage**. These are provided for both buy and sell orders. Different scenarios are taken into account, depending on the type of security (share, tracker, option, etc.). If you buy a share, for instance, you will see the impact of charges including taxes on purchase and on possible sale after one year.

Personalised annual breakdown of charges

In addition to your statements after each order, you now also receive a **complete annual breakdown of all the charges including taxes you have paid in the past trading year** in respect of your investments at KBC Securities Services. You can expect this at the end of April every year.

Which charges are included in the breakdowns?

- 1. Costs of investment services and ancillary services:** these are the charges made for the services you receive from KBC Securities Services and your asset manager.
They include:
 - **One-off charges:** one-off rather than recurring charges that you pay at the beginning or end of a provided investment service. Examples are the costs of possible transfers and account closures.
 - **Recurring charges:** annual charges you pay for the service provided by both KBC Securities Services and your asset manager. Examples include management and advisory fees and administrative charges.
 - **Transaction charges:** all the charges you pay KBC Securities Services and/or your asset manager when you buy or sell a security. Duties and withholding tax linked to transactions and custody of financial instruments also fall into this category. Examples are brokerage fees, taxes, exchange rate margin, funds entry and exit fees and withholding tax.
 - **Charges for related services:** charges for other services provided to you by KBC Securities Services besides the execution of orders. Examples: costs of dividend payments and custody fees.
 - **Incidental charges:** costs you pay your asset manager depending on whether a certain return is generated. Examples: performance-related charges
- 2. Product charges** are the operating expenses incorporated directly in the investment product by the product manager. These are already factored into the return on the purchased security and are not in favour of KBC Securities Services.

Inducements, finally, are third-party fees that KBC Securities Services receives for distributing certain investment products. They are paid in full to your account and are not included as a charge in this breakdown.

Important: the **detailed breakdown of charges for placing an order** only includes **transaction charges relevant to that particular stock-market transaction** under the heading 'Charges for KBC Securities Services investment services, excluding tax'. This is because it cannot be estimated at that moment whether any further charges will be made on this security for possible dividends, corporate actions, etc.

Your **annual cost breakdown** will, however, include a **breakdown of all the charges including taxes applying to your investments** at KBC Securities Services in the course of a particular trading year.

What is the annual breakdown of charges?

The European MiFID II directive requires that you receive a breakdown each year of the charges including taxes applied to your investments at KBC Securities Services in the previous year.

These include both **direct charges** (which you actually paid) and **indirect charges** (incorporated in the price of the investment product).

Every year at the end of April, KBC Securities Services will provide you with this breakdown for each account you hold. It is purely for information purposes: you do not have to take any further action. See the notes above for further explanation of the different charge definitions.

The charges are presented not only as absolute amounts but also as percentages of your average capital at KBC Securities Services over the past year. This average is calculated on an average of monthly snapshots of the value of your portfolio. If you hold securities or perform transactions in a foreign currency, these are converted at the exchange rate applying at the moment of the snapshot or the transaction.

What does 'impact of these charges on your capital' mean in your annual overview?

This is the additional amount you would have if no charges had been made for investment services or products. We assume that you would have invested the full amount of these charges in the same way as your current capital at KBC Securities Services for the year in question (and hence at your average return over the past year).

How should I interpret the ex-ante disclosure of charges?

In addition to the charges calculated as part of the order simulation, the ex-ante disclosure specifies the impact of the charges including taxes on your return.

- You can see various scenarios, depending on the type of transaction and type of security. With a sale, e.g. , you will only see the actual sale charge and its impact on your return.
- The different scenarios depend on the recommended term for holding a security, as stated by the issuers of securities like trackers/ETFs and turbos in the Key Investor Information Document.
- Charges including taxes are systematically denominated in the currency in which the security is listed.

We can illustrate this using a number of examples:

1. Share purchase

Purchase KBC GROEP (ISIN: BE0003565737) - Quantity: 100 - Indicative countervalue: 5000.00 EUR (estimated)

	On sale after 1 year
Costs for investment services and ancillary services	76.88 EUR 1.54%
One-off charges VAT included	- EUR 0.00%
Recurring charges VAT included	10.87 EUR 0.22%
Recurring charges - KBC Securities Services	- EUR 0.00%
Recurring charges - Asset manager	10.87 EUR 0.22%
Transaction charges	65.00 EUR 1.30%
Brokerage fees - KBC Securities Services	30.00 EUR 0.60%
Brokerage fees - Asset manager	- EUR 0.00%
Stock exchange fees and taxes	35.00 EUR 0.70%
Exchange rate margin	- EUR 0.00%
Charges for related services VAT included	1.01 EUR 0.02%
Incidental charges VAT included	- EUR 0.00%
Product charges	- EUR 0.00%
One-off charges	- EUR 0.00%
Ongoing charges	- EUR 0.00%
Transaction charges	- EUR 0.00%
Incidental charges	- EUR 0.00%
Inducements	- EUR 0.00%
Total charges including taxes	76.88 EUR 1.54%

Purchase of 100 KBC shares at a limit price of 50 EUR.

In this cost simulation example you can see an estimate of the brokerage fees and stock exchange fees and tax(es) that would be payable on this specific order.

You can then see at the bottom the **impact of the charges including taxes on your return**. Account is taken here of charges on both purchase and on sale after one year.

Further brokerage fees and stock exchange fees and taxes would be payable on the sale of these 100 shares. You can see, therefore, that **the charges for investment services** are estimated at a total (following purchase and sale after one year) of 76.88 EUR. As a proportion of your initial investment of **5 000 EUR**, this amounts to **1.54%**. In other words, charges including taxes reduce the return by 1.54%. Only when the return is higher than this percentage will you make a profit.

Since this share is denominated in euros and you calculate the order in euros, **no exchange rate margin** applies. If a dollar share is settled in euros, when calculating the impact of the charges including taxes on the return, it is assumed you prefer settlement in euros on both purchase and sale. In this case, an exchange rate margin will be counted twice.

2. Share sale

Sell BERKSHIRE HATHAWAY INC. -B- (ISIN: US0846707026) - Quantity: 40 - Indicative countervalue: 10000.00 USD (estimated)

Costs for investment services and ancillary services	106.47 USD 1.06%
One-off charges VAT included	- USD 0.00%
Recurring charges VAT included	- USD 0.00%
Recurring charges - KBC Securities Services	- USD 0.00%
Recurring charges - Asset manager	- USD 0.00%
Transaction charges	106.47 USD 1.06%
Brokerage fees - KBC Securities Services	29.65 USD 0.30%
Brokerage fees - Asset manager	- USD 0.00%
Stock exchange fees and taxes	35.23 USD 0.35%
Exchange rate margin	41.59 USD 0.42%
Charges for related services VAT included	- USD 0.00%
Incidental charges VAT included	- USD 0.00%
Total charges including taxes	106.47 USD 1.06%

Sale of 40 Berkshire Hathaway Inc B shares at a limit of 250 USD (with settlement in EUR).

At the top you can see an **estimate of the charges including taxes** applying to this sell order and what you would have to pay in dollars and euros.

In the case of a sale, only the **impact of the sale charges including taxes** on the return is shown. This is because the charges for your purchase have already been factored into the current return shown for this security in the portfolio.

We can see therefore that the sale has an impact of **1.06%** on the return. This is split into **brokerage fees, stock exchange fees and taxes** (the total of the sec fee USA on sale and the stock exchange tax) and the **exchange rate margin** as we have the order settled in euros rather than dollars.

3. Tracker/ETF purchase

Purchase ISHARES CORE S&P500 ETF (ISIN: US4642872000) - Quantity: 30 - Indicative countervalue: 10500.00 USD (estimated)

	On sale after 1 year	On sale after 3 year	On sale after 5 year
Costs for investment services and ancillary services	318.45 USD 3.03%	512.68 USD 1.63%	706.91 USD 1.35%
One-off charges VAT included	- USD 0.00%	- USD 0.00%	- USD 0.00%
Recurring charges VAT included	88.29 USD 0.84%	264.86 USD 0.84%	441.44 USD 0.84%
Recurring charges - KBC Securities Services	- USD 0.00%	- USD 0.00%	- USD 0.00%
Recurring charges - Asset manager	88.29 USD 0.84%	264.86 USD 0.84%	441.44 USD 0.84%
Transaction charges	221.33 USD 2.11%	221.33 USD 0.70%	221.33 USD 0.42%
Brokerage fees - KBC Securities Services	59.30 USD 0.56%	59.30 USD 0.19%	59.30 USD 0.11%
Brokerage fees - Asset manager	- USD 0.00%	- USD 0.00%	- USD 0.00%
Stock exchange fees and taxes	73.74 USD 0.70%	73.74 USD 0.23%	73.74 USD 0.14%
Exchange rate margin	88.29 USD 0.84%	88.29 USD 0.28%	88.29 USD 0.17%
Charges for related services VAT included	8.83 USD 0.08%	26.49 USD 0.08%	44.14 USD 0.08%
Incidental charges VAT included	- USD 0.00%	- USD 0.00%	- USD 0.00%
Product charges	4.58 USD 0.04%	13.73 USD 0.04%	22.88 USD 0.04%
One-off charges	- USD 0.00%	- USD 0.00%	- USD 0.00%
Ongoing charges	4.20 USD 0.04%	12.60 USD 0.04%	21.00 USD 0.04%
Transaction charges	0.38 USD 0.00%	1.13 USD 0.00%	1.88 USD 0.00%
Incidental charges	- USD 0.00%	- USD 0.00%	- USD 0.00%
Inducements	- USD 0.00%	- USD 0.00%	- USD 0.00%
Total charges including taxes	323.03 USD 3.08%	526.41 USD 1.67%	729.79 USD 1.39%

Purchase 30 trackers on the S&P 500.

The first thing you see is **the simulation of charges** on your purchase order, in which you are provided with an **estimate** of the **brokerage fees and stock exchange fees and taxes** you would have to pay on purchase.

Below this you are provided with a breakdown of **the impact of the charges including taxes on the return**. In the case of a purchase order, the charges including taxes on both purchase and any sale will be included in each instance to show the impact on your return. Since most tracker issuers have a **recommended** investment term of **five years**, what you often find here is the **possible impact** on a sale after **one, three and five years**.

In addition to investment service charges for buy and sell orders, **product charges** are also shown in the case of a tracker. These are the **charges of the issuer of the tracker**, incorporated in the price of the tracker.

To calculate the **impact on the return**, the total amount of the charges is divided by the gross amount of your initial investment and then by the estimated number of years you will hold the security.

On **sale after five years**, for instance, the charges will total **729.79 USD** for an initial investment of **10 500 USD**. The securities are held in portfolio for five years. The impact of the charges including taxes will therefore amount to **1.39%** of **the return**.

4. Bond purchase

Purchase BEKAERT NV 19-26 2.75% 25/10 (ISIN: BE0002673540) - Quantity: 10000 - Indicative countervalue: 10359.65 EUR (estimated)

	On sale after 1 year	On sale after 4 year	At maturity after 7 year
Costs for investment services and ancillary services	93.81 EUR 0.91%	145.25 EUR 0.35%	158.37 EUR 0.22%
One-off charges VAT included	- EUR 0.00%	- EUR 0.00%	- EUR 0.00%
Recurring charges VAT included	11.91 EUR 0.11%	47.65 EUR 0.11%	83.39 EUR 0.11%
Recurring charges - KBC Securities Services	- EUR 0.00%	- EUR 0.00%	- EUR 0.00%
Recurring charges - Asset manager	11.91 EUR 0.11%	47.65 EUR 0.11%	83.39 EUR 0.11%
Transaction charges	76.66 EUR 0.74%	76.66 EUR 0.18%	38.33 EUR 0.05%
Brokerage fees - KBC Securities Services	51.80 EUR 0.50%	51.80 EUR 0.13%	25.90 EUR 0.04%
Brokerage fees - Asset manager	- EUR 0.00%	- EUR 0.00%	- EUR 0.00%
Stock exchange fees and taxes	24.86 EUR 0.24%	24.86 EUR 0.06%	12.43 EUR 0.02%
Exchange rate margin	- EUR 0.00%	- EUR 0.00%	- EUR 0.00%
Charges for related services VAT included	5.24 EUR 0.05%	20.94 EUR 0.05%	36.65 EUR 0.05%
Incidental charges VAT included	- EUR 0.00%	- EUR 0.00%	- EUR 0.00%
Product charges	- EUR 0.00%	- EUR 0.00%	- EUR 0.00%
One-off charges	- EUR 0.00%	- EUR 0.00%	- EUR 0.00%
Ongoing charges	- EUR 0.00%	- EUR 0.00%	- EUR 0.00%
Transaction charges	- EUR 0.00%	- EUR 0.00%	- EUR 0.00%
Incidental charges	- EUR 0.00%	- EUR 0.00%	- EUR 0.00%
Inducements	- EUR 0.00%	- EUR 0.00%	- EUR 0.00%
Total charges including taxes	93.81 EUR 0.91%	145.25 EUR 0.35%	158.37 EUR 0.22%

Purchase a bond for the amount of 10 000 euros.

The first thing you see is an **estimate of the cost price** of the order, taking account of the price of the bond, the brokerage fees and the stock exchange fees and taxes. The **impact** of charges including taxes on the return is then set out. **Product charges and inducements do not generally apply** in the case of bonds.

We present different scenarios for a bond:

- On sale after one year: in this case, **brokerage fees and stock exchange fees and taxes** will be payable on both purchase and sale.
- On sale at between one year and maturity.
- At maturity after seven years: if you hold the bond to maturity, **neither sale charges nor stock exchange tax** will be payable. In this event, **only the purchase charges will impact the return**, to an amount in this simulation of **0.22%**. Investment service charges are divided here by your initial gross investment of 10 359.65 euros and then by the number of years for which the bond is held.