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FAQ: Transition from Spread-Based to Slippage-Based Implicit Transaction Cost Methodology

Starting from Q3 2024, we will be updating our methodology for calculating implicit costs under MiFID to align with the updated PRIIPs regulatory technical standards, which mandate slippage-based implicit cost calculations by 1st January 2025. While M&G has already implemented slippage-based calculations for PRIIPs transaction costs, we currently use a spread-based calculation for implicit transaction costs presented in the EMT.

1. What is the slippage-based method for calculating transaction costs?

Answer: The slippage-based method calculates transaction costs by measuring the difference between the expected price of a trade (arrival price) and the actual execution price. This method captures the market impact of trades, including factors such as order size, market liquidity, and volatility.

2. Why are we transitioning to the slippage-based method?

Answer: With effect from Q3 2024, our administrator will calculate implicit transaction costs using the arrival price method (slippage method). The shift from spread-based to slippage-based transaction cost calculations is intended to provide a more accurate reflection of the costs incurred by the fund when buying or selling financial instruments. The slippage-based method takes into account the difference between the expected price of a transaction (the arrival price) and the actual execution price, thereby capturing the impact of market movements and liquidity on transaction costs, whereas the current spread based method uses estimates at security level which can lack precision and ignores market impact

3. How will this transition affect my transaction costs?

Answer: The slippage-based method may show higher or lower transaction costs compared to the spread-based method, depending on factors such as trade size, market liquidity, and volatility. It provides a more accurate reflection of the actual costs incurred during trading.

4. Will my explicit fees and commissions change with this transition?

Answer: No, explicit fees and commissions will not change as a result of this transition. The slippage-based method focuses on measuring implicit costs, such as market impact and execution quality.

5. How does the slippage-based method improve cost accuracy?

Answer: The slippage-based method captures the difference between the expected and actual execution prices, accounting for market impact, timing, and liquidity. This provides a dynamic measure of transaction costs, unlike the static spread-based method.

6. What are the benefits of using the slippage-based method?

Answer: Benefits include better cost awareness, improved execution strategies, and enhanced transparency. By understanding the true costs of trading, investors can optimize their trading practices and potentially reduce overall transaction costs.

7. Does this mean I am being charged higher/lower fees ?

Answer: The slippage-based method does not mean you are being charged less or more in terms of explicit fees and commissions. Instead, it provides a more comprehensive view of the total costs associated with your trades, including implicit costs like market impact and execution quality.

8. When will this change be made?

Answer: These changes will apply from Q3 2024 MiFID calculations

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