

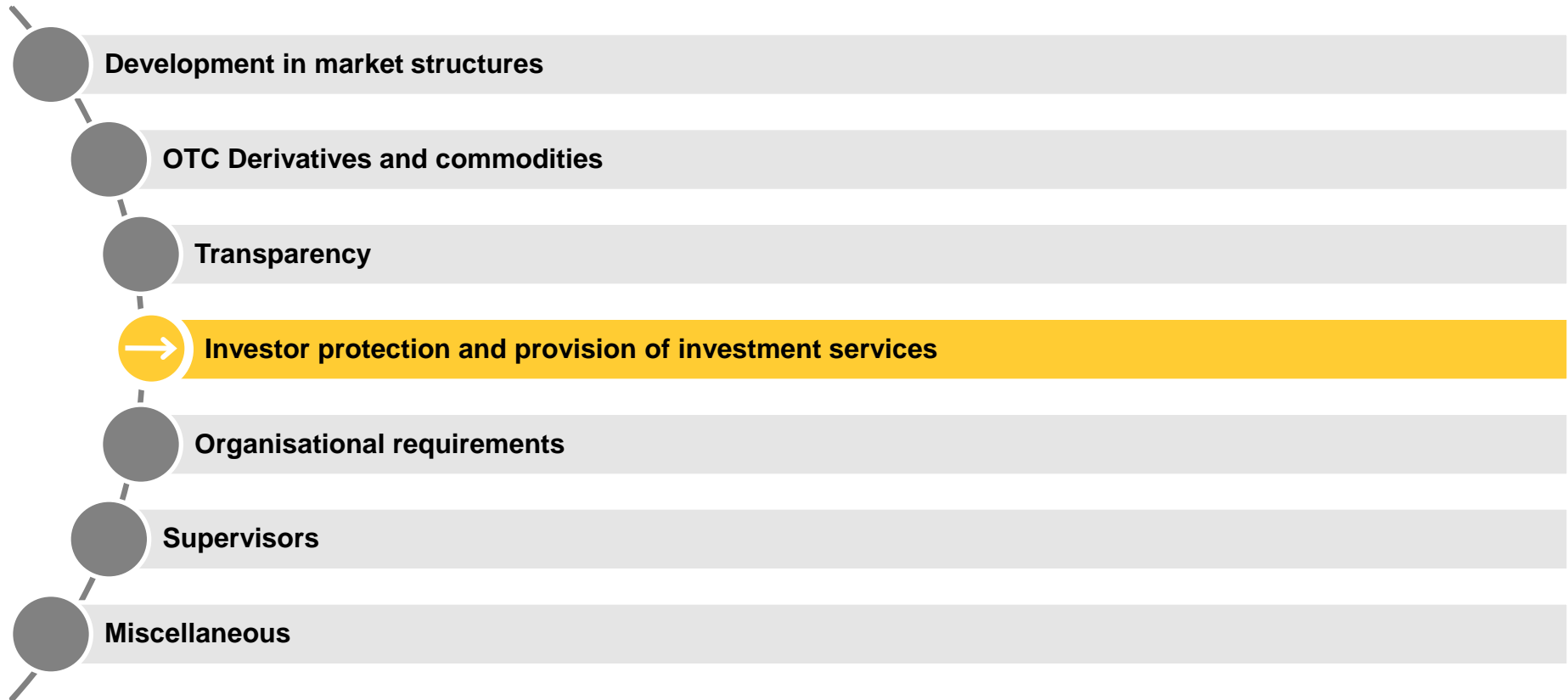


# MiFID II Research Rules – Sellside Perspective

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## 7 key areas of MiFID II



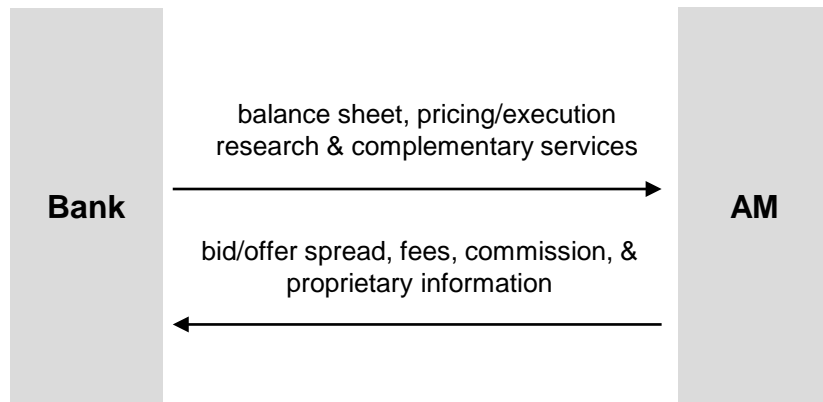
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# The ultimate goal: Unbundling

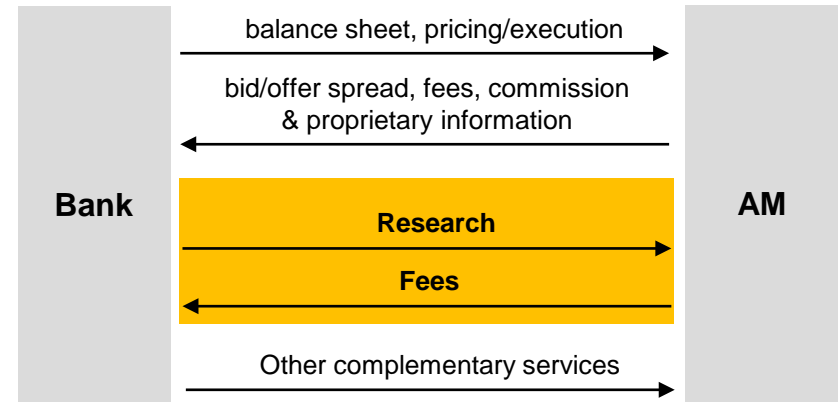


MiFID II will require all research providers to invoice Asset Managers (AMs) for research publications and services. The goal is to restrict inducements and achieve a higher level of transparency as part of investor protection via the unbundling of research services.

## Today



## The Future



# What is valuable, what is worthless?



**What is Research?** Investment research means providing information or suggesting an investment strategy concerning financial instruments or issuers of such instruments. It needs to include an opinion, be intended for distribution channels or for the public and be labelled as investment research (Art 24(3) of the Directive 2014/65/EU and Recital 28 of the delegated Directive of 7 April 2016).



**Exemptions:** Research that is considered a **minor non-monetary benefit** or paid for by 3<sup>rd</sup> parties. The definition of a permitted minor non-monetary benefit is set out in Art. 12 (3) and Recitals 29 &30 of the Directive of 7 April 2016.

## Generally included

- › Substantive research analysis with recommendations or views about financial instruments
- › Macro and FICC research
- › Morning notes, Dailies
- › 1-o-1 meetings
- › Bespoke research services

## Generally not included or exempt

- › Notes available to the general public
- › General notes on political, economic or market issues unless it suggests an investment strategy
- › Notes referencing to substantive research
- › Short-term earnings or factual commentaries
- › Material commissioned by third parties
- › Participation in conferences, seminars, training events
- › Marketing material

# What payment methods does MiFID II foresee?

**What is the status quo? So far, research services have either been paid**

- › by means of a commission rate applied to the respective trading volume or
- › via so-called commission sharing agreements (CSAs), under which prime brokers are obliged to make a payment to a third-party broker as defined by the asset manager (AM)

**Unbundling impact:** MiFID II no longer allows for a transaction-related payment of research services

## Payment via Research Payment Account (RPA/CSA)

- › Introduction of an RPA funded by client money
- › Key conditions - costs for external research input:
  - › Have to be budgeted ex-ante
  - › Have to be independent from the trading volume
  - › Need to be agreed with clients
- › Any left-overs have to be redistributed to clients
- › AMs are required to regularly assess the quality of the research services received
- › Extension of existing Commission Sharing Agreements (CSAs)

## Payment via own account

- › Direct payment for external research input via the P&L of the AM
- › Limited reporting requirements and admin

## Recent trends and topics for discussion

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- Different pricing models for equities and fixed income
- General downward pressure on FICC prices
- Diverging stance of National Competent Authorities (FCA, AMF, BaFin)

? How will different supply and demand patterns for research impact underlying markets?

? Will the regulation succeed in reducing costs and enhancing transparency for end-investors?

? Is MiFID II creating a level playing field across regions and sectors?

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