

UNBUNDLING INVESTMENT RESEARCH UNDER MIFID II

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KEY INVESTOR PROTECTION ELEMENTS

Inducements

Portfolio Management

- Ban of inducements for portfolio management:
 - Investment research
 - Separate payment, unbundled commissions

Investment advice

- Inducements banned for “Independent” advice
- Requirement for professional knowledge and competence

Product Governance

- Target market assessment (manufacturers and distributors)
- Reporting requirements on costs and charges

PORTFOLIO MANAGEMENT INDUCEMENTS – INVESTMENT RESEARCH

Concerns

Insufficient transparency,
accountability over client
commissions

Conflicts of interest re: best
execution



Solutions under MiFID II

Separate research from
execution

Asset managers operate
Research Payment Accounts
(clients) or pay for research
themselves

→ **Commission unbundling,
separate payment for
research**

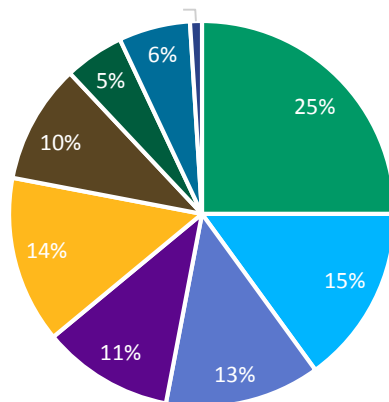
ABOUT THE SURVEY

METHODOLOGY

- An email invitation was sent to investment professionals in selected job functions (buy-side, working in research)
- The survey was conducted from 15 to 30 September 2017
- Received 365 valid responses (satisfying screening criteria)

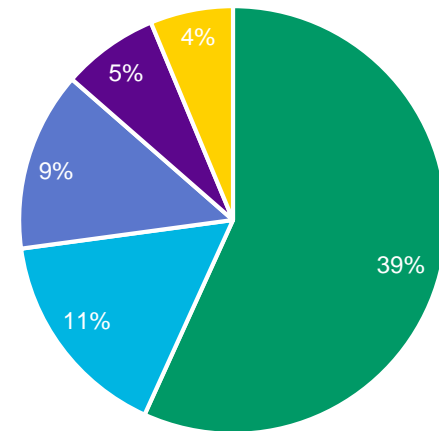
DEMOGRAPHICS - AUM

- Less than €1bn
- Between €1bn and €5bn
- Between €5bn and €20bn
- Between €20bn and €50bn
- Between €50bn and €250bn
- Between €250bn and €500bn
- Between €500bn and €1,000bn
- More than €1,000bn
- Don't know



COVERAGE

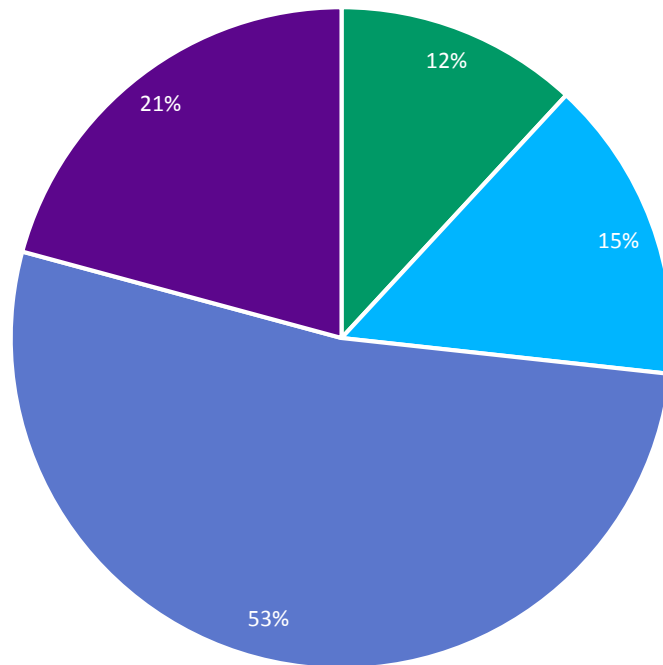
- 330 firms
- 28 countries
- 5 countries cover 68% of total responses:



- UNITED KINGDOM
- GERMANY
- SWITZERLAND
- FRANCE
- NETHERLANDS

WHO PAYS FOR RESEARCH UNDER MIFID II

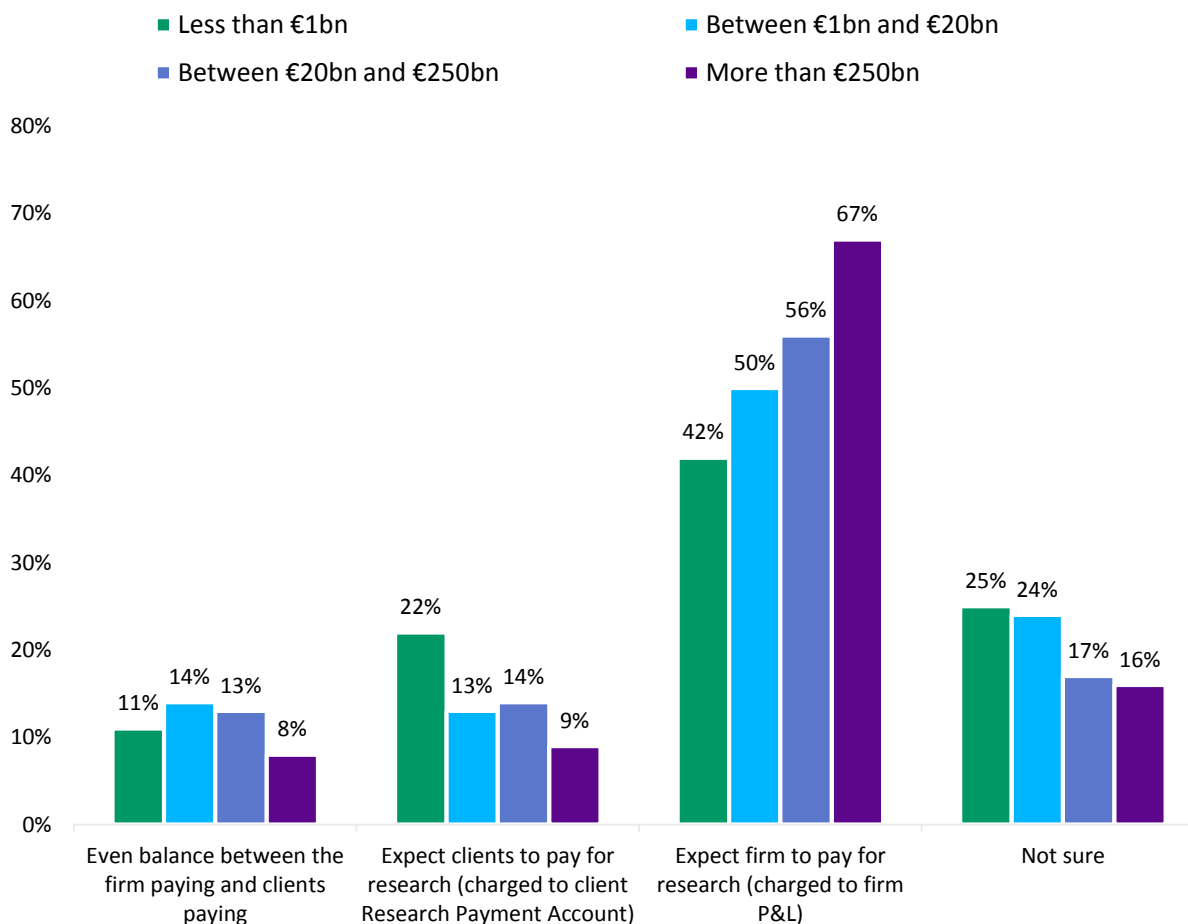
- Even balance between the firm paying and clients paying
- Expect clients to pay for research (charged to client Research Payment Account)
- Expect firm to pay for research (charged to firm P&L)
- Not sure



- The majority (53%) of respondents expect their firms to cover the cost of research. Only 15% expect to see clients paying for research.

Question: How do you expect your firm to cover most of the cost of investment research under MiFID II?
Base: 359 respondents

WHO PAYS FOR RESEARCH UNDER MIFID II BY AUM



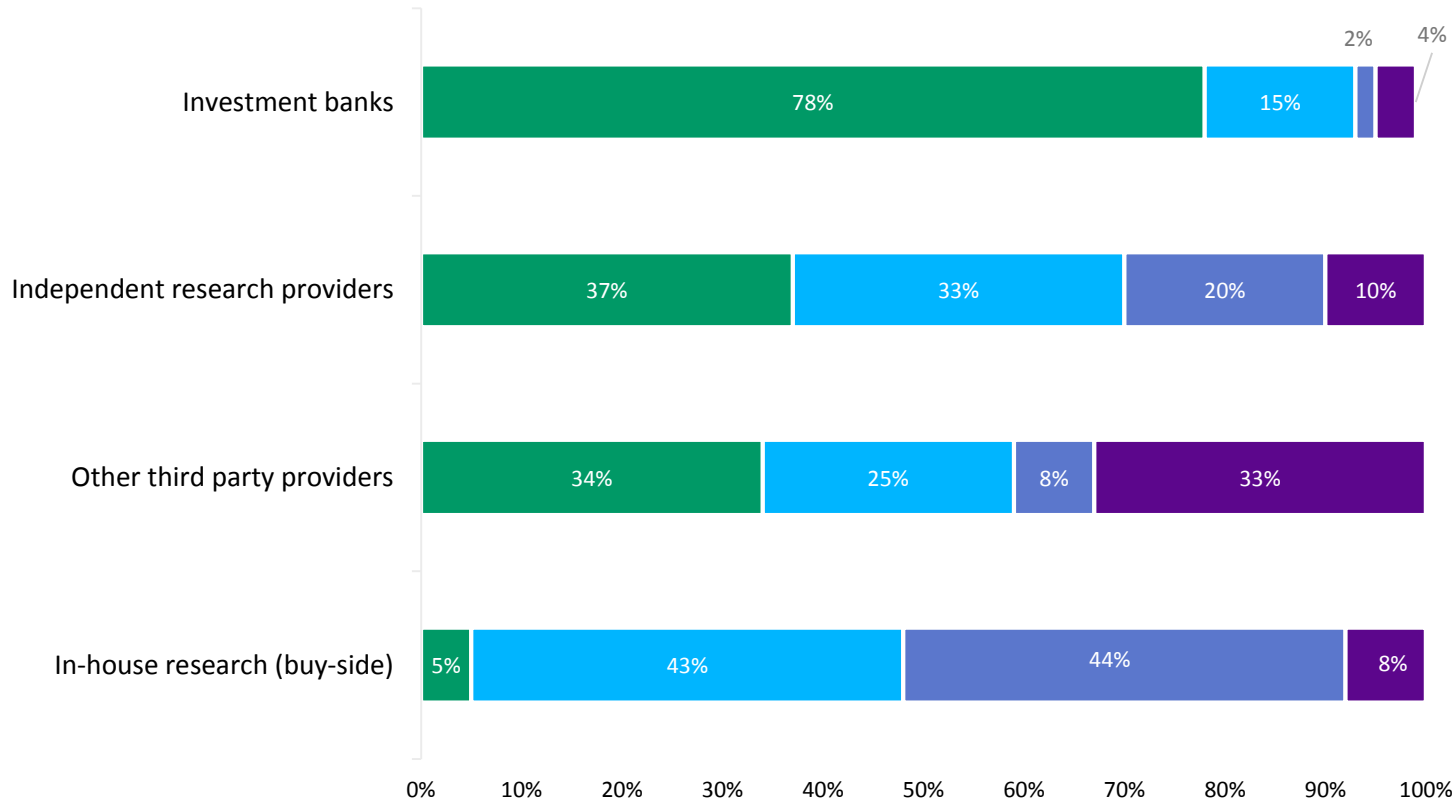
- Firms with AUM greater than €250bn are more likely to cover research costs than those with smaller AUM.
- 22% of respondents from firms with AUM less than €1bn expect their clients to pay for research, significantly higher than firms with higher AUM.

Question: How do you expect your firm to cover most of the cost of investment research under MiFID II?

Base: 359 respondents

IMPACT ON RESEARCH PROVIDERS

■ Source relatively less research ■ Source same amount of research ■ Source relatively more research ■ Not sure

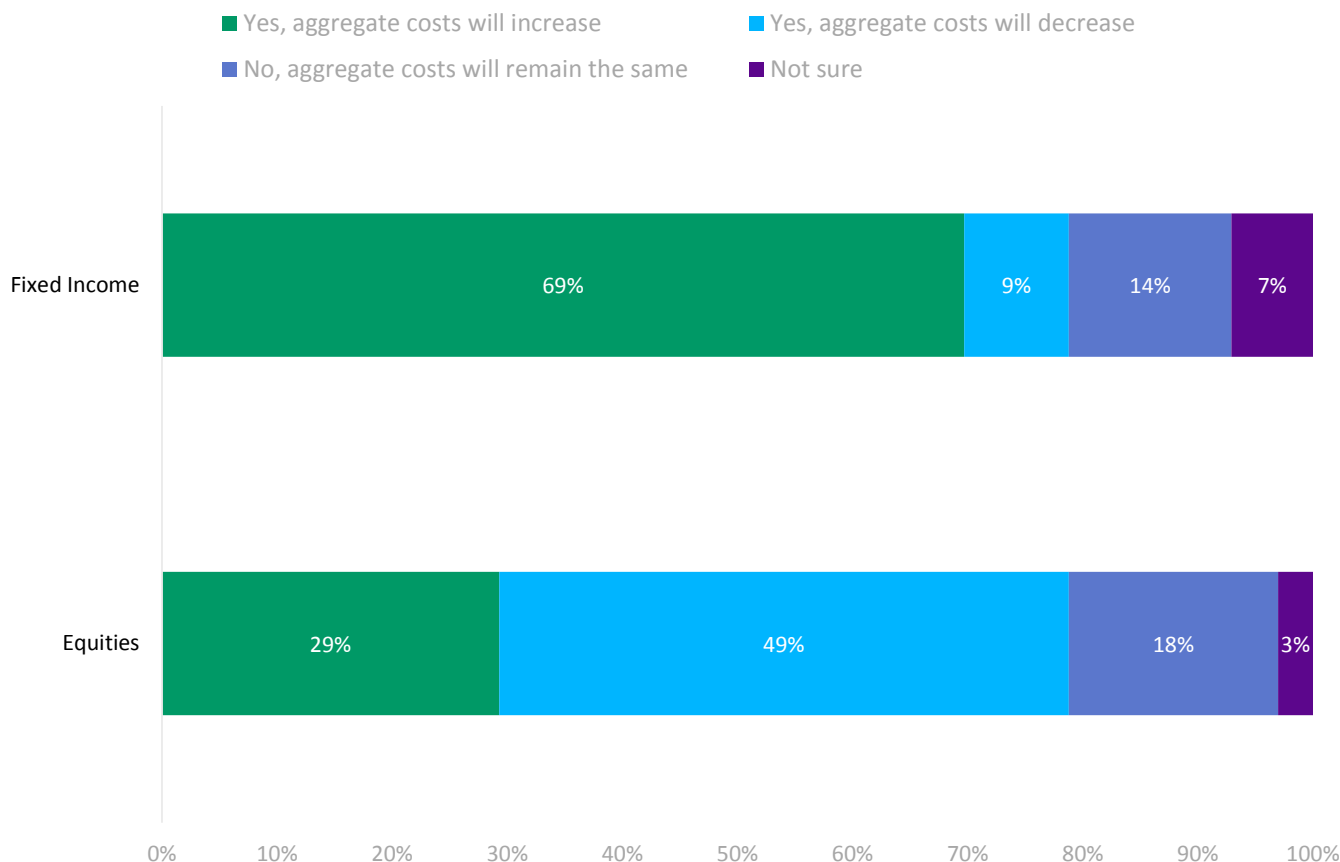


- Investment banks are expected to suffer the most, with 78% of respondents indicating that they expect to source less research from investment banks under MiFID II.
- On the other hand, firms are more likely to rely on in-house research under MiFID II, with 43% of respondents expecting to source more research in-house.

Question: For each of the following research providers, select whether you expect to source more, less, or about the same amount of research under MiFID II compared to at present:

Base: 364 respondents

THE IMPACT ON AGGREGATE COSTS BY PRIMARY INVESTMENT PRACTICE



- Respondents with fixed income as their primary investment practice are more likely (69% vs 29%) to agree that the aggregate cost will increase compared with their counterparts with equities as their primary investment practice.

Question: Overall, do you expect aggregate costs for research and execution services to change following the implementation of MiFID II?

Base: 361 respondents

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