IHS Markit®

Brokerage, Research, Sales & Trading

The Global Pulse

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Welcome

2020 has been unconventional to say the least, but it has kept us working with our asset manager, broker and corporate issuer clients to design practical solutions for the new virtual world of corporate access meetings and events. Our colleague Chedi Vitta provides an update on the virtual work environment and reviews some statistics from our Event Management business.

Then with the end of the UK's Brexit transition period just around the corner David Cook, Head of IHS Markit Regulatory Affairs, gives his take on the future of financial services regulation in UK and continental Europe.

Francis Land also shares some thoughts on how asset managers in Asia Pacific have been responding to changes in research payment regulations in regions like Europe and taking a fresh look at their own policies and processes and implementing systems like our **Evaluation** solution as a way of ensuring best practice.

Best wishes

Chris Meier

Executive Director, Co-Head of Brokerage, Research, Sales & Trading

McEvans Francois

Executive Director, Co-Head of Brokerage, Research, Sales & Trading

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Corporate Access and Event Management – Analysis of trends from 2020

As we close out an unconventional year, we at IHS Markit directly observed challenges our asset manager, banking and corporate issuer clients faced in managing corporate access events due to restrictions imposed globally. We partnered with our clients to build solutions to not only maintain continuity in the face of these limitations but take advantage of new opportunities presented by the changing landscapes. Some key takeaways from our conversations with clients over the past few months:

Demand for corporate access remains strong

Our sell-side clients continue to report strong demand for corporate access as investment managers look to fill gaps caused by restrictions in travel. In analyzing meeting activity in our event and conference management platforms we found consistent counts of sell-side brokered meetings in 3Q 2020 as compared to the same time period in 2019, a testament to the success in maintaining continuity through virtual channels.

As the year progressed, comfort with virtual meetings grew as did scrutiny from investors in the meetings they plan to attend. We received feedback from a client's corporate access desk that many asset managers are over-saturated with opportunities to meet with management teams. Accordingly, there is more uncertainty for event coordinators in determining whether their clients will ultimately join a meeting. In ensuring the buy-side derives the most value in a virtual format our sell-side clients fielded more questions on both the number and types of other attendees scheduled for group sessions. To provide all parties participating in an event with more visibility in early 2021 our event management platform will introduce capabilities for the buy-side to collaborate with the sell-side in real time. We plan to offer a centralized landing point for event discovery, streamlined communication channels to indicate interest/availability and to confirm attendance - eliminating multiple rounds of communication via email or phone. Click here to learn more

Conference management trends

In reviewing our 2020 conference data we saw higher prevalence of fireside chats compared to traditional presentations. This could indicate investors are looking for more conversational settings, offered by fireside chats, where corporates have less control over the flow of discussion. We also noted presentations and fireside chats started earlier in the day in virtual formats as there is no need to reserve time for registrations or breakfast.

We noted higher numbers of third-party speakers, ranging from Washington policy experts to university professors, at conferences this year than in the past. Their views on the macroeconomic outlook or prospects of developing a vaccine were increasingly more important in an investor's decision-making process. Additionally, some of our clients reported deeper management involvement from corporates, where a digital or innovation officer could appear alongside a CFO.

Looking ahead

Most firms continue to evaluate timelines for resuming in-person events, many on a quarterly basis, with no expectations to restart until summer 2021. When in-person events begin again there is a case for hosting either all virtual or all in-person events. Hybrid events would involve simultaneously managing travel, entertainment and virtual technology vendors and costs could quickly add up.

Chedi Vitta
Director of Product Management,
Brokerage, Research, Sales & Trading

MiFID2 Brexit Divergence – who's leaving who?

Although it might be fair to say that the UK financial services industry was not exactly pro-Brexit, there were those who saw it as an opportunity to improve regulation. There is undoubtedly some truth in this and Brexit may well present opportunities to recalibrate financial service regulation so that it fits better with UK business and consumers. The UK Chancellor, Rishi Sunak, was right when he said that EU regulation was often the result of a compromise between 28 member states and was, therefore, unlikely to the right approach for the UK in every respect[1]. Anyone who has had any involvement in Brussels law making will know the adage that only when nobody is happy has a good compromise been reached!

However, people should be careful what they wish for. In all the rhetoric about EU regulation, some people lose sight of two things: first, that the UK was influential in the development of the current raft of EU regulation; and second, many of the rules that are most disliked were actually driven by the UK (it could even be argued that the EU actually constrained the UK in how far some of these rules went). Under MiFID2, some of the rules that people seemed most excited about removing actually fall into the two second category above. Investor protection rules, such as research unbundling rules and strengthening best execution (including through the provision of data under the so called RTS 27 and RTS 28), are great examples of this. Those hoping for Singapore-on-Thames are (to borrow a famous, but unfair, expression) are likely to be very disappointed.

Instead on these areas, it always seemed more likely that the EU would be the ones to roll back standards. This is precisely what we are seeing in the so called MiFID2 quick fix currently under negotiation in Brussels. Supposedly to address urgent deficiencies in MiFID2 connected to the current Covid-19 pandemic, the European Commission have proposed, among other things, to recalibrate the research unbundling rules and suspend some best execution reporting. What the Commission actually proposed was quite a targeted, well balanced proposal with clear rationale. On the research unbundling, there were proposals to recalibrate the rules to help mitigate some of the negative impacts on SME research that had been reported in some member states. On best execution, the EC proposed temporarily suspending the so called RTS27 reporting requirements, which require execution venues (in a

[1] https://questions-statements.parliament.uk/written-statements/detail/2020-06-23/HCWS309

very broad sense) to report standardised execution quality data on a quarterly basis. RTS27 has been particularly problematic for venues to produce and, as the Commission notes, there is little evidence of its use.

As stated, on the face of it, the Commission's MiFID2 quick fix proposal seems proportionate and targeted. It would be very difficult to find anyone in either regulatory or industry who think that these changes are anything other than technical and sensible. However, it seems that the pressure in Brussels is pushing for further and more radical deregulation. The Council (the member state governments) look to have agreed to go further on the recalibration of research unbundling, while the European Parliament appears to be advocating a more substantial weakening of the best execution rules. Some members of the European Parliament have proposed suspending the RTS28 requirements alongside RTS27. RTS28 is reporting by asset managers of how they route their client orders, something that is important to see if the best deals are being sought. This reporting, unlike RTS27, is only on an annual basis and is much more focussed, covering only the top five executions venues being used. Furthermore, the data was more grounded in longer standing best execution rules and is much more manageable and usable comparable than RTS27 data. It is interesting to see Parliamentarians advocating for this rolling back rather than opposing it - after all it would be expected that they would be champions of regulation aimed at providing investors, who are their voters, a better deal.

All of this provides a fascinating insight and reality check into how things might move after Brexit. The UK used a lot of negotiating capital on the original MiFID2 implementing a regime to protect investors and, without UK influence, Brussels looks like it might roll back such regulation for the EU. This might disappoint many UK businesses and also contradicts the rhetoric around Brexit that has been emerging from Brussels. We'll certainly be watching closely where this debate goes.

David Cook
Executive Director, Regulatory Affairs

Asia-Pacific Asset Managers – Putting best practice into operation in payments for research

At the start of 2020 I was fully expecting to make a business trip to Singapore, Hong Kong and Australia building on my very successful visits of 2018 and 2019 developing our research evaluation and payments business.

Subsequent events of course quickly made those 2020 travel plans impossible, and they have forced us all to adjust to new realities of virtual meetings with clients and colleagues. The good news in our area of IHS Markit is that the optimism I held for the growth of our business in the region was borne out, and that optimism continues as we look forward to 2021 (and hopefully some relaxations on travel!).

We have added asset manager and broker clients to our suite of products in Hong Kong, Singapore, Australia and Japan in 2020. So what has driven our expansion in APAC? For a change, and appropriating James Carville from 1992, the answer it is not as simple as saying "it's the regulations, stupid".

In Europe, before and since MiFID2, the financial services industry has been forced by regulatory change to provide far greater transparency into their spending on both trade execution as well as payments for research. Asset managers and service providers have spent the last several years implementing policies, procedures and systems to comply with regulations and ensure best practice.

What has been happening in APAC

By contrast there has been no similar regulatory "big bang" in APAC. By and large regulations across the markets in which the IHS Markit Brokerage, Research, Sales & Trading team (BRS&T) do business have remained consistent.

In spite of that there is a voracious appetite in the APAC region to learn about MiFID2, not to mention a desire to know what has been happening in the US, where similar to APAC there has been a consistency of regulatory approach over many years.

In response we have spent the last 2 years meeting and educating clients and service providers, deepening relationships and signing new clients along the way.

Where APAC could have taken a "business as usual" approach instead firms been clamouring to sign up for best practice and ensure their systems were fit for the purpose.

You might say firms in APAC have had the best of both worlds. They have observed and learnt from the systems and processes implemented in Europe and the US, decided what constitutes best practice in compliance with their own regulation, and are in the process of adapting their business practices and systems accordingly. All this while not being under pressure to comply with stricter a regulatory regime or deadlines.

What we are seeing in practice

Asset managers are implementing our research evaluation software "Evaluation" to formalise their process, moving from alternative vendors or from in-house systems or Excel-based solutions.

Fundamental to this is the adoption of our interactions tracking facility, with direct interaction touchpoint feeds from services providers providing invaluable data for fund managers and analysts as they review their services received.

Vital for the efficient management of those interactions is our proprietary buyside rules engine enabling administrators to control the quality and quantity of incoming interactions.

At the same time asset managers are increasing their Commission Sharing Arrangements (CSAs) as a way of funding their provision of high-quality research from anywhere while simultaneously satisfying best execution requirements. Our Commission Manager platform has provided pioneering automated CSA reconciliations combined with efficient virtual CSA aggregation for over ten years. While the use of CSAs in Singapore and Hong Kong is growing, we understand that over 80% of asset managers in Australia already use CSAs to pay for research.

Case Study

Australia Fund Manager

Client - Asset Manager in Sydney, Australia.

Existing system - In-house informal evaluation process with no interactions tracking.

Problem - Difficult to track research services received by firm, no formalised evaluation process, no automated feedback to providers.

Our Solution - We brought the client on to our “Evaluation” system, including direct interactions feeds from providers.

Client Success - The system has provided clarity and transparency in reviewing interactions providing vital data to portfolio managers and analysts as they decide how to set their research budgets.

Hong Kong SAR Fund Manager

Client – Hedge Fund in Hong Kong SAR.

Existing system – Commission Manager by IHS Markit for management of CSAs.
In-house, informal process for evaluation.

Problem – Very difficult to track interactions, no formalised evaluation process.

Our Solution – Building on our relationship with the client through our CSA aggregation platform, Commission Manager, we opened an Evaluation account with the results of the evaluation process flowing into Commission Manager for the payment of research providers.

Client Success - The client wanted to combine research evaluation and payments under one roof and this was possible with the BRS&T suite.

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Singapore Asset Manager

Client - Major hedge fund based in Singapore.

Existing system - Vendor for research evaluation, no aggregator for CSA management.

Problem - The existing vendor solution for research evaluation was "sub-optimal". The firm had no existing aggregator for their CSAs meaning administrative burden reconciling up to 12 CSA accounts directly with the each of the CSA brokers.

Our Solution - The client's "sub-optimal" research evaluation process was migrated to Evaluation. We also opened a Commission Manager account for the client, liaising with their 12 CSA brokers.

Client Success - Linking Evaluation and CM we ensured seamless transfer of budgets and payments within the solution for the management of invoicing and payments.

Francis Land

Director - Brokerage, Research, Sales & Trading, EMEA and APAC

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Brokerage, Research, Sales & Trading from IHS Markit seamlessly connects asset management companies, brokers and research providers offering data and applications to facilitate the investment process. Our solutions are relevant for all research funding models -asset management company paid, customer paid or a combination. Please get in touch today, to find out more.

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About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and expertise to forge solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions. Headquartered in London, IHS Markit is committed to sustainable, profitable growth.

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