



Brokerage, Research, Sales & Trading

The Global Pulse

Edition 1, April 2020



Welcome Note

Welcome to the first edition of “The Global Pulse”, the new bulletin from the Brokerage, Research, Sales & Trading team at IHS Markit.

We have been providing contact and holdings data, event management & CRM tools, research aggregation, evaluation, tracking, budgeting, CSA commission management and payment solutions for over ten years.

The last few years have seen significant changes in the research payment business and IHS Markit has been at the vanguard of those changes in partnership with our global client base.

Entering its third year in 2020, MiFID II has presented the industry with a range of challenges and opportunities. We have been working with clients from the asset management industry, execution providers and research providers to provide solutions enabling them not only to meet MiFID II compliance

requirements, but to exceed them and furthermore take advantage of those opportunities.

Of course, our client base extends well beyond those firms under MiFID II scope and we have seen growth in markets such as Asia Pacific with firms adopting best practice into their processes.

In this bulletin we will share our thoughts on client experiences, market developments and regulatory updates. On this occasion we highlight the recent report issued by a Task Force operating for the AMF, the French regulator into the effects of MiFID II regulations on the research industry.

We hope you find this bulletin, the first in a regular series, of interest. Please get in touch with us to let us know your feedback on the bulletin, any suggestions for future content and of course, if you would like to discuss our range of solutions.



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Market Review

Payments for Research – Trends and Best Practice

Market Review

Europe is the obvious part of the world to start when it comes to discussing current trends in the payments for research industry, as it is of course the market where MiFID II has brought in huge changes to the way that the asset management industry consults with customers, interacts with service providers and ultimately decides how and how much they should pay for research services.

Instead I am going to start in Asia-Pacific where we are starting to see some very interesting shifts in market practice. I have myself visited Hong Kong, Singapore and Australia more than once in the last year and we have been signing up clients in the region. Unlike in Europe, the region has not had regulatory change to force workflow change; instead asset management firms have looked further afield, decided what constitutes best practice and are now adjusting workflows and investing in solutions accordingly.

Australia provides a statistic that I have often quoted which surprises the audience. According to a major investment bank in Sydney, 80% of Australian asset management firms use commission sharing arrangements (CSAs). That is by any definition a high proportion of a mature asset management industry. It is in the UK where industry people are most surprised by that statistic. Since 2018 and the implementation of MiFID II, most UK firms moved away from charging customers for research through CSAs and switched to paying out of their own management company resources (known as “P&L”). In London therefore there is something of an assumption that CSAs have gone away and they are “yesterday’s news”. CSAs are still very much used around Asia-Pacific, their usage grows and in the United States they are still the pre-eminent method for paying for third-party research.

We see Asia-Pacific asset managers changing practice in two key additional areas; the implementation of formal research evaluation solutions and an increased utilisation of interaction data inputs from research providers.

Firms in Europe have long realised that for MiFID II compliance it is critical to consume and analyse interaction data points and maintain an accurate audit trail of such data. Some firms utilise a rate card to tie a default cash value to a particular interaction type, for example a one to one analyst meeting with Service Provider X carries a \$1,000 default value.

By utilising rate cards against substantive interactions, asset managers gain another metric on the real “value” achieved from the relationship provider. How that total “value” translates into the actual reimbursement varies, for example the firm itself or investment professionals might “top up” a default value or make additional discretionary monetary awards based on the overall relationship.

We are now seeing clients in Europe adopting more sophisticated use of rate cards in Europe. One client is tying the duration of a meeting (tracked in our system) to the rate card and using their own formulae to derive total value. Another client is using star ratings attributed by the user to the rate card and deriving a fair price using their own models.

The sheer weight of data in this space has also presented the industry with the greatest logistical challenge in the MiFID II era; how to integrate, substantiate and evaluate what for a large firm can amount to tens of thousands of interactions touch points. Asset management companies are looking to technology to assist in this and I will explain how we are helping clients in more detail in our next Bulletin.



Francis Land

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Executive Summary

Payments for Research:

AMF Task Force fires an early shot in the MiFID II Review Process

AMF Task Force Summary

- AMF (French Regulator) Task Force has reported into effects of MiFID II on research industry
- Identified major concerns especially on coverage of small and medium size companies
- Task Force has made recommendations to strengthen industry including issuer-sponsored research
- Suggests it is likely there will be substantial changes to MiFID II following review later in 2020

A task force originally set up in July 2019 by the Autorité des Marchés Financiers (AMF), the French Financial Services Regulator and reporting in February 2020 has voiced some serious concerns about the impact that the Directive has had on the investment research industry, particularly research production capacity and especially for coverage small and mid-cap companies.

The AMF Task Force's Report, entitled "Reviving Research in the Wake of MiFID II" represents an important statement of intent on behalf of the French Regulator, one of the more influential European regulators.

Work on the review of MiFID II is already underway. The European Commission issued a consultation on 17 February that include a number of questions on how the quality of and access to research on small and medium sized companies could be improved. The Task Force's Report is a strong indication that the review will lead to meaningful changes to the current Directive.

Problems Identified

- Declining Coverage of small and mid-cap stocks has been exacerbated by MiFID II.
- Market sentiment on the Research Reforms is overwhelmingly negative and prospects for the future are pessimistic.
- The market is finding alternatives to traditional research provision.
- There are considerable concerns about the quality of research.
- Trial periods have had an adverse effect.
- Firms using “P&L” have created a new constriction to consumption – their Finance Department.
- Pricing is still unclear.

Proposed industry changes

- Introduce “adequation” between research price and production cost.
- Create a temporary “virtual research marketplace” to increase SME research supply.
- Public finance should support research production for innovative companies.
- Encourage new forms of research, for example ESG research.
- Support development of issuer-sponsored research.
- Consider investment in SMEs as equivalent to “Socially Responsible Investment”.



Proposed MiFID II changes

- Extend the “Reasonable Commercial Basis” for market data, to research.
- Consider concierge services as a minor non-monetary benefit.
- Ease trial period restrictions.
- Consider adding “proportionality” to research funding rules.
- Simplify RPA administration for smaller asset managers.
- Exempt Independent Research Providers from MiFID II.
- ESMA review into whether research should be included in the inducements system.

We will keep clients informed as we move through the MiFID II consultation process and towards proposals for legislative changes later this year.

The full version of this Briefing is available at:

[link to the full piece →](#)



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Contact Us

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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