

ICMA
AMIC FICC Research Unbundling Survey results
November 2018



Introduction

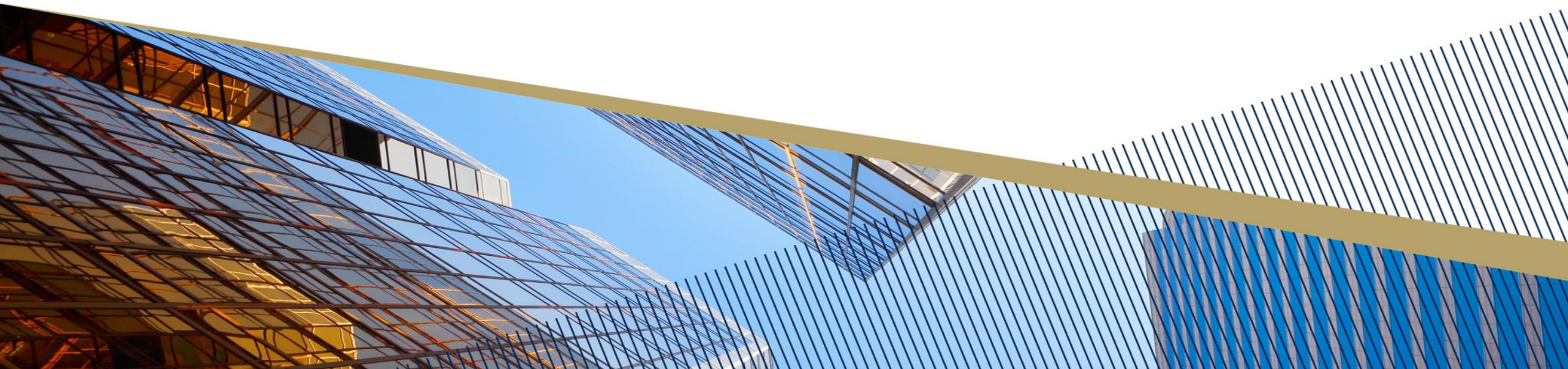
This presentation summarises the results of the ICMA Asset Management and Investors Council's (AMIC) second FICC Research Unbundling Survey, finalised in October 2018. The purpose of the survey is to help improve market clarity on this topic, identify remaining challenges, difficulties and outstanding issues in the implementation and to establish progress compared to the first survey issued in 2017.

The focus of this survey is on FICC research only.

Individual firms are not identified. If you have any questions or comments on the survey results, please contact Bogdan Pop (Bogdan.Pop@icmagroup.org) or Patrik Karlsson (Patrik.Karlsson@icmagroup.org).



Respondent Breakdown



Respondent breakdown

28 firms have responded to this survey.

In respect of types of firms, respondents classify as:

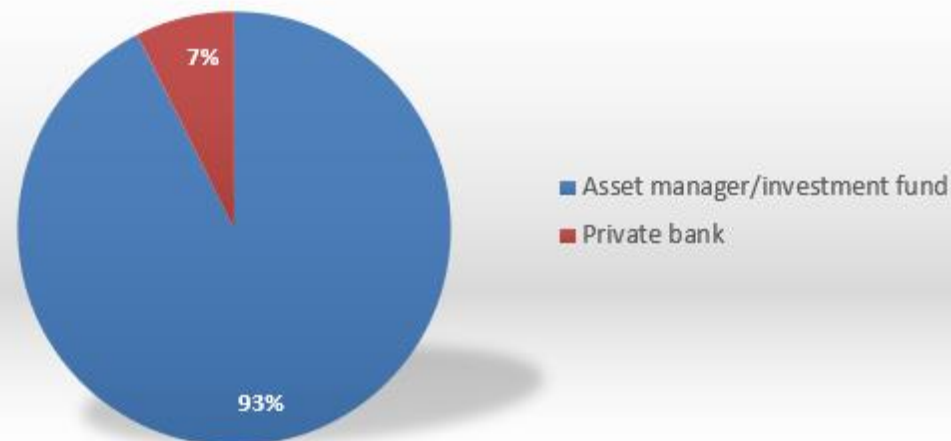
- 93% asset managers or investment funds; and
- 7% private banks.

In terms of AUM (expressed in USD) respondents are:

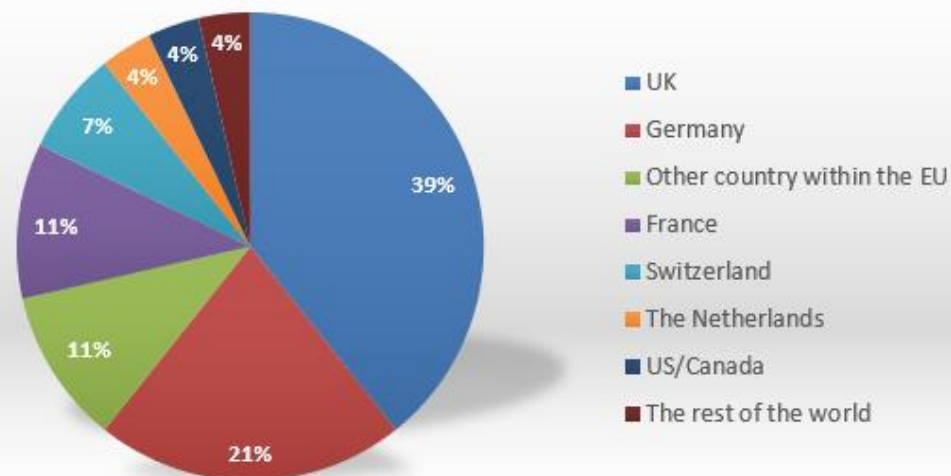
- 64% above \$100bn;
- 21% between \$10bn and \$100bn;
- 11% between \$1bn and \$10bn; and
- 4% below \$1bn.

Geographically, the majority of respondents were based in the UK (39%) and Germany (21%). The remainder were from France, Switzerland, the Netherlands and other countries within the EU.

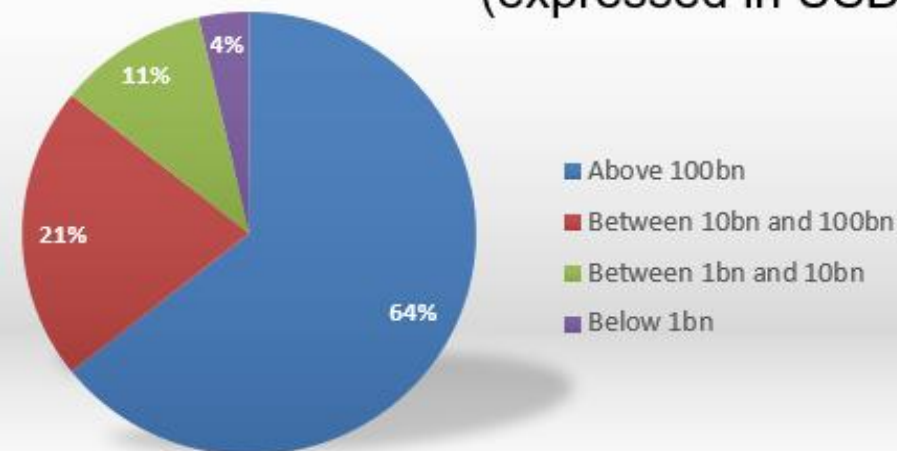
What kind of firm are you?



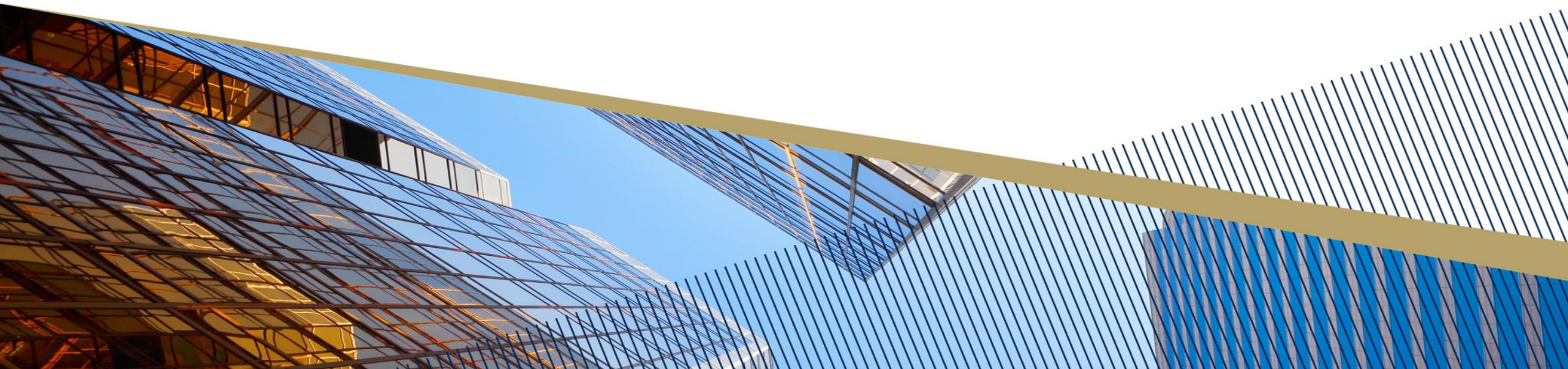
What country are you based in?



What is your AUM (expressed in USD)



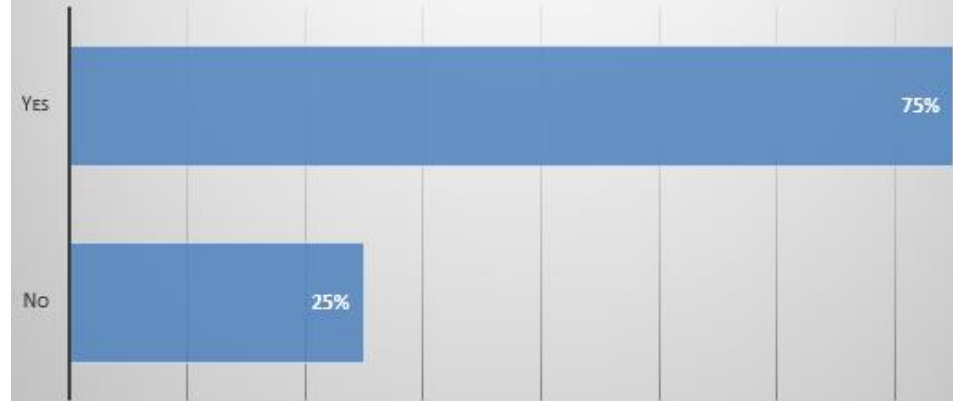
General questions and state of play



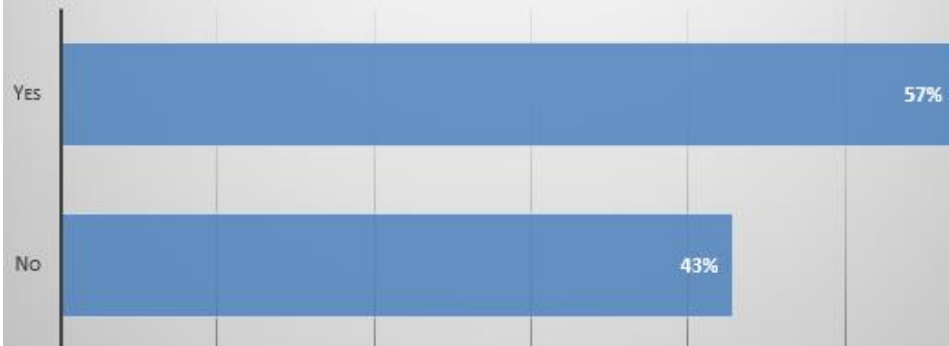
Difficulty deciding what is research

The majority of firms (75%) said that they have found it difficult to decide what research needs to be paid for and what can be classified as minor-non monetary benefits (MNMB) for which payment is not required.

Does your firm find it difficult to decide what research needs to be paid for and what can be classified as MNMB ?



Do you consider you have received enough guidance from the national regulators and ESMA on how to apply the new research rules?



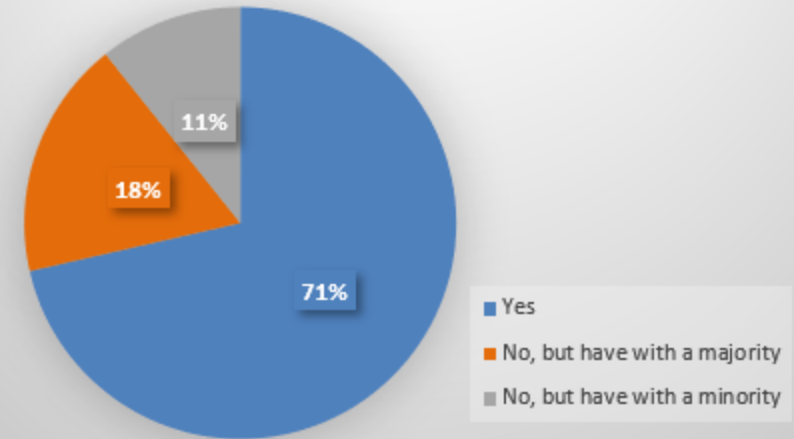
Guidance from regulator

43% of the firms surveyed said that they have not received enough guidance from their national regulator or ESMA about the implementation of research unbundling for FICC research. This is down from 52% in November last year.

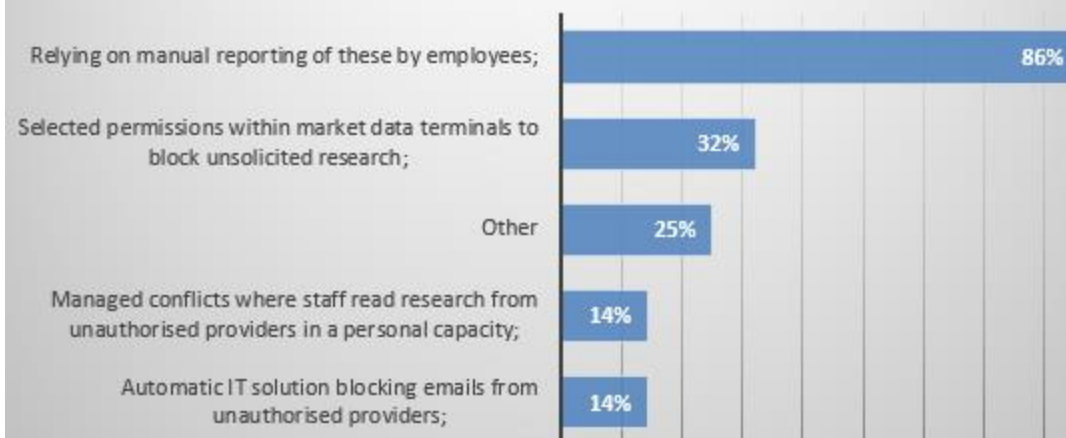
Written contracts in place

The majority of firms (71%) said that they have contracts and agreements in place with all their research providers. The remainder said they have these in place with a majority (18%) or minority (11%) of their providers.

Do you have written contracts or agreements in place with all the FICC research providers you now use?



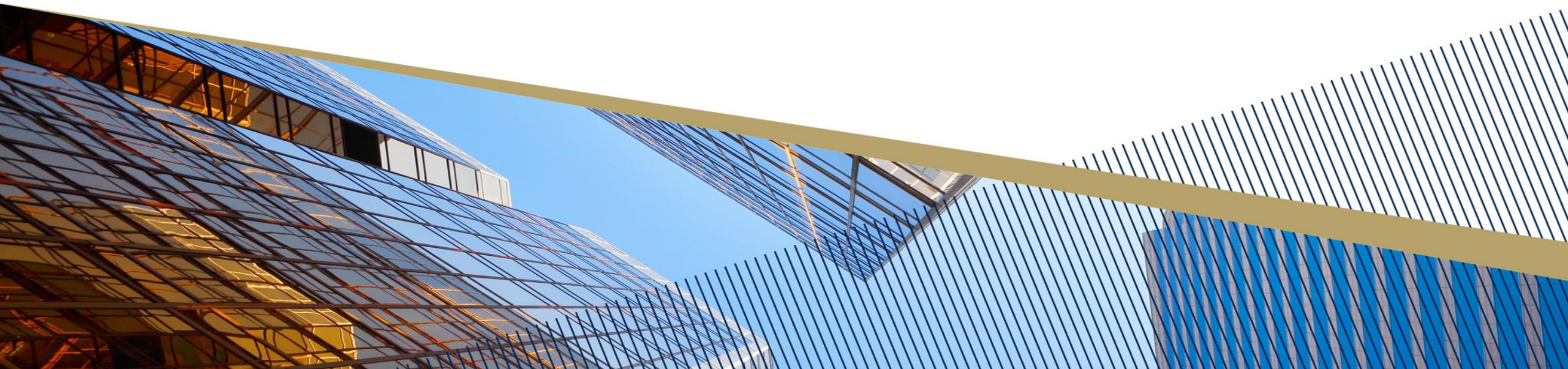
What approach has your firm taken to stop unsolicited research from being received by employees



Stopping unsolicited research

A significant majority of firms (86%) rely on manual reporting by employees to stop unsolicited research being received. In addition, some firms also rely on blocking access to unsolicited research via market data terminals (32%) or via other IT solutions (14%).

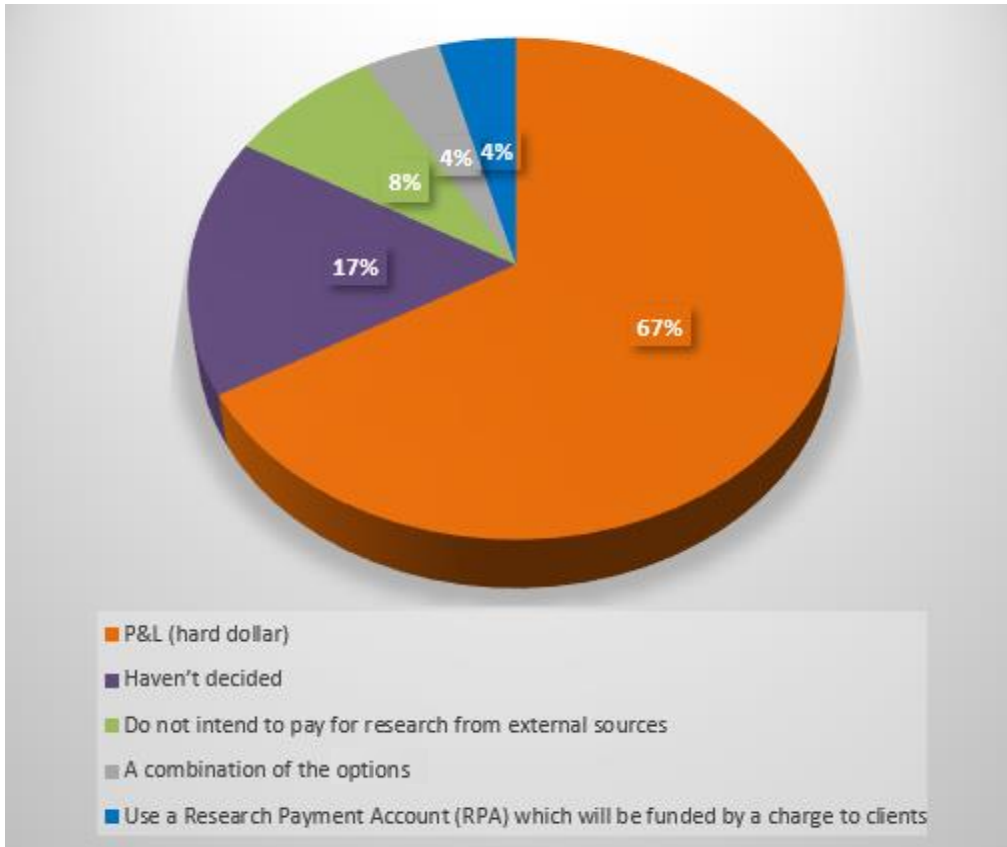
Specifics on paying for FICC research



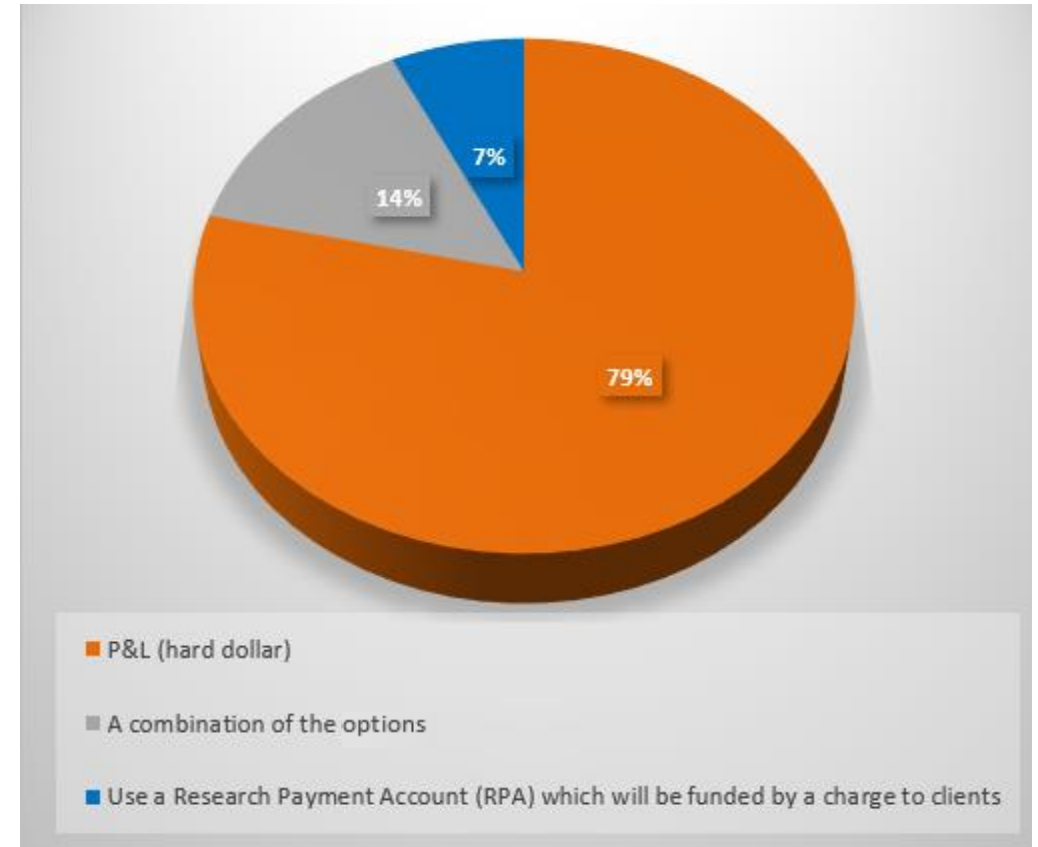
Payment for research

In line with recent market developments, the majority of asset managers intend to pay for research themselves. 79% of firms pay for FICC Research using their P&L, up from 67% last year. 7% intend to use an RPA funded by charge to clients, up from 4% last year and 14% intend to use a combination of the above, which is up from 4% last year.

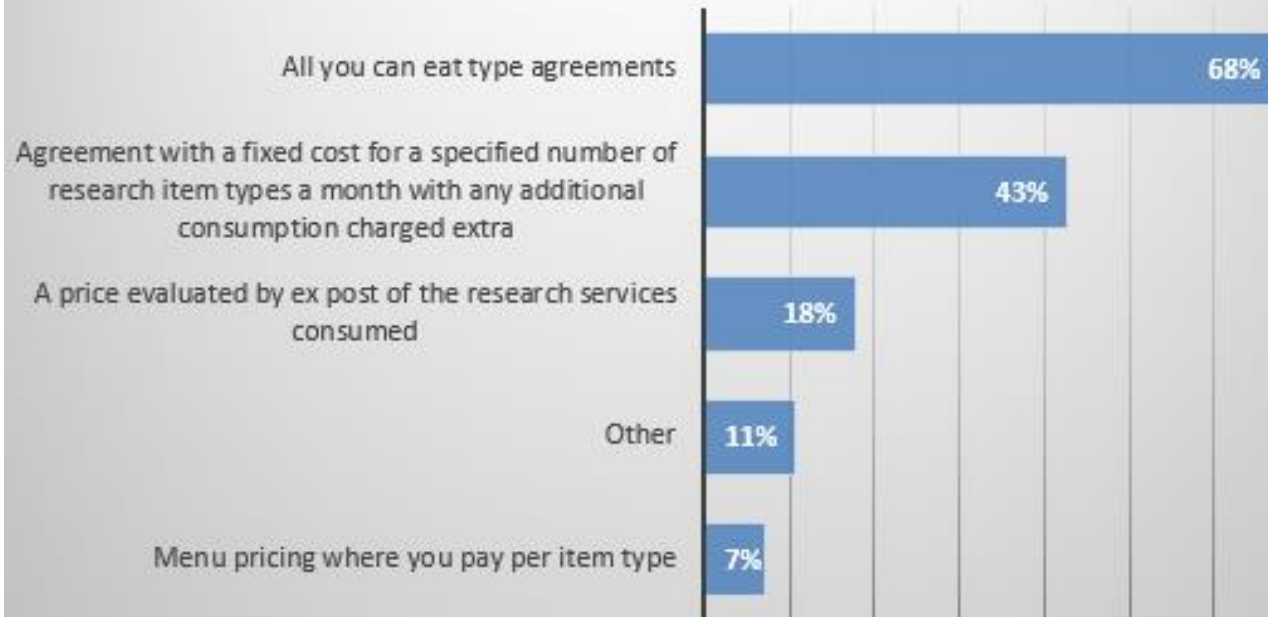
November 2017



November 2018



What kind of research consumption has your firm signed up for:

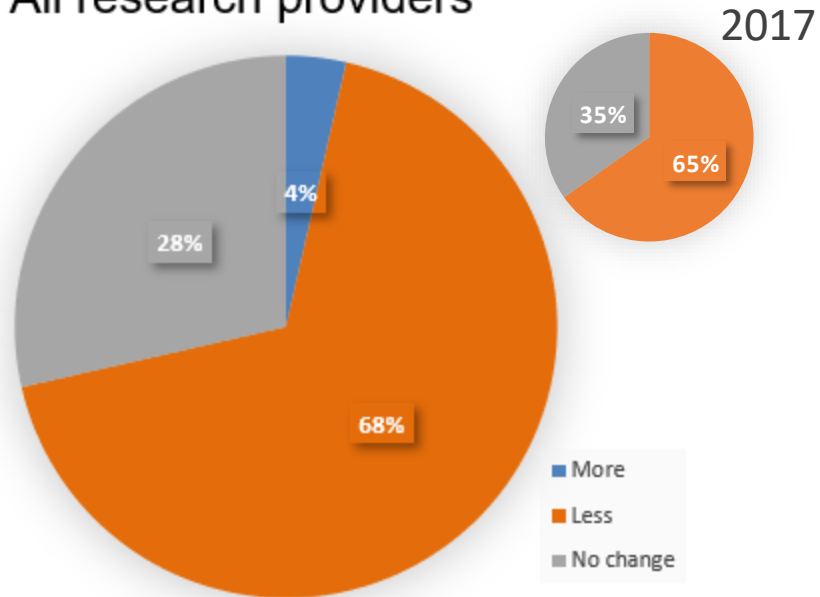


Preferred type of research consumption

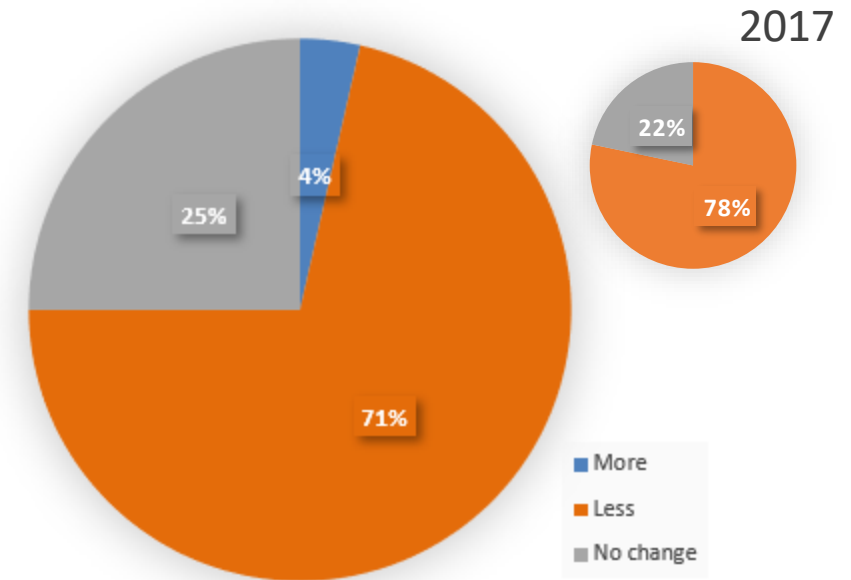
Firm preferences for type of research show most preferring “all you can eat” type research agreements (68%) closely followed by agreements with a fixed cost but where additional consumption is charged (43%).

Do you consume more/less FICC research in the new MiFID II world from the following sources?

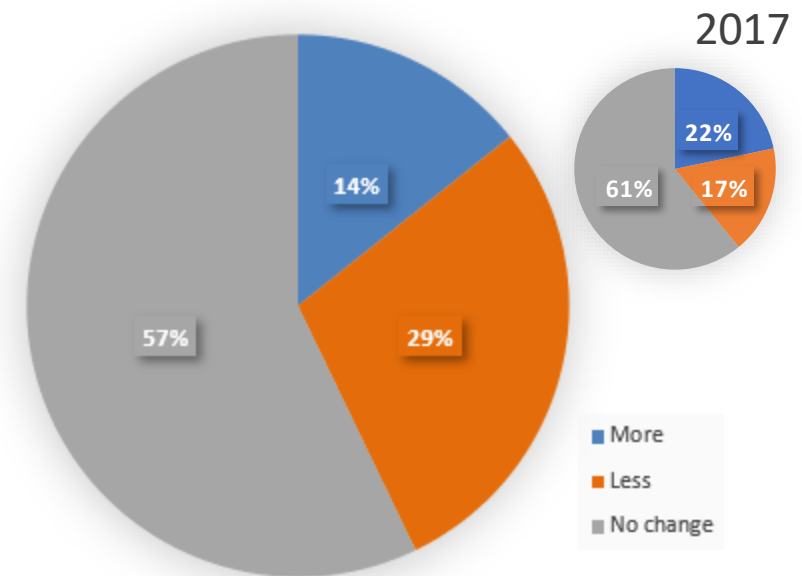
All research providers



Banks/brokers



Independent research providers

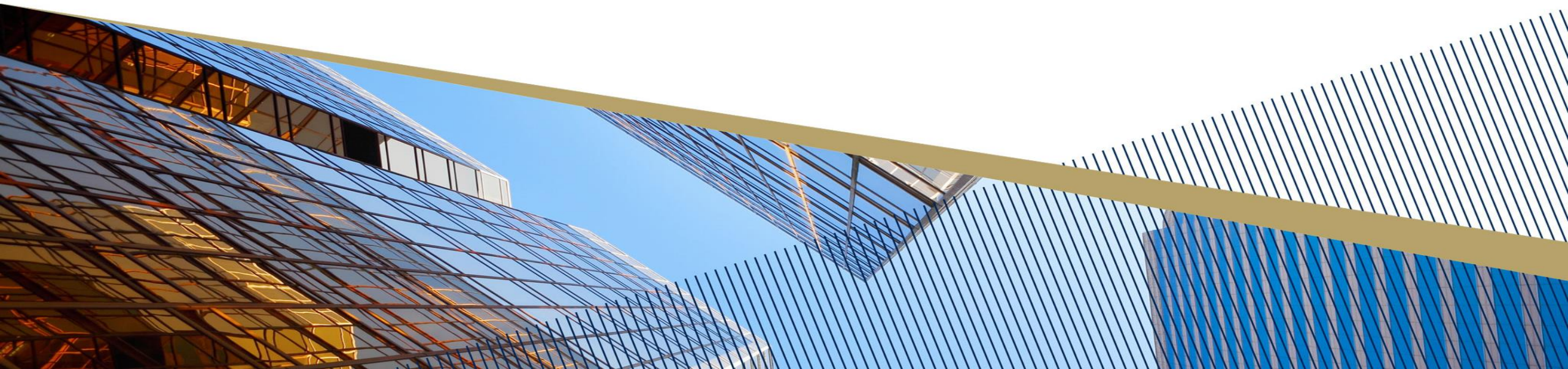


Trends in the consumption of research

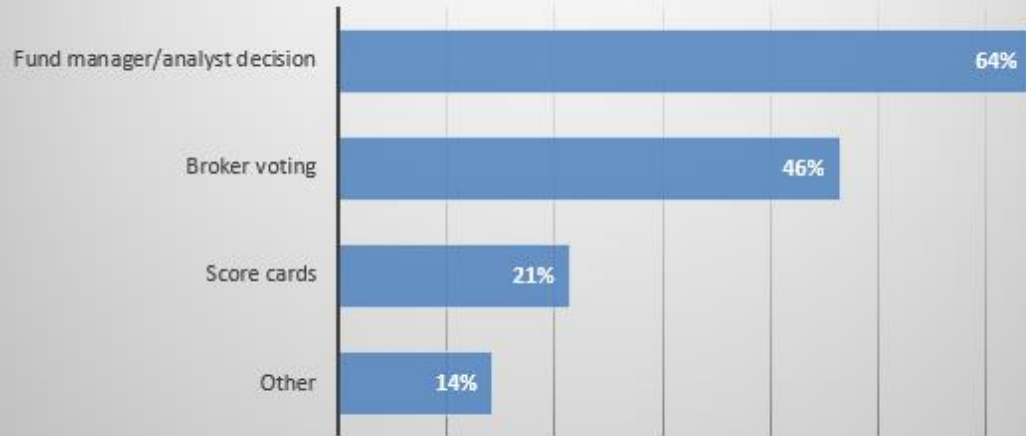
The majority of respondents (68%) said that they use less FICC research from all providers, while a minority (28%) said their consumption has not changed.

Overall independent research providers do seem to get a larger slice out of the shrinking pie, which is in line with our survey results from 2017.

Impact on quality, performance and in-house research



How does your firm establish value of research and how it meets the objectives of the funds?



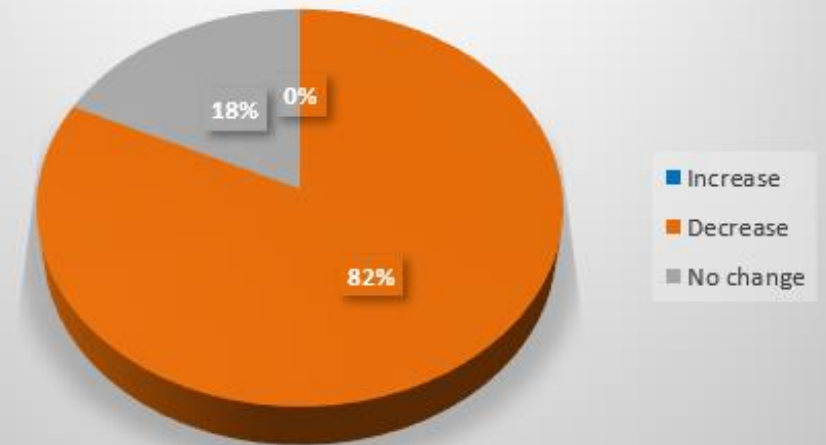
Establishing the value of research

The majority of respondents (64%) said that the fund managers and analysts have a big say in deciding the value of research, with broker voting also being used by 46% of respondents.

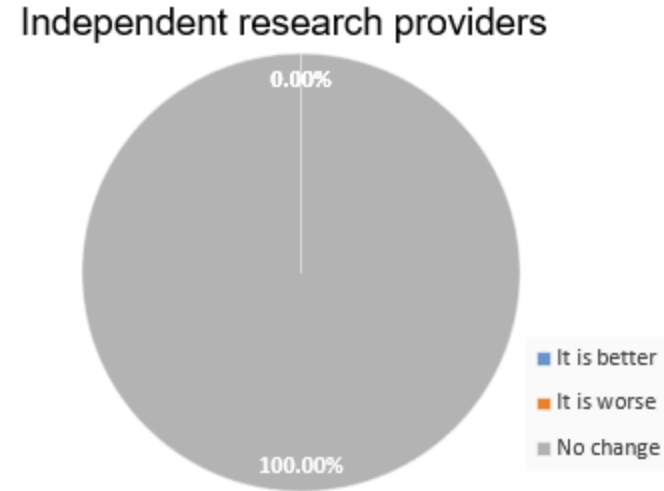
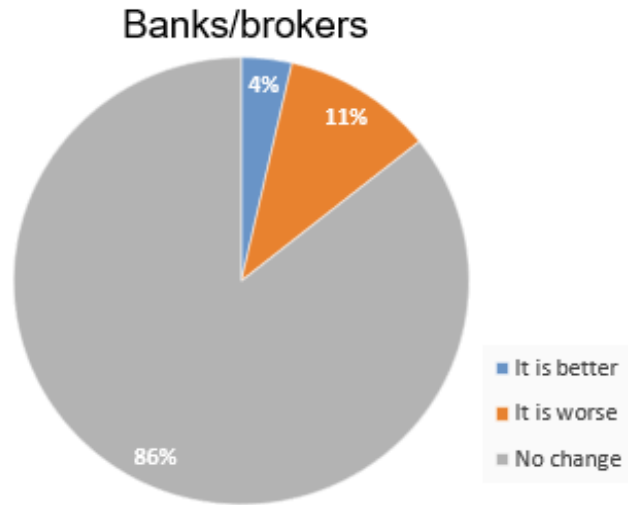
Changes in the number of FICC research providers

As expected, the majority of respondents (82%) said that they are using a smaller number of research providers, with the remainder (18%) noting no change. This is very much in line with last year's survey where 83% of respondents expected to use a smaller number of providers and 13% expected no change.

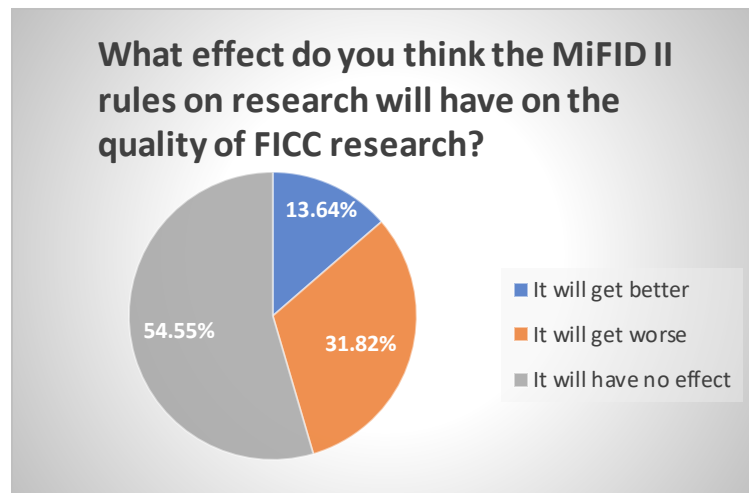
How has the number of providers whose FICC research you consume changed?



Have you noticed any change in the quality of FICC research received from:



2017



Quality of FICC research

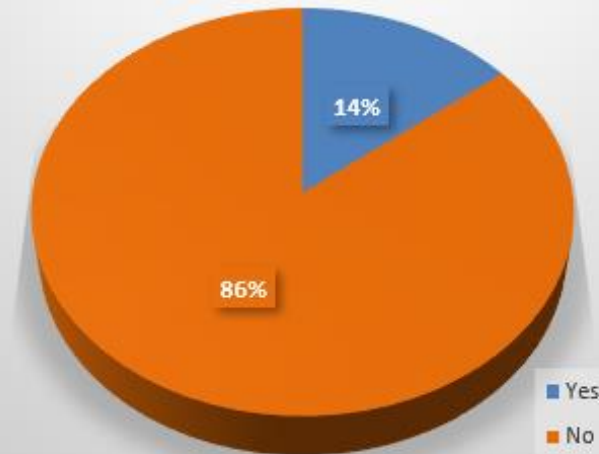
The vast majority of respondents said that the quality of FICC research has not changed, with 86% in respect of research from banks/brokers and 100% for independent research providers. Only a few believe the quality of FICC research from banks improved (4%).

This shows a significant shift from last year's expectations, where 32% participants said they believe research will get worse, while 14% said they believe it will get better.

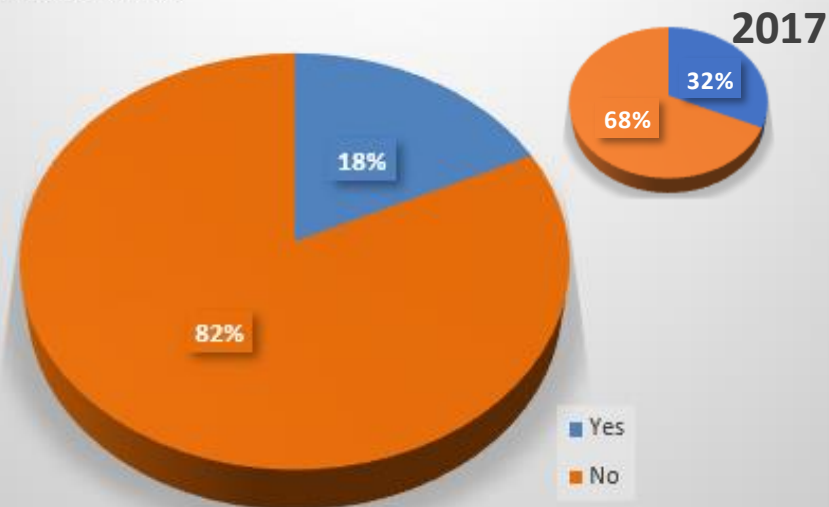
Impact on fund performance

The majority of asset managers are confident that the reduction in the number of FICC research providers does not have a negative impact on their funds' performance. 86% of respondents said they are not concerned about this scenario, showing a potential oversupply of research.

Are you concerned that the reduction in the number of FICC research providers used has had or will have a negative impact on fund performance?



Do you intend to or have you already increased your in-house FICC research capacity because of the new MiFID II rules?

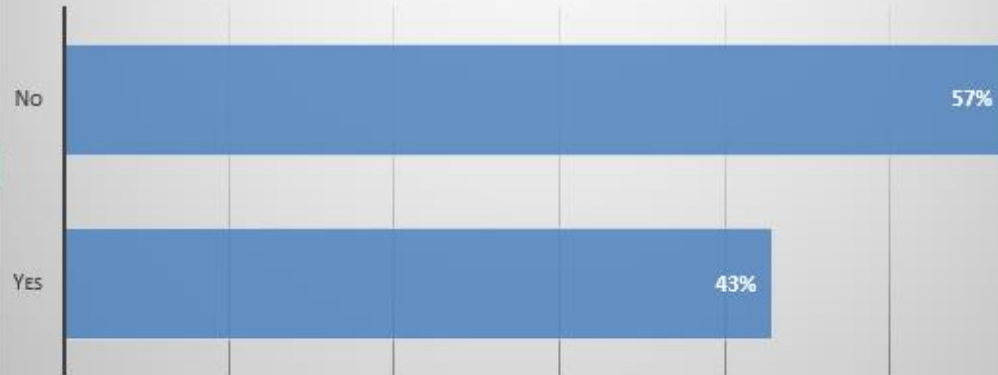


Changes to in-house FICC research

The majority of respondents (82%) said that they do not intend to or have not increased their in-house FICC research capacity because of the new rules.

This majority has widened from last year (68% in 2017). This could mean that firms are more comfortable with the new rules and with the availability of research.

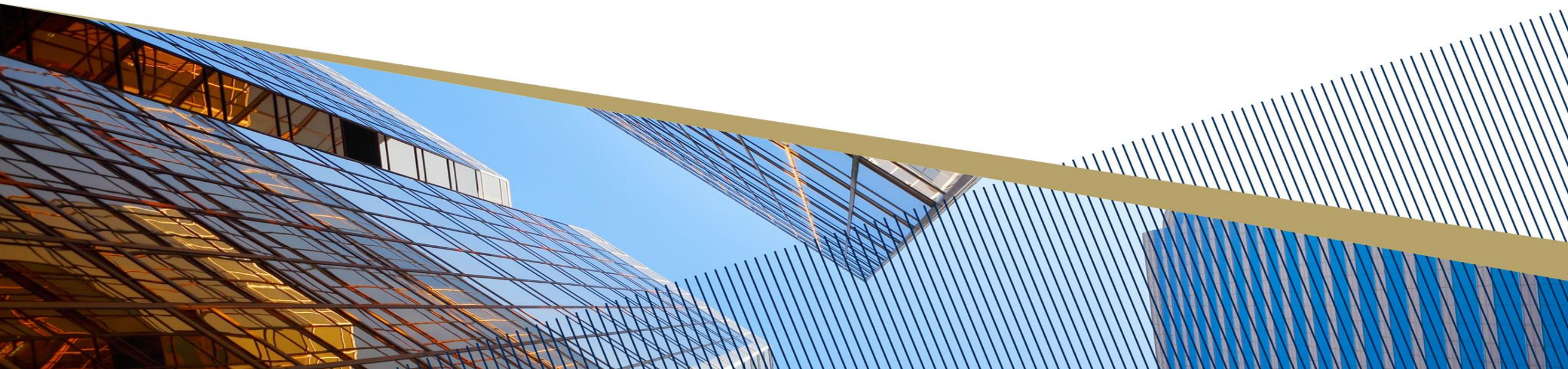
Have you noticed a decrease in the availability and breadth of FICC research for SMEs?



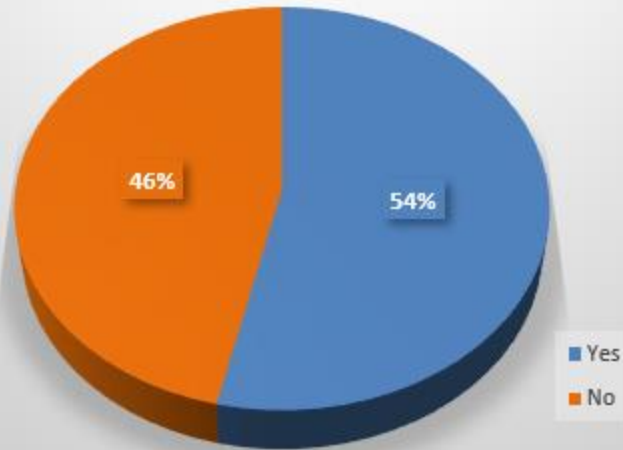
Availability and breadth of SME FICC research

While a majority of the respondents who answered this question (57%) said that they have not noticed a decrease in the availability of SME FICC research, it is interesting that less than a year after implementation 43% said they have noticed a decrease. We expect this trend to continue as the reforms bed down.

Impact on market practices



Since the MiFID II rules came into effect, has your attitude to/participation in investor roadshows changed?



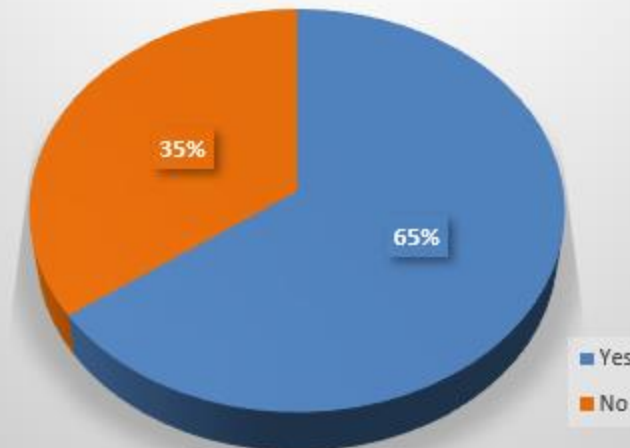
Attitude to investor roadshows

The majority of respondents (54%) said they have changed their attitude to and participation in investor roadshows as a result of the new rules, while 46% said they have not.

Deciding whether roadshows are MNMB

The majority of respondents who answered yes above, also said that the reason for the change relates to difficulties in deciding which type of roadshows can be considered minor non-monetary benefits and which should be paid for (65%), while 35% said their change in attitude is due to other reasons.

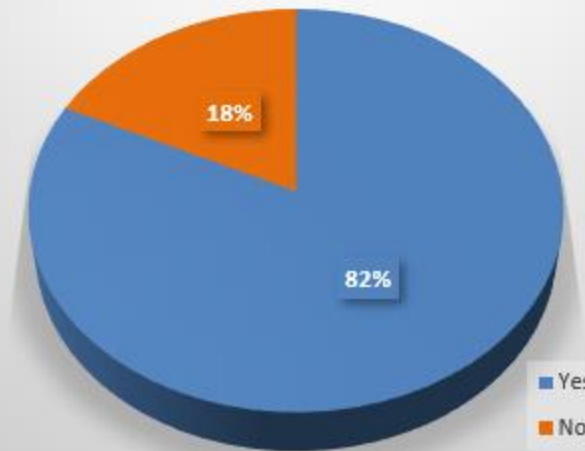
Does this change relate to difficulties in deciding which type of roadshows are MNMB and which should be paid for?



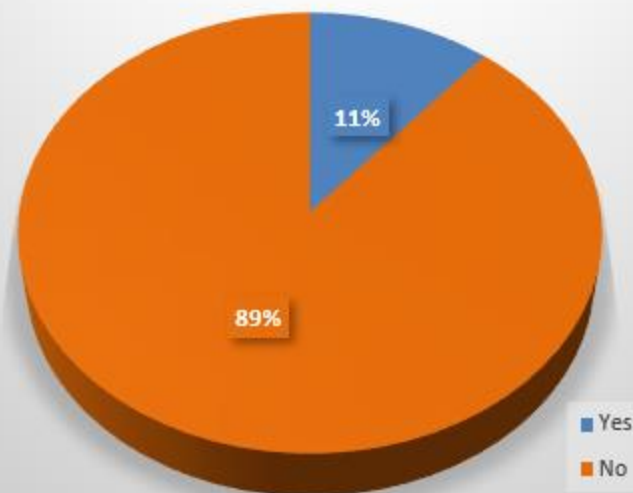
Comfort with research openly available on a website

The majority of respondents (82%) said they are comfortable to use research which is made openly available to all investment firms on the website of a research provider.

Does your firm use or is your firm planning to use free trial periods as specified in the ESMA Q&A at some point in the future?



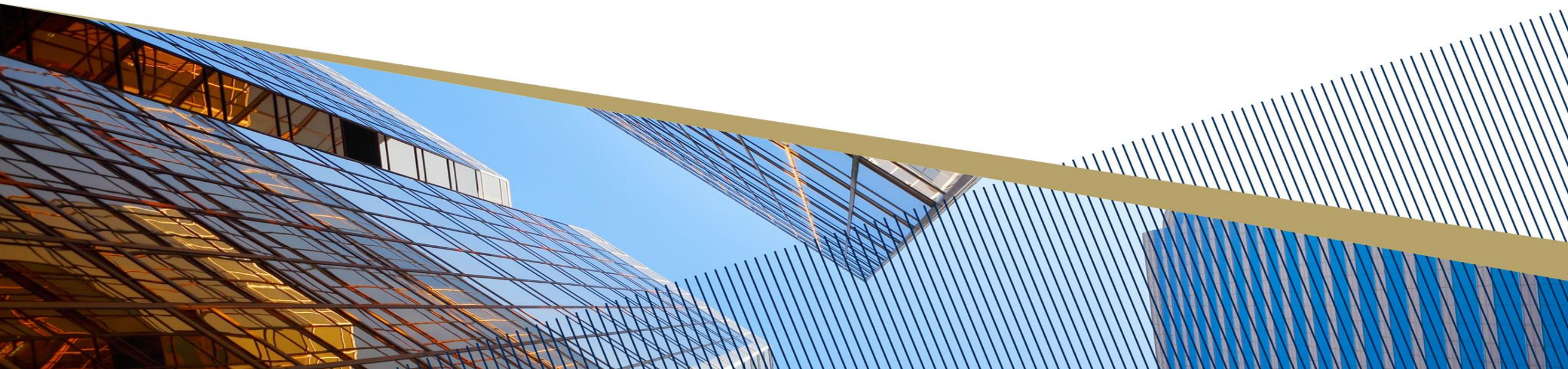
Have you noticed any undue barriers in accessing this type of free FICC research?



No undue barriers

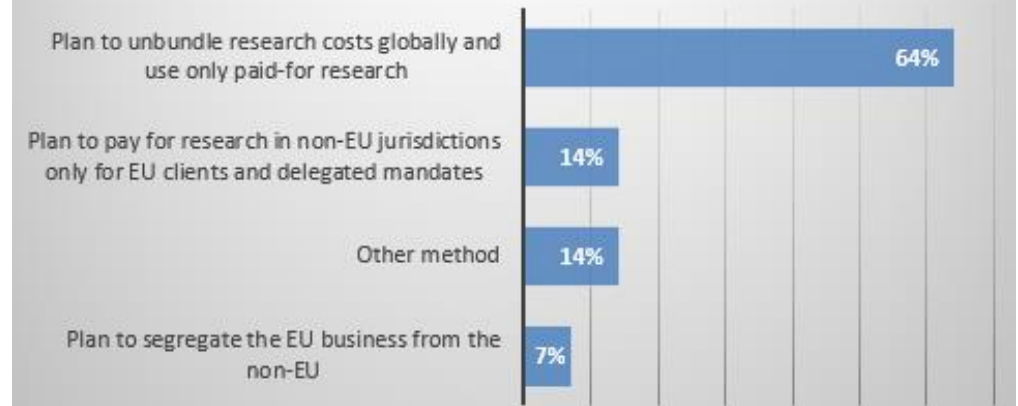
The majority of respondents (89%) said they have not noticed undue barriers in accessing research which is marketed as freely available to all investment firms on the website of a research provider.

Impact of rules on non-EU FICC research

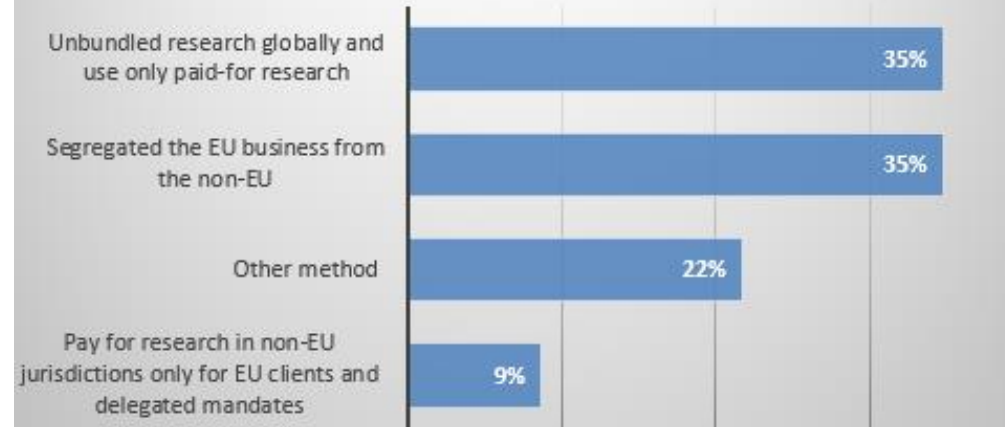


2017 Responses

If your firm has activities outside the EU, how are you planning to tackle the potentially conflicting rules on research?



If your firm has activities outside the EU, how have you tackled the potentially conflicting rules on research?



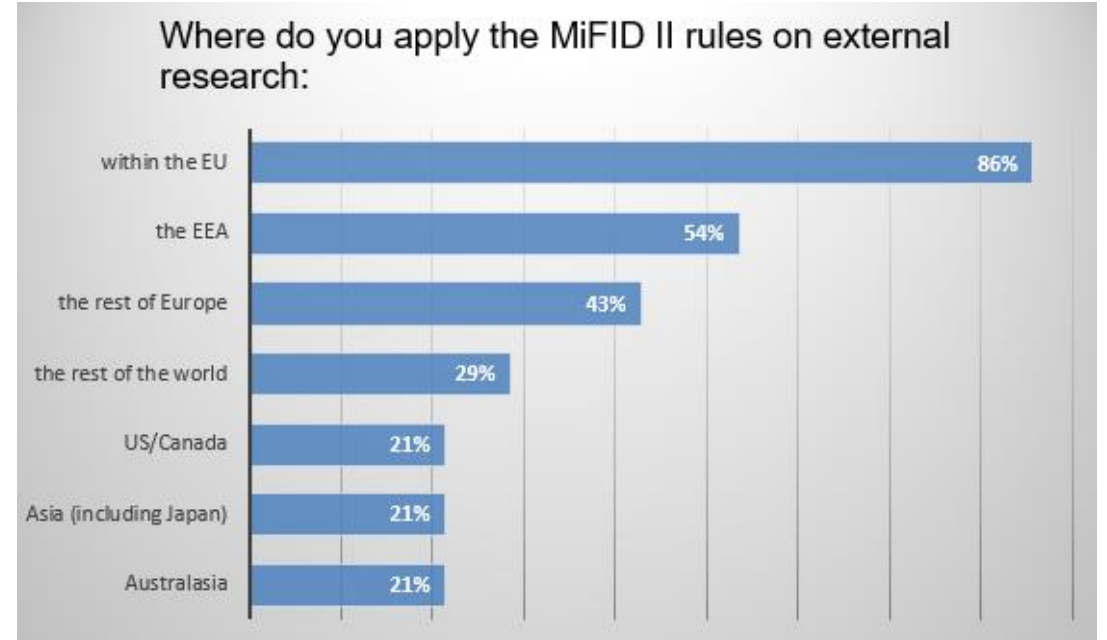
Approach to conflicting rules on non-EU FICC research

Respondents' approach to tackling the conflicting rules around FICC research globally seems to be equally split between unbundling research fees globally (35%) and segregating the EU and non-EU businesses (35%).

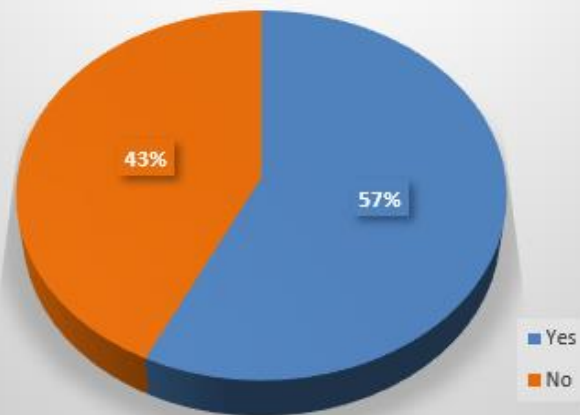
Our 2017 survey showed that the majority, 64% of firms, were planning to unbundle globally and only 7% of firms were planning to segregate EU and non-EU businesses. The significant change in firm attitude to the business segregation model may reflect that the costs and complexities of segregating their businesses geographically outweigh the costs and complexities that come from unbundling globally.

Geographical application of the new research rules

As expected, firms have applied the new rules on research more widely than just within the EU. 54% said they applied it within the EEA, 21% said they applied it to US/Canada, Asia and Australasia.



If you operate a UCITS or AIFM management company (not MiFID firm) have you implemented the MiFID II rules even if not required in your jurisdiction?



New research rules applied where not required

57% of respondents said they implemented the new research rules in their UCITS and AIFM management companies as well, while 43% said they only implemented the new rules in their MiFID firms.

Additional comments from our respondents

Many provided us with very helpful additional comments on the emerging market for unbundled FICC research which we want to take the opportunity to reproduce below:

- “Paying for research has increased the total cost for clients and for our company as it did not change the spreads.”
- “The price discovery process in FICC is much more immature in comparison with the equity research market.”
- “Lack of clarity from the regulator from a FICC perspective has made valuation non uniform across the industry.”
- “Clearly a developing market. No standardised value proposition across sell-side firms, and a big discrepancy in rates versus quality. This will adjust over time as buy-side firms more deeply assess the quality of what they are paying for, and make cuts where this is misaligned. Also, as firms are continually squeezed on management fees, they may face downward pressure to trim the research budget - I believe there is still significant room to consolidate.”

Thank you

We want to thank all the firms who gave their time to respond to our survey.