

# MiFID II

Impact on Investor Relations

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# Introduction

## MiFID II's inevitable effects on Investor Relations

MiFID II's implementation will mean different things to different companies, and will more than likely result in a number of unintended consequences.

Nonetheless, from the perspective of investor relations professionals at all but the largest firms, the unbundling of research and corporate access from trading commissions will fundamentally change how both the buy and sell-side approach small and medium sized companies.

IROs will have to attract the attention of investors and analysts without the benefit of sell-side representation and coverage, manage an increased level of inbound inquiries in an organized and efficient manner, organize and manage roadshows and meetings, remain sensitive to management's time, and develop proactive, strategic approaches to both investor targeting and outreach.

This special report discusses the potential impact MiFID II will have to an IR professional, helping to ensure you can be confident about and informed on the most important issues affecting you and your company in this new regulatory environment.

## MiFID II: An overused acronym, but what does it mean for day-to-day IR? (Part 1)

MiFID first came into our capital market lives ten years ago. Since November 2007, it has been a primary reference point and the driving force of the EU's regulation of the financial markets.

Ten years on and with the worst economic downturn behind us, MiFID's next generation — MiFID II — is about to disrupt our working practices once again as it comes into force in January 2018. It is aimed, among other things, at unbundling broker commissions and this time it is far-reaching, more stringent, certainly means business and has significant cost implications.

It touches many aspects of the securities market, but there are two main areas of concern for IR teams. Equity research teams are expected to charge fund managers for each piece of research. If a fund manager can't justify such a purchase, he/she is expected to pay out of his/her personal funds.

As a practical implication, the pressure on banks to have revenue-generating, efficient research teams that justify their existence independently has already resulted in significant restructuring, shrinking and — in some cases — termination of research teams. It is a tricky balance to reach: price your research too high and investors will find an alternative, too low and the quality will suffer.

Those who survive will increasingly come under tremendous pressure to monetize their time, which in turn will translate into very selective stock picking for continuous coverage, as liquidity and potential for a return are likely to be the key selection criteria.

Consequently, many small and mid-cap stocks will be dropped and IROs will lose a good proportion of their allies and cheerleaders in the market. If you are lucky and your analyst coverage continues to be reasonably stable, it is worth bearing in mind that the time spent by an analyst on each stock would in future have to be reduced dramatically in order to deliver the required monetization. This is also likely to put the quality of the research at risk.

The same pressure is likely to lead to deteriorating quality of the publicly available consensus, as analysts would have little incentive to provide their research to third-party aggregators.

### End of the global research model

To complicate things further, MiFID II is on a collision course with existing US regulation. Under current guidelines, European fund managers may be unable to buy research from U.S. research teams unless banks create 'fiduciary duty'. This would be operationally complex and financially costly, according to a number of legal advisers, as it requires a full spectrum of activities such as an internal reassessment of what 'best execution' means, externally communicating these criteria

to the sell-side teams, and investing in technology to ensure effective monitoring. This means the current global research service model will no longer work.

Unbundling of the broker commission will result in transparent and clear corporate access pricing. This will hand over to fund managers the decision on who and when they would like to meet, and how much they are prepared to pay for it. It also implies that the traditionally complimentary corporate broking services to corporate clients would have to be charged for. Being taken on a roadshow by your broker will no longer be free of charge.

### Commercializing corporate access

What are the latest developments? Talks between regulators, the sell-side and fund managers continue, but all parties don't have much time left to negotiate. According to the implementation timetable set by the European Securities and Markets Authority (Esma), on July 3 this year 'MiFID II transposes into the national law of member states.'

In preparation, Esma published its updated Q&A paper providing further clarity on how this new regulation should be interpreted by the market players, especially in relation to corporate access. It is brutal and very clear in stating that:

- Corporate access cannot be justified as research
- Services provided by the broker that 'are by their nature exclusive, such as individual meetings or field trips with an issuer, may involve the allocation of valuable resources by the provider and/or have a value to the recipient' cannot be considered a minor non-monetary benefit
- Commercial levels for the pricing of corporate access services must be applied at all times and 'not linked to or dependent on payments for research or execution services where the provider offers these other MiFID services'
- Arranging meetings with issuers directly 'and/or paying for a third-party corporate access service provider that does not provide other MiFID investment services' is referred to as new best practice as 'this removes the primary potential conflict of interest or inducement risk.'

In addition, the UK's Financial Conduct Authority is expected to make public all final MiFID II requirements in June and has already addressed in various statements the issue of accountability of senior managers and boards under the new Senior Managers and Certification Regime. We anticipate that other EU member states will follow soon.

*This article is by Marina Zakharova de Calero, CEO at Conduit Communications, for IR Magazine. It appeared first on irmagazine.com.*

## MiFID II: An overused acronym, but what does it mean for day-to-day IR? (Part 2)

It is now clear that the new rules introduced by MiFID II will stretch already under-resourced IR teams even further and put additional pressure on IR budgets, which have been declining steadily over the last few years across Europe.

While the European Securities and Markets Authority and domestic regulators finalize the finer details, IR teams should waste no time in securing an adequate IR budget and getting the resources and tools in place to proactively deal with the new reality coming in seven months' time.

### 1. Get your story straight

Take a good look at your equity story and those of your competitors. How do you measure up? Is it clear and concise, and does it put you ahead of the competition in the fight for capital? What is the market sentiment toward your stock? Seek an independent assessment to get an objective base line, rather than second-guessing or making assumptions.

Does your reporting support your investment case and is it consistent and easy to follow? Fund managers and analysts don't have time to do detective work and go through pages and pages of templated reporting. Make it easier for them and you are much more likely to remain on their radar.

### 2. Be clear who your 'customers' are

It is a basic IR practice to have a good grip on who holds your shares and why, yet many issuers overlook the why. Shareholder ID surveillance combined with a regular independent assessment of your stock's positioning in its sector will address this.

### 3. Brush up on your direct marketing skills

What is becoming increasingly important is to broaden your capital horizons and start building relationships with potential investors to support your liquidity. Basically, this means assuming the responsibilities of a corporate broker and going after those fund managers that are unlikely to come knocking on your door (or send an email). A proper pre-qualified targeting plan is no longer an afterthought but an essential tool in allowing IR teams to have better visibility and control over their IR efforts.

Also, with shrinking broker research, IR teams will need to reach out and market directly to a much wider pool of independent and boutique research houses, as well as fund managers, while servicing with greater care the remaining research analysts covering their stock.

Needless to say, resourcing and budgeting issues will be even more critical as a result.

### 4. Embrace technology

Technology is all around us. In our social lives, we tend to be far more adventurous in adopting the latest gadgets, yet IR as an industry is lagging behind. While there are plenty of innovative solutions available, there's also a quiet reluctance of IR teams to embrace them. For example, it took audio and video webcasts a few years to become mainstream.

In preparation for the new reality where time really will mean money, IR teams should do an efficiency audit to see where technology can free up time for more value-added activities. From corporate access platforms to shareholder ID surveillance, technology is there to help in-house IR teams to improve their productivity.

*This article is by Marina Zakharova de Calero, CEO at Conduit Communications, for IR Magazine. It appeared first on irmagazine.com.*

## The impact of MiFID II (Part 1)

The impact of MiFID II on IR professionals is a much-mooted issue. A new paper states that regulatory change has had a significant impact on the shaping of the equity research system and predicts a contraction in sell-side coverage and support, as well as a more concentrated buy-side.

The paper by Edison, the equity research and investor relations firm, in conjunction with Bloomberg Intelligence and Frost Consulting, updates a January 2014 white paper, *The Future of Equity Research*, and follows the publication of the MiFID II Delegated Acts and other regulatory and equity research industry developments over the past two years.

The report notes that asset managers have already started to fund external research from their own P&L or through research payment accounts with clear audit trails. Under the new regime, this will continue, as it is mandated by MiFID II.

The report also observes that managers will be required to establish the monetary value of a research product or service where previously payments would have been made through the buy-side broker voting system. If payments for investment research are more distanced from dealing commissions, competition for research may increase as asset managers look beyond traditional sources, which may trigger market fragmentation. There is also the possibility asset managers could move research in-house or increase the size of their internal research groups.

Commenting on this, Will Goodhart, CEO of CFA Society of the UK, says: 'Clearer identification of the value of research and improved disclosure about the cost of research to clients are attractive outcomes, but we also need to take care to identify all the impacts of any change.'

With the same number of companies vying for a smaller buy-side with less sell-side support, IROs and corporate management teams may wish to consider the following points raised in the report:

- IROs should allocate more of their time to the strategic targeting of investors as a concentrated buy-side presents a greater challenge in developing a diversified shareholder register
- Review budgets allocated to investment research activities
- Make it easier for both the sell-side and the buy-side to follow a company, which includes a review of websites, presentation materials and producing regular KPIs.

Plans to separate research from execution spending could also cause banks to streamline their research offerings, notes the report; it's a point that has been much discussed within the IR world. Larger banks, which can cross-subsidize research and offer a wider range of ancillary services, may thrive in a more competitive market, along with established smaller providers. But while those in the middle may be more at risk, they may see an opportunity in providing research on small or mid-sized companies that may receive less attention from larger research providers.

As a result, the report observes, the price and underlying value of investment research will be subject to closer scrutiny and asset managers may become more selective about what they buy, choosing tailored coverage instead of paying a lump sum for a wider bundle of research.

Competition in the investment research market should increase as a result, suggests the report. Portfolio managers would likely be more selective about the research they pay for and would shop around at multiple providers while they gain a greater understanding of the implicit cost of investment banking research on a per product/service basis.

If so, independent research providers would more easily be able to compete and gain access to the multi-billion-pound equity research market, which until now has been the near-exclusive domain of investment banks and brokers, comments the report.

With the asset management industry continuing to consolidate and operate on a global basis where the top 120 asset managers now look after 53 percent of global assets under management, Edison expects these changes to resonate globally, because asset managers are likely to adopt common systems to reduce complexity for their businesses.

*This article is by Andrew Holt of IR Magazine. It appeared first on [irmagazine.com](http://irmagazine.com).*

## The impact of MiFID II: Research (Part 2)

The Edison paper first examined in part one of this special feature finds that MiFID II has had a significant impact in shaping the equity research system — and will continue to do so.

The report sees a number of key developments in the short term and suggests that the content universe available to asset managers will increase, which will open up the competitive research landscape significantly. 'The traditional mechanism of trading is breaking down, which will lead to growth in independent research,' says Neil Shah, director of research at Edison Investment Research.

The report notes that revenues generated from securities trading will continue to be separated from payments for investment research services. Michael Hufton, managing director at ingage, a corporate access and IR software company, adds a qualification to this point: 'I agree - with one amendment: the word continue.'

His point is that execution can be separated from research payments currently, but it doesn't have to be. 'Bundled execution and research commission rates are still fairly common, and rates that bundle corporate access with either execution or research spend (or both) are almost universal,' he says. 'Under MiFID II firms must separate all these out; bundling will no longer be possible. This is a major departure from current practice.'

Edison also points to a continuing reallocation of spend among research providers with a commoditization of pricing for average producers of research. 'I would go further,' declares Hufton. '[I would say] a lot of the research market is currently characterized by over-production and a misallocation of resources.'

'We should see the market become much more efficient and effective. Logically, this low-quality commoditized product and the providers producing it will disappear and we will see specialization and concentration on particular fields of expertise. The new structures should create an environment that encourages new, independent providers to come in.'

Edison notes that consolidation on both the buy-side and sell-side will continue as the buy-side moves to produce more of its research input in-house, in effect paying for it from its own P&L.

'By any standard the buy-side in particular is a very fragmented industry,' says Hufton. 'We know from the Financial Conduct Authority's asset management market study that there are 1,787 asset management firms in the UK — an extraordinary degree of fragmentation given the economies of scale in asset management. In some strategies, such as small cap, there are capacity constraints, but for the vast majority of funds investing in large, liquid companies this isn't the case.'

‘Sell-side consolidation is more complex. I think it will happen, but it might well be along more functional lines. For example, there is a strong case for a smaller number of highly automated, highly efficient, low-cost-flow operators to emerge and dominate execution. Specialist research shops will also come together.’

Some of the larger investment banks may flourish in a more competitive marketplace and niche players will be able to command a premium for equity research, but mid-sized providers are likely to be more at risk of going out of business or being taken over as a result.

Against this backdrop, Shah says companies will need to adapt their approach to investor communications and allocate more resources to investor activities. ‘Strategic targeting of investors should become a priority as a concentrated buy-side will present a greater challenge and companies should diversify their shareholder bases beyond institutional fund managers,’ he concludes.

*This article is by Andrew Holt for IR Magazine. It appeared first on [irmagazine.com](http://irmagazine.com).*

## The future of corporate access

As corporate access changes, small and mid-caps are looking at smaller brokerages and new tech platforms.

‘Almost nothing has changed on the sell-side yet.’ That comment, made early in the discussion at the IR Magazine Think Tank — Euro Leaders 2015 in June, sums up current sentiment around corporate access regulation.

This is largely because, while UK regulator the Financial Conduct Authority took a hard line on brokers’ use of client commissions to pay for corporate access — proposing a crackdown on the practice as early as 2013 — European policy makers are yet to agree on the final wording for the continent’s wide-ranging MiFID II regulation, set to come into effect in 2017.

A lack of definition over upcoming changes is one reason panelists at the think tank have seen little change on the sell-side so far. Another issue surrounds the pricing of research. ‘It’s just such a difficult topic to look at and try to price,’ explained one panelist.

Despite potential changes on the sell-side, IROs continue to arrange the majority of meetings through a broker. Research by IR Magazine for its 2014 Corporate Access Special Report shows that, globally, 69 percent of meetings are in fact arranged through a sell-side corporate access provider, rising to 75 percent in Europe. Though still the most popular option by far, the research finds a net 7 percent drop in the number of meetings arranged through the sell-side, compared with the previous year.

One increasingly popular option is for IROs to arrange meetings with investors directly. The IR Magazine research shows that almost a quarter of meetings are set up this way, with a net 26 percent of respondents saying they increasingly turned toward direct-to-investor contact.

The IR Magazine Global Roadshow Report 2014 also looks at sell-side satisfaction. It finds that as well as different priorities, IROs at small-cap companies are less satisfied with the sell-side — an issue highlighted at the think tank. ‘In terms of unintended consequences, the general conclusion is that the bigger banks, bigger organizations and bigger asset managers are going to be the winners from the regulatory changes,’ noted one attendee.

One small-cap IRO says access has been changing for a number of years. ‘The dynamic at larger banks has changed,’ she notes. ‘They don’t make as much money through corporate access and therefore don’t pay as much attention to it anymore.’ This is a big problem for small-cap companies that aren’t on a broker’s Tier 1 client list.

She cites a number of issues with the service offered by the corporate access teams of big banks and broking houses today. ‘Because of the cuts in sales and trading, we don’t really have people familiar with the investment case in touch with the buy-side anymore,’ she notes, adding that even if they do know the company story, those in corporate access teams often have inadequate personal contacts with the buy-side to get that story told.

This makes it even harder to get feedback — which is often ‘primitive’ — in a system where many of the big funds lack trust, says the IRO. As a result of these frustrations, she predicts small and mid-cap companies will up their use of boutique broking houses ‘that still have proper trading desks and visibility of interest in the stock, and still have the ability to talk to real people’, as well as the new breed of alternative, tech-based corporate access platforms that have been emerging.

IR Magazine’s 2014 research also looks at the use of non-sell-side corporate access providers as yet another option and finds that while more than half of companies say they have used one in the last 12 months, only 5 percent of meetings were organized this way at the time.

Part of the issue is that these platforms don’t yet have the client rosters of the big banks, but they are offering unconflicted models that comply with potential new regulation as well as promising to cut out the middlemen and offer alternative ways of collecting feedback. And this is starting to make the big brokers feel a bit threatened, says the IRO.

*This article was originally posted on the Bloomberg Professional Investor Relations blog on October 5, 2015.*

## MiFID II portends research upheaval & challenges for IR

The new European Union regulatory scheme known as MiFID II will change the way research is paid for, requiring payment for research directly or through a dedicated research account, not through trading commissions or soft dollars.

This will not only put the value of research under a microscope, but also promises to dramatically alter the landscape for institutional investors and IROs globally. Some observers predict that the number of analysts in Europe could shrink by one third, with significant attrition among mid-tier research firms that fail to specialize.

Slated to go into effect in January 2018, much of the actual detail has yet to be finalized over the next several months. A recent IR Magazine Webinar on the topic, co-sponsored by Bloomberg, examined the implications for IROs.

'Research coverage will undergo an upheaval over the next few years,' predicted Sarah Jane Mahmud, a regulatory analyst for Bloomberg Intelligence who specializes in EU financial regulation.

She predicted that implementation will 'trigger a contraction on the sell-side and a more concentrated buy-side' leading to significant challenges for IROs. She also noted that the implications of MiFID II 'are likely to resonate internationally' as large research service providers and investment managers roll out EU-compliant systems globally.

Lyndsay Wright, director of IR and internal communications at betting and gaming company William Hill, predicted that greater scrutiny on the value of research will potentially lead to increased emphasis on thought pieces and downplaying the quarter-to-quarter recap. 'The good news is it may lead to less focus on financial results and a more long-term perspective,' she added.

She also predicted that as small and mid-cap firms struggle to maintain research coverage in a shrinking research universe, paid-for research will likely increase as a viable option for them.

Here are some additional predictions:

- The buy-side will both increase its internal research capabilities and cast a wider net, looking to a host of non-bank research entities, from market research firms and independent boutiques to expert networks and management consultants.
- Access to corporate management, already among the most valued research inputs according to the buy-side, will gain increased emphasis as analysts seek to differentiate themselves.
- In-depth research reports, also highly valued by the buy-side, will increase and quarterly recaps will likely decline. While a focus on long-term trends will be welcomed by IROs, it raises the possibility that more provocative, and potentially misleading, 'thought pieces' will be issued as a way for analysts to raise their profile in a particular sector.

- Demands on IROs will grow with increasing requests for corporate access, buy-side analyst contacts and input into more in-depth reports. Wright observed that already-lean IR departments may need to make the case with their management teams for increased resources.
- Wright also recommends IROs use tools such as detailed fact books that can bring investors on both the buy-side and sell-side up to speed, providing enough detail for them to begin building their models.

*This article is by Brad Allen for IR Magazine. It appeared first on irmagazine.com.*

## Investor relations, MiFID II & the looming research shakeout

With MiFID II set to come into effect on January 3, 2018, investor relations officers must begin preparing for significant changes in research coverage.

Bloomberg and IR Magazine hosted a webinar on *What MiFID II Means For IROs*, in which speakers Sarah Jane Mahmud, EU Regulatory Analyst for Bloomberg Intelligence, and Lindsay Wright, Director of IR at William Hill shared their insights with a global audience of IR professionals.

Here are the main takeaways from their discussion:

### A research industry shakeout is coming

MiFID II rules separating dealing commissions from research payments will outlaw bundled commissions or payment in soft dollars. As Europe shifts from an un-priced to priced research model, the industry is expected to shrink by up to a third. Many brokers will pull back from full coverage, leading to contraction in sell-side coverage and support, and more concentrated buy-side.

### Value will come to the fore

The value of investment research will come under closer scrutiny. Asset managers are likely to be more selective in the research they pay for and analysts will need to prove the value of their research. IROs in "overbrokered" sectors can expect a significant reduction in the number of analysts covering their company, but may see a welcome shift in focus from short-term financials more substantive coverage.

### Direct corporate access will rise

A 2015 Bloomberg survey found that fund managers value in-depth reports and one-to-one meetings more than any other research, and post-MiFID II requests to IROs for direct access are expected to increase. A concentrated buy-side will also make it harder for IROs to maintain a diversified shareholder base without targeting investors directly as much capital, such as private wealth



assets, will lie outside the traditional institutional fund manager route. IROs may need to alter the way they work or request greater resources and should aim to raise the quality of meetings as their time becomes more valuable.

### **Paid-for research will increase**

Larger banks and niche independent providers are expected to benefit from MiFID II, while the squeezed middle of the research industry is forced to rationalize. Mid cap companies already struggling for coverage may need to pay for research to get their story out. As non-independent research becomes more necessary it may find greater acceptance, but its credibility will rest on the scrupulousness of the corporation and reputation of the analyst.

### **The impact will be global**

The repercussions of MiFID II will be felt by IROs worldwide as the asset management industry continues to consolidate and operate on a global basis. With UK regulators leading the efforts (and often interpreting the rules more strictly than their French and German counterparts) Brexit is unlikely to have an effect. Conflicts between MiFID II and U.S. laws governing broker research and investment advice also exist. Global asset managers are in talks with U.S. regulators about obtaining exemptions, but some companies may choose to roll out a single, EU-compatible system worldwide to minimize operational strain.

*This article was originally posted on the Bloomberg Professional Investor Relations blog on June 8, 2017.*

## **Banks & clients tussle over what it will cost to read analysts**

By Stephen Morris, Stefania Spezzati & Silla Brush

Just months before banks stop giving trading clients market research for free, they're still locked in discussions about how much to charge. As a European ban on bundling research with brokerage services looms, banks are sounding out asset managers and hedge funds on what they'd be prepared to pay. Money managers say they're getting quoted \$50,000 for a basic package from JPMorgan Chase & Co.'s fixed-income analysts. But no firm is allowing itself to be pinned down quite yet. Deutsche Bank AG and Commerzbank AG are pitching a metered, "pay as you go" approach for smaller investors less able to swallow large, up-front subscriptions, according to three people familiar with the matter. For the largest hedge funds, all-inclusive packages are on offer, with perks such as VIP analyst access, conference discounts and unlimited research notes. "We are still waiting for banks to say definitively

how much and what you get for certain prices," said Richard Benson, a London-based managing director and co-head of portfolio investment at Millennium Global Investments Ltd., which oversees \$14 billion. Quotes "range from very low to the hundreds of thousands, but I doubt we'll have clarity this side of the summer break." He declined to comment on pricing from specific institutions.

### **Cost scrutiny**

Charge too little and regulators might accuse you of gaming the system, while getting the pricing wrong could alienate key customers and drive their trading business elsewhere. The squeeze in margins has been so severe in stock and bond dealing that it's already led to the loss of about 11,500 sales, trading and research jobs over the past six years, according to data from Coalition Development Ltd. Active asset managers, in their struggle to compete against cheaper passive strategies, are paring back on costs including research.

The European Union's MiFID II regulations, enforced from Jan. 3, aim to tackle conflicts of interest by requiring asset managers to separate the trading commissions they pay from investment-research fees. Regulators are concerned investors that generate huge commissions may route business to traders at their favorite analysts' firms in exchange for privileged access to the best ideas, even if they aren't getting the best deal for their funds' clients. The U.K. Financial Conduct Authority and the European Securities and Markets Authority also say a lack of transparency means investors can overspend on research with impunity.

Integrity Research, a U.S. consultancy, estimates investment banks currently effectively charge clients \$75,000 a year on average for access to their analysts' publications, based on its own extrapolations from banks' pricing systems and a poll of about 70 firms. Among boutique research-only houses, U.S.-based Moffett Nathanson LLC, which focuses on telecom and media, commands annual subscriptions of \$100,000, and more for phone access to analysts, according to three people with knowledge of its pricing structure.

That's the kind of expense investors may balk at paying. The introduction of MiFID-related fees means asset managers in Europe and the U.S. will cut more than \$300 million in spending on external research, consulting firm Greenwich Associates estimated in a recent survey.

"MiFID II is supposed to level the playing field and help the smaller investors, but it's having the opposite effect, because we can't afford to pay as much as the larger firms," said Mark Holman, chief executive officer at TwentyFour Asset Management LLP in London, which oversees about 5 billion pounds (\$6.4 billion) of fixed-income assets.

While MiFID II rules apply to just the 28-nation bloc, U.S. asset managers with substantial business in the U.K. and Europe are also preparing for the changes and are choosing to adopt global standards. About 43 percent of U.S. respondents to the Greenwich survey plan to make global changes to their research practices, while the rest will wait to determine the effect of the EU regulations.

The survey also found that firms will be slow to switch how they pay for research. The law allows asset managers to pay for research either by hard payments from their own profits or losses, or through separate client research payment accounts, according to Greenwich. Most European managers said they expect over five years to pay for research primarily with hard payments, which would be a significant shift from current practice.

### **U.S. divergence**

Still, the U.S. has no plans to introduce a similar fee-based system. Some traders and investors have said this could lead to firms moving some operations across the Atlantic in order to circumvent the EU rules.

A spokesman for the U.K. FCA said the agency hasn't put any guidance out on pricing research, nor has ESMA. Banks' research teams and large investors in talks with these regulators concur, saying they've received no indication of acceptable prices.

Given the wide divergence of preliminary quotes, money managers are finding it difficult to budget for next year, one manager at a hedge fund said. This person has been pitched prices for equity research ranging from \$50,000 a year to more than \$100,000.

### **German banks**

Among the differing approaches to pricing, Deutsche Bank has long had a monitoring system tracking how many people from a client firm are logging in and how much they are reading. As it refines this system, the bank is coming up with a base user charge and is meeting clients to hammer out pricing. One medium-sized London-based investor said they were quoted 60,000 euros (\$64,400) for a year's entry-level fixed-income services from the German lender, but was told this price is not set in stone.

Most clients will pay more than this, according to a separate person familiar with the bank's strategy.

Commerzbank isn't proposing a price yet, but is outlining what a tiered system might look like, according to marketing documents seen by Bloomberg News. Fixed-income, currency, commodity and macro subscriptions will come in "pay as you go," "select" and "all-in" levels, the document shows. The select option allows clients to pay for specific asset classes, such as emerging markets; the "all-in" option charges a flat fee for unlimited research as well as access to any analyst.

For equity research, the German lender will introduce silver, gold and platinum memberships with language similar to mobile-phone contracts, describing them as, respectively, pay-as-you-go, prepaid-card and flat-rate, the presentation shows. Platinum includes "VIP" and analyst access, and discounts on conferences and the bank's measure of its time spent on clients, known as "research service units."

Almost all banks are stressing they'd prefer to continue charging nothing and are leaving all fees open to negotiation, while keeping a close eye on their competitors, investors say.

### **JPMorgan**

JPMorgan, the biggest U.S. bank, has been floating \$50,000 for a basic fixed-income research option, with prices increasing for more tailored packages and better access to analysts, according to two people who spoke in condition of anonymity. Both banks have stressed prices are yet to be finalized.

One senior manager at one of the largest European asset managers said JPMorgan's move to price at the cheaper end of the scale was an attempt to win market share from rivals. The executive said the big investment banks were pricing fixed-income research packages around \$250,000, but one European bank had proposed charging nothing for two years as an introductory offer, only to be batted down by EU regulators. Another asset manager has been quoted about \$600,000 for credit research.

JPMorgan, Commerzbank and Deutsche Bank spokesmen declined to comment.

Firms pitching lower prices include Berenberg, the Hamburg-based broker traditionally known for its research. Managers there have been asking their fixed-income clients what they think of paying about 20,000 euros a year, one of the people said. "All the banks are speaking to clients about MiFID at the moment," Berenberg spokesman Karsten Wehmeier said. "We can't comment on any figures."

Ben Kumar of Seven Investment Management lamented the end of free analysis, saying it was useful to compare the big banks' take on a company with the boutique research his firm paid for.

"Access on demand is great," said Kumar, a London-based money manager whose firm oversees about 10 billion pounds. "I might not need it one month, then spend the next devouring whatever I can find on Vietnam as an investment opportunity. It's tough for a bank to price that."

*It appeared first on the Bloomberg Terminal. This article was originally posted on bloomberg.com on April 18, 2017.*

## A Match.com for investors will bypass banks to gain CEO access

By Silla Brush & Trista Kelley

A group of upstarts is seizing on new European Union rules to shake up banks' matchmaking role between investors and corporate executives. As investors prepare for EU regulations that will force them to pay for research products a la carte, one of the most valuable services is corporate access — the conferences, roadshows and face time with executives that can provide an information edge.

### New opportunities

Investors globally spend more than \$2 billion a year for corporate access, according to consulting firm Greenwich Associates. That spending was typically baked in to trading commissions paid to a bank.

Making it a separately priced service provides a big opportunity for people like Adrian Rusling, founder of a site that counts executives at BlackRock Inc., Credit Suisse Group AG and FedEx Corp. among its users.

"It's like Match.com," said Rusling, who started CorporateAccessNetwork in 2013 as an offshoot of an investor relations firm based near Brussels. "Instead of boys meeting girls, it's companies trying to meet investors. We thought, 'Let's democratize this industry a bit and open it up a bit more.'"

Planning for Europe's MiFID II rules, which take effect in January, has driven a 50 percent surge in daily user requests so far this year, Rusling said. The firm isn't alone. WeConvene and ingage are also among independent players vying for a bigger slice of the fees. The scale is tiny — Rusling says banks probably dominate about 95 percent of the market — but competition is heating up as funds move to slash costs and as bank research desks shrink.

While corporate access has long been the subject of scrutiny over whether it gives some investors an unfair edge, it's seen as a useful way for executives to explain their strategy and for asset managers to get a better sense of a company than filings can provide. The stakes are high: Rusling estimates that a one-on-one meeting with a big name CEO could be worth as much as \$20,000.

### Active traders

The startups are seizing on the potential conflicts of interest in setting up meetings that have led regulators to change the rules. Because it was funded by trading fees, banks often provided the best corporate access to clients that were the most active, rather than those who might be the best long-term investors for a company, regulators have said.

That critique has rung true with some corporations. Jeff Smith, who works in investor relations at FedEx, said that while he often taps Wall Street research desks to reach investors, there can be a downside.

"There's certain buy-siders they do business with and some they don't, and at times they're reticent to invite people they don't already have a customer agreement with," Smith said. He said that's one of the reasons he's a client of CorporateAccessNetwork.

"More and more buy-side firms are going to approach corporates directly," said Michael Hufton, managing director of access ingage. "We'll see this activity morph away from sell-side to other channels." 2017 Surge Hufton says MiFID II is a big driver for business and that ingage has had more sales so far in 2017 than it did all last year. It charges a subscription to access the system, which offers direct contact between companies and investors. CorporateAccessNetwork says it charges companies 100 euros (\$108) a month to use a premium version of its web-based platform to set up meetings. WeConvene, which owns broker ranking service Extel Surveys, also offers a product that uses technology to help make the process of corporate access and analyst events more efficient. WeConvene has a partnership with Bloomberg LP, the parent company of Bloomberg News.

The new rules will allow the startups a fresh chance to make their pitch: that they can provide the investors who companies want to meet.

"I can trust that he's going to reach out to not only the fast-money hedge funds, which typically pay a lot of commissions, but also the holders FedEx would prefer: long-term holders," Smith said. "We have always used a mix of methods to get our message out to investors. There's more than one way to skin a cat."

*It appeared first on the Bloomberg Terminal. This article was originally posted on bloomberg.com on April 25, 2017.*

## MiFID II to impact research beyond EU, may halve manager's margins, studies show

By Ayesha Javed & Trista Kelley

Eighty-two percent of asset managers plan to fully unbundle their brokers globally ahead of MiFID II, a survey of more than 100 funds in the U.S. and Canada, published Jan. 5, found. The poll, conducted by broking firm Investment Technology Group Inc. found that only 43 percent of North American asset managers expect the rules will directly affect them. Still, most are adapting to the coming regulations, the company said in a statement. Under the European law, asset managers will be required to separate, or “unbundle,” trading commissions from investment-research payments. Some 59 percent of those surveyed said they plan to continue paying for research using commission-sharing arrangements (CSA), while 33 percent expect to use a combination of both commission-sharing and research-payment accounts (RPA). The poll found 8 percent plan to set up a new research payment account ahead of the MiFID II start date.

### Operating costs

A separate research report looked at the impact MiFID II could have on fund managers' margins. MiFID II is expected to drive further contraction in investment research coverage, according to white paper “The Future of Equity Research” from Bloomberg Intelligence, research company Edison and research procurement consultancy Frost Consulting.

Under MiFID II rules, due to be implemented in 2018, asset managers must fund external research from their own profit and loss accounts or by using research payment accounts in an effort to separate research costs from dealing commissions. Many fund managers previously received the research from banks' analyst desks as part of a bundled service.

Consolidation in buy-side research is expected to continue as firms shift toward producing research inputs in house, due to investor pressure to bring research spending onto the balance sheet rather than charging clients, according to the report, which was published on Oct. 10. Still, asset managers' margins would almost halve if they absorbed the cost of investment research, from 30 percent to 16 percent, according to estimates by Frost Consulting.

### Wealth managers unprepared

Meanwhile, research by consultancy Bovill published on March 30 found that wealth managers face five years' worth of work to comply with MiFID II. On average, wealth management firms surveyed by Bovill expected they would need 1,363 days, or 10,904 working hours, to meet each requirement of MiFID II — five times the number of available working hours in a year.

*It appeared first on the Bloomberg Terminal. This article was originally posted on bloombergbriefs.com in April 2017.*

## Client relationships under scrutiny in unbundling environment

Compiled by Ainslie Chandler

The implications of the research unbundling on asset managers and their clients are far reaching and remain unclear as the deadline for the commencement of MiFID II requirements approaches. Here is a selection of comments from advisers and others involved in the sector from an event held at Bloomberg LP's New York headquarters on April 6. Comments have been edited and condensed.

### Jay Bennett Jr., Managing Director at Greenwich Associates

“From a U.S. perspective, there are a couple of quick elements to note. When we talk to the traders out there, they say 55 to 60 percent of the spend is to pay for research advisory. So it's a big deal. The portfolio manager and analysts value it. It's not an incidental expense. Number two, we tend to use the mining analogy to define what research is. You know there is something precious out there; you've got to dig to find it. It's not always certain and the value changes over time. That's really hard on a value-based model to come down to unit costs transactions. This whole price discovery is really challenging; it's never been done before.”

“We have always felt that the buy-side doesn't set pricing, it's the sell-side. And excess competition has meant rates have gone down, not just on electronic trading but on high touch, even as the research dollars have shrunk. The sell-side, through the past five years, has had a tough run. And certainly on the cash equities side, it's to the point where they are looking at the cost to serve and they are looking at the revenue alternatives are and they are looking at, particularly in the European theater of operations, what is going to be a shrinkage of the pool. They are going to look at a tiered, threshold pricing model [and ask] ‘who are we willing to partner with and who is willing to partner with us?’ There is going to be a lot of firing of clients, to be blunt about it.”

### Neil Shah, Edison Investment Research

“There's a recognition that not every sell-side firm has a strategy around this and that is a mistake. There is a set of rules; you now need to play to that set of rules. These are the pricing strategies that we are seeing: There is a bulge bracket pricing strategy of saying ‘you can have access to all of our global research content, 4,500 securities of coverage; you can have access to our European research team, for this number of hours; you can have access to our models, corporate access, sales coverage etc. And last year you paid x, this year we want x-plus.’ There is the aspirational pricing approach which is that ‘we believe our research is worth \$100,000, we will start at \$25,000 and evolve towards that price’; and there is the

price taking model. A lot of independents said they found that not putting a price out there, they are actually getting paid better. Because they probably didn't have the same account management flex and muscle of some of the large banks. So there are people starting to put prices out there. We are starting to see some gradual evolution towards some understanding. But the main point is that research is seen as a service rather than a document."

"Banks make money by raising money for corporates. They need the relationships to the buy-side to do that. The buy-side should recognize they are in a very strong position, having those relationships. I personally think that the biggest banks will use this as a market-share exercise. They will flex their muscles. Very few people can compete with the level of coverage they provide."

**Neil Scarth, Principal, Frost Consulting**

"You are going to see a two-tier asset management market. Those asset managers that manage to convince their clients to continue funding their research spending, will be able to spend more money, they will get higher service levels, their performance will be better, they will have higher structural levels of profitability. Those managers who either elect to pay for it through their P&L or are forced to because their clients to accept their research budgets will find themselves in a very uncomfortable position because it sets up a conflict of interest between buying the research I need in the best interest of my clients and the profitability of my firm."

*It appeared first on the Bloomberg Terminal. This article was compiled by Bloomberg Briefs on April 6, 2017.*

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