

MIFID II

The investment research market is changing.

ASR can help you react.

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ABSOLUTE STRATEGY RESEARCH

MIFID II Matters

For asset managers

→ **The impact of MIFID will be felt inside and outside Europe.** Global firms, as well as major US firms, will look to comply with MIFID II rules “wherever possible” in order to avoid multiple compliance regimes.

→ **An overall reduction in profitability.** These changes will impact aggregate profitability in the short-to-medium term because of increased process and/or compliance costs, or the costs of internalizing research.

→ **A potential bar-bell effect**, where large firms with strong internal research capabilities may be able to reduce reliance on external providers and/or to negotiate better terms for external research; boutique firms focus on niche research needs; but mid-size firms become squeezed and face consolidation.

For research providers of all types

→ The “inducements” rule means **providers with a potential conflict* will be controlled much more tightly and impose higher compliance costs** on the recipient buy-side firm.

** These may include own account trading, agency execution services, corporate broking relationships, primary market activities*

→ **Research distribution must be controlled.** Research providers have an obligation to price services separately; providing unsolicited “free” research breaches that rule.

→ **Research revenues are likely to fall** in aggregate; and the share allocated to different types of providers will change – potentially dramatically. Research providers of all types have to view research departments as profit centers that are independent from all other parts of the business.

For the price of research

→ **All sell side research providers are required to have a pricing model for research.** Trading flow is not a payment model.

→ **The price of research cannot be linked to trading volumes with a particular firm.** “...there should be no correlation between the transaction volumes executed.....and any discount applied to the research material offered”

→ **For independent research providers like ASR, the situation is simpler.** Pricing has traditionally been transparent, regardless of whether services have been explicitly contracted or voted. There are no conflicted services so the requirement to avoid “offering inducements” is avoided.



MIFID II and Independent Research Providers

Independent Research Providers do not face any of the potential conflicts of interest that the inducements rule is designed to address.

The Independent Research Provider business model is based entirely on:

- Producing research that is valued on its own merits – there is no conflict.
- Producing research that can be priced according to the needs of the client.
- Tailoring pricing to the valuation approach taken by the client.
- The ability to work with both of the two key payment approaches:
 - Voted valuation versus negotiated payment
 - P&L payment versus RPA/CSA



Issues to consider when evaluating research providers...

- 1. Do they offer actionable investment ideas that challenge market and firm conviction?**
- 2. Can they tailor their product to meet the varying needs of different desks, people, and business units?**
Research providers need to be able to supply precisely what each group needs and no more
- 3. Do they have experience in providing pricing in a way that matches your business needs?**
Quality research providers will be able to offer a variety of models including pure subscriptions, tiered service levels, custom pricing and support for voted evaluation
- 4. Is the research provider a “regulated entity”?**
It is a much simpler compliance process to on-board a regulated research provider. And your clients can have more confidence that their funds are being appropriately spent if they know the supplier has been through the process of proving themselves fit for regulatory status
- 5. Can they support the business model of the investment firm?**
The research provider should offer quantitative data on your usage of their service
- 6. Do they have detailed permissioning capabilities?**
Providers must be able and willing to stop supplying research to individuals and teams when requested – detailed distribution and permissioning capabilities are a bare minimum. But the provider must also have a culture and process that responds immediately to distribution requests
- 7. Can they receive payment in the manner that suits your business?**
Research firms should be able to accept payments from any of the permitted mechanisms as well as a mixture of payments from different teams/units in the business



... and why you should consider ASR.

We have been voted the best independent macro/strategy research provider in Europe for the last nine years.

Our research is not academic or journalistic ... it is written by and for investment professionals. We enhance your investment process by helping identify alpha and avoid losses.

We are completely independent with no conflicts of interest.

Our business model is based entirely on producing research that is valued on its own merits. We do not face any of the potential conflicts of interest that the “inducements rule” is designed to address.

We are a regulated entity.

We are regulated by the FCA in the UK and the SEC in the US. We have regulatory passports to all the main European centres.

We have been pricing research for over 10 years.

We operate a service-based tiered pricing model: from read-only to global deals which incorporate multiple locations, meetings, sales service and bespoke research....and everything in between. We work with you to deliver a package specific to your needs.

Absolute Strategy Research meets all the key MIFID II criteria.



Additional Information

For more information on MIFID II and how Absolute Strategy Research can help, please click [here](#) to see our comprehensive report.

Supplemental resources:

- The [original text](#) of MIFID in full
- Delegated Acts – [Level Two](#)
- ESMA (Level 3) Q&A Update ([pages 42-52](#))



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