ICMA
AMIC FICC Research Unbundling Survey results
November 2017
Introduction

In October 2017, ICMA’s Asset Management and Investors Council (AMIC) surveyed its members to discover firms’ current intentions and progress regarding their implementation of MiFID II research unbundling with a specific focus on FICC research only.

This summary sets out the key elements of the survey results.

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

In respect of types of firms, respondents classify as:
- 62% asset managers or investment funds;
- 31% private banks;
- 3% pension funds; and
- 6% other investors.

In terms of AUM (expressed in USD) respondents classify as:
- 44% above $100bn;
- 31% between $10bn and $100bn;
- 9% between $1bn and $10bn; and
- 16% below $1bn.
Geographical location

The respondent firms are based in a good mix of 15 mostly European countries with the biggest proportion being:

- 20% in the UK;
- 13% in Germany;
- 13% in Netherlands;
- 10% in Italy;
- 10% in Switzerland; and
- 7% in France.
Rule awareness and state of play
Already compliant?

Some firms, 37%, are already compliant with the new rules, while the others are actively working on becoming compliant.

Are you aware of the application of the new MiFID II research unbundling rules and ESMA guidance on FICC research?

The majority of firms, 96%, are aware of the application of the new rules and the ESMA guidance on FICC research.

Are you already compliant with the MiFID II research unbundling rules with regard to FICC research?

Some firms, 37%, are already compliant with the new rules, while the others are actively working on becoming compliant.
Guidance from regulator

Half the firms have responded that they have not received guidance from their national regulator about the implementation of research unbundling for FICC research.

Compliance by deadline

The majority of firms, 89%, expect to be compliant by the 3 January 2018 deadline. The 11% who do not, are likely from countries who may not have the same implementation deadline for MiFID II, such as Switzerland.

Do you expect to be compliant by the 3 January 2018 deadline with regard to the FICC research you consume?

- Yes: 88.89%
- No: 11.11%

Have you received guidance from your national regulator about the national implementation of research unbundling for FICC research?

- Yes: 48.15%
- No: 51.85%
Specifics on paying for FICC research
In line with recent market developments, the majority of asset managers intend to pay for research themselves. 67% of firms intend to pay for FICC Research using their P&L. 17% are still undecided. 8% do not intend to pay for external research. 4% intend to use an RPA funded by charge to clients. 4% intend to use a combination of the above.
Has your firm been approached by a significant majority (75%) of your existing FICC research providers about potential pricing arrangements from 3 January 2018?

Approached by research providers?

With only two months left, it is concerning that up to 46% of respondents state that they have not yet been approached by a significant majority (75%) of their existing FICC research providers.
Changes in FICC research spend

The majority of respondents (58%) expect FICC research spend to increase. The remainder are equally split (21%) between FICC research spend staying the same and FICC research spend decreasing.

Changes in the number of FICC research providers

The majority of respondents (83%) agree that they will use a smaller number of research providers once the new rules come into effect.
Do you expect to consume more/less FICC research in the new MiFID II world from the following sources?

All research providers:
- More: 35%
- Less: 65%
- No change: 0%

Brokers:
- More: 22%
- Less: 78%
- No change: 0%

Independent research providers:
- More: 22%
- Less: 61%
- No change: 17%

**Trends in the consumption of research**

The majority of respondents (65%) agree that the demand for FICC research is going down, while a minority (35%) say it will not change.

Overall independent research providers are expected to get a larger slice out of the shrinking pie.
Impact on quality, performance and in-house research
What effect do you think the MiFID II rules on research will have on the quality of FICC research?

- It will have no effect: 54.55%
- It will get worse: 31.82%
- It will get better: 13.64%

Quality of FICC research

The majority of respondents (54%) believe the quality of research will not change following the implementation of MiFID II. However, 32% believe research will get worse, while 14% 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 will 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.
Do you intend to or have you already increased your in-house FICC research capacity because of the new MiFID II rules?

- Yes: 32%
- No: 68%

Changes to in-house FICC research

The majority of respondents (68%) said that they do not intend to or have not increased their in-house FICC research capacity because of the new rules.
Impact of rules on non-EU FICC research
If your firm has activities both in the EU and outside the EU, how are you planning to tackle the potentially conflicting rules on FICC research in other jurisdictions (e.g. US)?

- Plan to unbundle research costs from brokerage fees globally: 61%
- Plan to pay for research in non-EU jurisdictions only for EU clients, but not for non-EU ones: 31%
- Plan to segregate the EU business from the non-EU one: 8%

**Impact on non-EU FICC research**

The majority of asset managers with global activities plan to unbundle fees globally:
- 61% plan to unbundle fees globally
- 31% plan to pay for research in non-EU jurisdiction only for EU clients
- 8% plan to segregate the EU and non-EU businesses