MiFID II implementation: research unbundling

With the MiFID II application deadline less than six months away, investors are actively trying to figure out the best way of adapting to the new EU research unbundling rules and their implementation in various Member States.

Recent consultation papers have shown some divergence in how the FCA and the AMF are intending to implement the framework nationally. On 3 July 2017, the FCA published its final rules. Firms will need time to consider them before committing to an approach with respect to paying for research. ESMA is also reportedly developing further Level 3 guidance to help Member States and firms implement the rules.

As covered in previous Quarterly Report articles, "minor non-monetary benefits" will still be allowed, which include "short-term market commentary on the latest economic statistics or company results" or "information on upcoming releases or events". However, there is divergence in the treatment of corporate access.

Once a firm has formally decided how to implement the new rules, it is difficult to change direction. This is a reason why investors prefer to wait until the final national rules are in place before committing early.

Given the continuing importance of this topic to AMIC members, research unbundling has been raised at the two most recent AMIC Executive Committee meetings. At the 1 March 2017 meeting, the Executive Committee asked the AMIC Secretariat to start developing a survey for members about how they are implementing research unbundling, with expectations that this will be released once the national frameworks are finalised and firms had time to consider them, which is envisaged to be after the summer break.

Most recently, at the 7 June meeting, the AMIC Executive Committee asked the AMIC Secretariat to prepare a briefing note outlining the results of existing surveys on research unbundling and identifying key elements which should appear in the AMIC survey later in the year.

Preliminary findings of the briefing into research surveys show that:

- up to a third of buy-side firms are still undecided on how they plan to pay for research under the new rules;
- a varying number between 33% and 64% of firms are looking to use a Research Payment Account (RPA) model funded by a charge alongside execution commissions – this arrangement will only be possible for equity research;
- between 19% and 30% of firms are actively considering paying for the research themselves and not passing the costs on to clients;
- firms expect research budgets to stay the same or go down in the near future; and
- US firms expect to be impacted by the new rules and a majority will respond by unbundling all their brokers globally.

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