Background

Historical timeline

Myners Report 2001
SEC interpretive release 2006 under Section 28(e)

Where we are now

MiFID II delegated acts (Jan 2018)
Regulators role

What issues are the regulators trying to solve

1. Increased transparency around research consumption and payment
2. Quantifying the value of research across all asset classes
3. Delinking research and execution costs
MiFID II regulations

Paying for research under MiFID II
1. Pay for research direct out of your own P&L
2. Pay for research through a Research Payment Account (RPA):
   - Enhanced CSA method
   - Client contribution method

Research Payment Account (RPA) best practices
1. Track interactions with your research counterparties
2. Regularly assess the quality of research and its contribution to the investment process
3. Establish a research budget
4. Allocate the budget to the strategy level
5. Manage payments either direct or through a RPA Administrator
MiFID II impact

Industry changes that we expect to occur

1. Increased research insourcing by the buy side
2. Decreased sell side research coverage
3. Expansion of CSAs
2017 MiFID II spend of $2.1 billion

*Including significant spend on Investor Protection*

**Buy-Side**

Tier 1

- Investor Protection: $13.7M
- Market Structure: $7.6M
- Transaction Reporting: $3.7M

Tier 2

- Investor Protection: $5.9M
- Market Structure: $3.2M
- Transaction Reporting: $1.3M

Tier 3

- Investor Protection: $4.1M
- Market Structure: $1.7M
- Transaction Reporting: $0.4M

**Sell-Side**

Tier 1

- Investor Protection: $38M
- Market Structure: $17.8M
- Transaction Reporting: $9.9M

Tier 2

- Investor Protection: $36M
- Market Structure: $17.6M
- Transaction Reporting: $7.7M

Tier 3

- Investor Protection: $13.6M
- Market Structure: $5.9M
- Transaction Reporting: $4.8M

**Investor Protection** is one of the most expensive components for MiFID II technology investment for the buy-side.

**Sell-side Tier 1 banks have the largest spend on Investor Protection workflow and technology.**

Source: BCG/IHS Markit MiFID II peer intelligence Study
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