RESEARCH IN AN UNBUNDLED WORLD

THE OUTLOOK FOR SELL-SIDE RESEARCH PROVIDERS POST-MIFID II

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QUINLAN & ASSOCIATES

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Benjamin Quinlan is the CEO and Managing Partner of Quinlan & Associates.

Benjamin has an extensive track record advising many of the world's leading multinational companies, financial services organisations, SMEs and start-ups on a variety of high-profile strategic engagements.

Prior to founding Quinlan & Associates, Benjamin was the Head of Strategy for Deutsche Bank AG's Equities business in Asia Pacific and its Investment Bank in Greater China, and sat on a number of the bank's global and regional executive committees. He was also the global strategy lead for several of Deutsche Bank's landmark projects executed out of London and New York.

Prior to Deutsche Bank, Benjamin worked as a Management Consultant at Oliver Wyman, a leading international strategy consulting firm. As part of the firm's Corporate & Institutional Banking practice, Benjamin advised a variety of global and regional financial institutions on a range of strategic matters. He was also actively involved in the firm's thought leadership publications and was regarded as one of Oliver Wyman's global subject matter experts in investment banking and capital markets strategy.

Before joining Oliver Wyman, Benjamin worked at UBS AG in the bank's Asia Pacific Client Coverage and Group Strategy departments. He began his career in M&A and Capital Markets Advisory at PricewaterhouseCoopers (PwC) in Sydney.

EDUCATION

Benjamin holds a Bachelor of Commerce / Bachelor of Laws (Honours) and a First Class Honours Degree in Economics from Macquarie University, Sydney.

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INTRODUCTION

On 7 April 2016, the European Commission (EC) published the first of a series of long-anticipated delegated acts, designed to provide detailed guidance on the European Securities and Markets Authority's (ESMA's) final report on the revised Markets in Financial Instruments Directive (MiFID II) and Markets in Financial Instruments Regulation (MiFIR).

According to the EC, the overarching aim of the MiFID II/MiFIR regulatory package is to enhance the efficiency, resilience and integrity of financial markets. Among the raft of legislative standards set out under MiFID II, the unbundling of investment research and execution has been one of the most contentious. Put simply, the new rules state that brokerages providing both research and execution services will need to supply and price them separately. This reflects ESMA's view that under the current research payment model (i.e. via a bundled advisory and execution commission), research can be seen as an inducement to trade and may give rise to a conflict of interest.

While the unbundling of research and execution payments may seem nothing more than a prima-facie formality of process, the implications for the industry are profound.

On the buy-side, it is widely recognised that investment managers are currently awash with an oversupply of duplicative research reports, much of which is considered of questionable value. Faced with the prospect of having to pay for ideas that (1) they did not ask for and (2) they currently receive for 'free,' demand is likely to suffer. We predict a decline in global research spend of up to 25-30% by 2020.

On the sell-side, the dilemma is even more acute. Investment research has traditionally been seen as a cost centre for brokers, often un-priced and given away for free in the hopes the trade ideas will generate trading commissions for the research provider. Consequently, the concept of running a research platform as a standalone profit centre is a completely foreign concept for many brokerages. A painful adjustment process awaits.

Taken together, we anticipate major disruptions to the competitive landscape. Brokers offering waterfront research – namely, the global investment banks – will need to narrow their coverage universe, given the inability to monetise lower-value content. Tier-2 waterfront providers will find the new competitive environment even more challenging and may be forced out of the market altogether. However, given the low barriers to entry, we are likely to see a proliferation of independent research houses, led by one or more 'star analysts' specialising in particular sectors or geographies.

Although the EC has postponed the implementation of the MiFID II/MiFIR regulatory package by twelve months to 3 January 2018, we believe brokerages have a long way to go in preparing for the monumental implementation challenges that lie ahead. From product development and packaging to pricing, distribution, technology and operations, the list of strategic and operational considerations is extensive and will fundamentally reshape the way the buy-side and sell-side engage with one another going forward. We believe much more needs to be done and done now.

SECTION 1
UNBUNDLING OVERVIEW

RATIONALE

There were a number of key concerns outlined by ESMA in its final report to the EC regarding the existing payment model for investment research (i.e. using bundled commission rates to pay for both advisory and execution services).

At the heart of these concerns was the view that paying for research out of commissions can be considered an inducement to trade and therefore gives rise to a conflict of interest. Additionally, ESMA cited a number of other key issues, including:

- Limited transparency around research costs and spend by asset managers (given there is little or no disclosure to end investors);
- Risks to end-investors' best interests (given research is paid out of client funds); and
- The absence of a level competitive playing field (given that the lack of price transparency makes it difficult for independent research providers to effectively compete).

THE NEW RULES

The unbundling provisions under MiFID II fundamentally overturn the traditional research payment model that has existed between the buy-side and sell-side for decades. Instead of paying for research using a bundled advisory and execution commission, research will now need to be paid for in one of two ways:

1. A direct payment out of an investment manager's own resources; or
2. From a ring-fenced research payment account (RPA) controlled by the investment firm, provided a number of conditions are met (see Figure 1).

As a consequence of the new regulations, investment research will need to be explicitly priced and divorced from payments for other services, especially execution. More importantly, research charges cannot be linked to the volume and/or value of transactions executed by a broker. Instead, pre-agreed research budgets will become a reality as regulators demand greater transparency around buy-side research spend.

AS A CONSEQUENCE OF THE NEW REGULATIONS, INVESTMENT RESEARCH WILL NEED TO BE EXPLICITLY PRICED AND DIVORCED FROM PAYMENTS FOR OTHER SERVICES

FIGURE 1: RESEARCH PAYMENT ACCOUNTS – CONDITIONS

1	FUNDED BY SPECIFIC CHARGE	• The RPA must be funded by a specific research charge to the client
2	PRE-AGREED BUDGET	• The research charge must be established through a pre-agreed budget
3	RESEARCH QUALITY	• The investment firm must regularly assess the quality of the research purchased based on robust quality criteria and its ability to contribute to better investment decisions
4	TRANSPARENCY	• Investment firms must be able to provide a summary of the providers paid from the RPA, the total amount they were paid, the benefits and services received, and how the total amount spent compares with the pre-determined budget
5	BUDGET INCREASES	• Increases in research budgets shall only take place after the provision of clear information to clients about such intended increases
6	EXECUTION CHARGES	• Research budgets cannot be linked to the volume and/or value of transactions executed on behalf of the clients. An investment firm providing execution services shall identify separate charges for these services that only reflect the cost of executing the transaction
7	REBATES	• If there is a surplus in the research payment account at the end of a period, the firm should have a process to rebate those funds to the client or to offset it against the research budget and charge calculated for the following period
8	AUDIT TRAIL & INTERNAL CONTROLS	• The allocation of the research budget to purchase third party research shall be subject to appropriate controls and senior management oversight, including a clear audit trail of payments made to research providers and how these amounts were calculated
9	INTERNAL RESEARCH	• Investment firms shall not use the research budget and research payment account to fund internal research

Source: European Commission, *Commission Delegated Directive (EU) supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to safeguarding of financial instruments and funds belonging to clients, product governance obligations and the rules applicable to the provision or reception of fees, commissions or any monetary or non-monetary benefits*, Chapter IV Article 13, 7 April 2016, Quinlan & Associates analysis

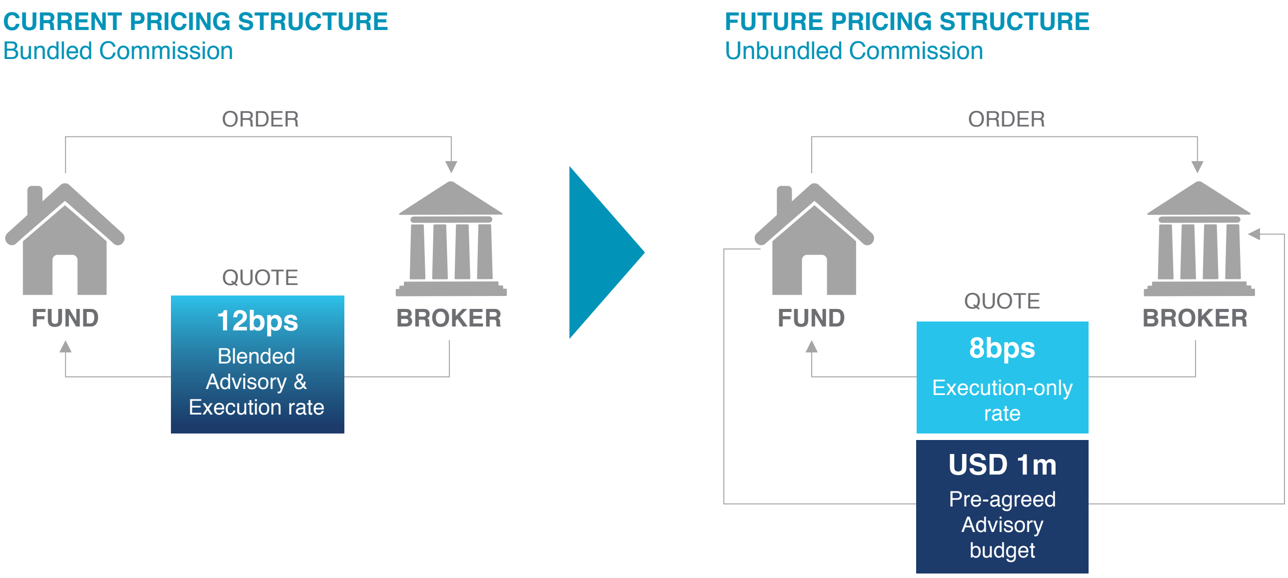
The EC's position with respect to the use of commission sharing arrangements (CSAs) remains unclear, though there are some suggestions CSAs may still be allowed, provided they meet a number of specific criteria. However, given that research payments made under a CSA still remain linked to trading volumes, we see ongoing regulatory pressure to either ban or curtail their use. In our view, they are unlikely to continue to exist in their current form.

Moreover, the Delegated Directive and ESMA did not address the issue of how the new rules would be applied to fixed income markets, where research costs are usually embedded within a bid-offer spread.

The only indication provided by regulators was the Financial Conduct Authority's (FCA's) comment that the unbundling of research and execution payment 'can be applied to clients with fixed income portfolios in the same way as for equities. If research is currently a material part of a broker's costs, we would expect a narrowing of spreads as a result of the decoupling of research from trading spreads.'[1]

Whether equities or fixed income, however, the payment model for both execution and research services will fundamentally change (see Figure 2).

FIGURE 2: THE NEW RESEARCH PAYMENT MODEL



Source: Quinlan & Associates analysis

1 Financial Conduct Authority, *Discussion on the use of dealing commission regime: Feedback on our thematic supervisory review and policy debate on the market for research*, July 2014, available at http://www.fca.org.uk/static/documents/discussion-papers/dp14-03.pdf.

SECTION 2
INDUSTRY OUTLOOK

While the unbundling of research and execution payments may seem nothing more than a formality of process, the implications for the industry are profound. We anticipate a number of significant changes ahead.

GLOBAL IMPLEMENTATION

While the EC's new rules are technically limited in their application to European-domiciled fund managers, we believe the impacts will be more widespread.

In our discussions with various international fund managers, we found there was a strong reluctance to operate a bifurcated global payment model for research (i.e. paying for research out of a manager's own account or through an RPA in Europe while using bundled commissions or CSAs outside of Europe).

Most of the international managers we spoke to intend to move to a fully unbundled research payment model in order to reduce the operational complexity associated with having multiple global payment processes. Only managers with no business connection to Europe (e.g. an Asian fund investing only in Asian equities) or funds of global managers whose operations and investments are clearly ring-fenced from Europe said they would continue to pay for research through the use of CSAs or bundled commissions.

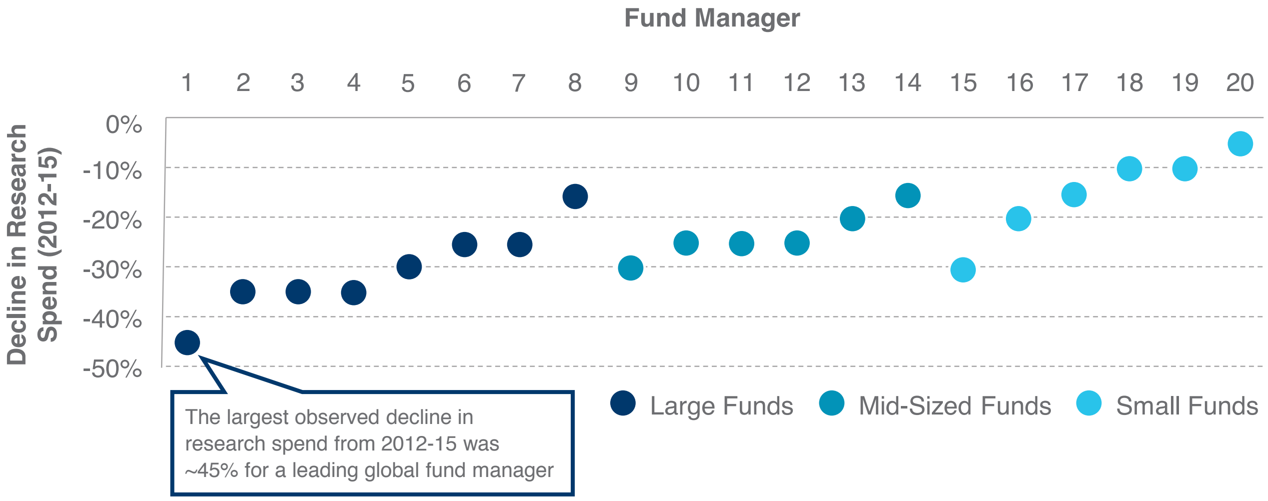
SHRINKING RESEARCH WALLET & GREATER IN-HOUSING

It is widely recognised that investment managers are already inundated with an oversupply of free and duplicative research reports (including sales notes), many of which are considered of questionable value. Moreover, our discussions with the buy-side indicate that managers with the greatest capacity to pay (i.e. large funds) appear to derive the least amount of value from published research.

Faced with the prospect of having to pay for ideas that (1) they did not ask for and (2) they currently feel they receive for 'free,' buy-side wallet is likely to shrink. Fund managers will also become more selective and disciplined in their research spending decisions, given the ability to explicitly compare and contrast research pricing among various providers. Greater transparency will also drive increased scrutiny among end-investors, who will be in a position to clearly evaluate their managers' research expenses against the competition.

In our discussions with buy-side professionals at mid-to-large sized long-only funds, we found external research budgets have already come down by an average of 20-25% since 2012, with one leading global fund manager cutting its Asia Pacific research spend by 45% over this period (see Figure 3). While some of this can be attributed to a decline in trading volumes, many of the larger fund houses we spoke to are cutting external research spend in favour of building their internal research capabilities.

FIGURE 3: OBSERVED DECLINES IN RESEARCH SPENDING (2012-15)



Source: Quinlan & Associates survey data

Several managers are also tilting their CSA allocations away from research as they place increasingly more emphasis on 'best execution.' Moreover, some have put explicit caps on their advisory spend, switching to execution-only commission rates once their research budgets have been reached. We believe these trends are likely to continue in coming years and predict a further 25-30% reduction in the global research wallet by 2020.

Faced with the prospect of shrinking global research spend, we are likely to see a narrowing of waterfront coverage by the global banks, as well as increased focus on differentiated content.

NARROWING WATERFRONT COVERAGE

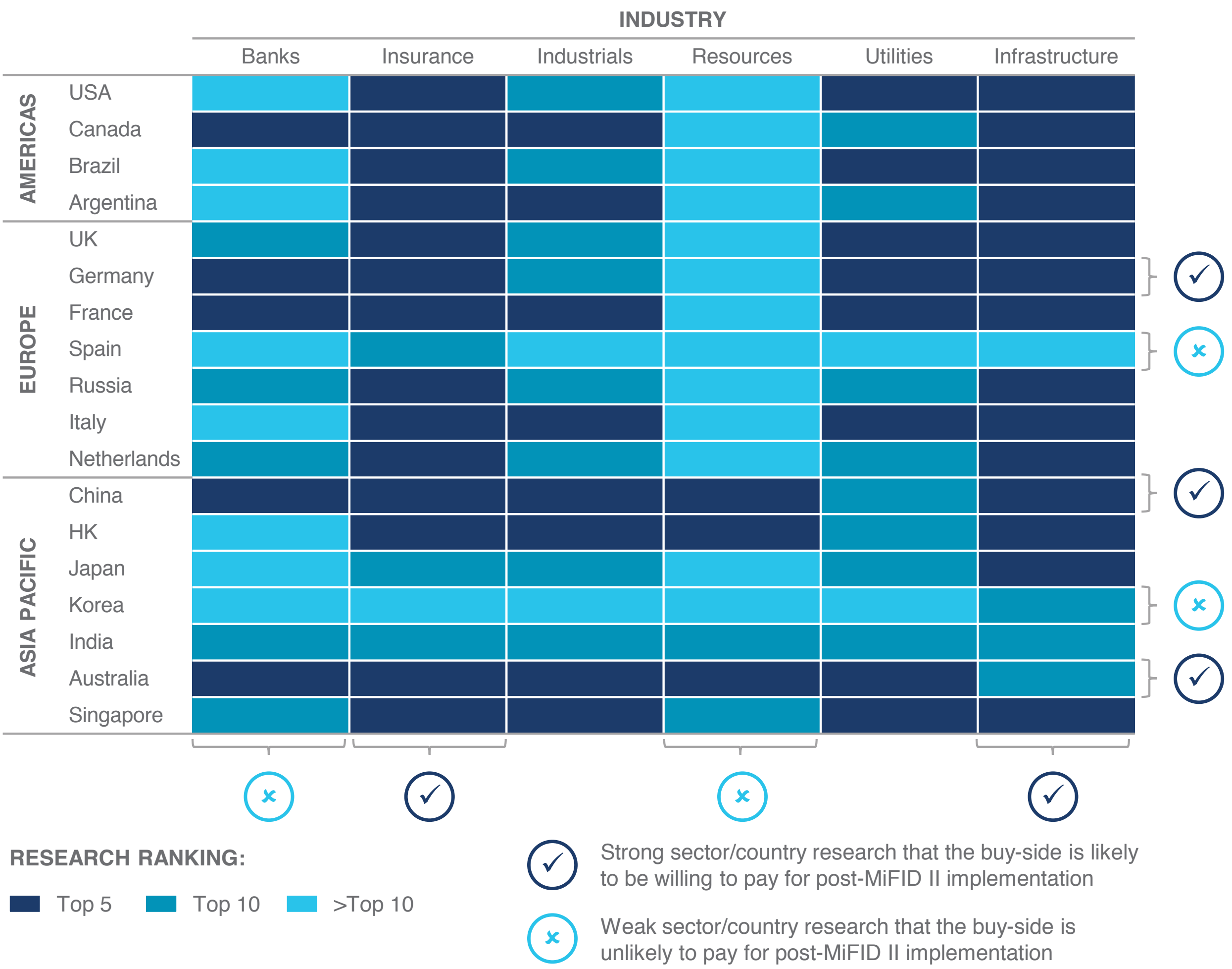
We see considerable changes in the competitive landscape for research providers post-MiFID II.

Brokers offering waterfront research will need to narrow their coverage universe, given many full-service providers will struggle to monetise content that is perceived by investors as being of low value. This is likely to be the case for analysts and/or teams that are ranked outside the top 5 providers in their respective country or sector (see Figure 4). It is our view these teams will need to be heavily trimmed or completely cut by the time MiFID II takes effect in 2018.

Similarly, we see non-differentiated, tier-2 waterfront providers being pushed out. The recent closure of Standard Chartered's and Barclays' global equities businesses provide a clear signal that mid-tier waterfront equities houses will find it difficult to navigate the new competitive environment. We believe a fundamental strategic overhaul is required.

MOST OF THE INTERNATIONAL MANAGERS WE SPOKE TO INTEND TO MOVE TO A FULLY UNBUNDLED RESEARCH PAYMENT MODEL

FIGURE 4: ILLUSTRATIVE SELL-SIDE RESEARCH RANKINGS



Source: Quinlan & Associates analysis

THE RISE OF INDEPENDENT RESEARCH HOUSES

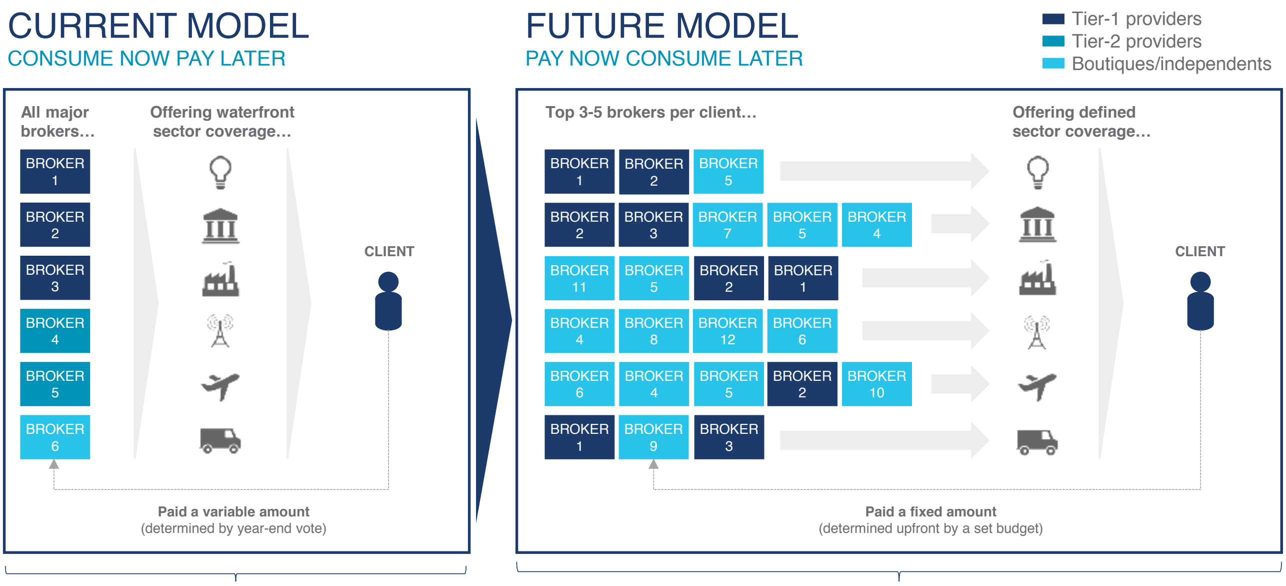
We anticipate the buy-side will select a wider variety of highly-ranked research brokers for their specialist capabilities (e.g. Chinese banks, European airlines) rather than pay for a handful of waterfront providers whose content is likely to be varied in quality. Given the low barriers to entry, we are likely to see a rise in the number of independent research houses, led by one or more 'star analysts' with deep sector or country expertise. Independent providers have had considerable success in the United States, with firms such as Wolfe Research (utilities, transport and energy) and Zelman & Associates (housing/homebuilding) among a host of names who have made a notable mark in their chosen sectors.

Beyond selecting providers for their content, we believe buy-side research budgets will increasingly evolve into specialised service pots, with fund managers choosing firms for their specific service niches: for example, Bank A for its political connections in China and Bank B for its access to deal flow. Again, we feel tier-1 global banks and boutique providers stand to gain the most from this shift in demand dynamics.

It is our view that fund managers will need no more than three to five of their best content providers per relevant sector/geography under the new research payment model (see Figure 5). Consequently, while the competitive environment is likely to become more fragmented, we see research volumes declining as content redundancies are pared back.

FUND MANAGERS WILL NEED NO MORE THAN THREE TO FIVE OF THEIR BEST CONTENT PROVIDERS PER RELEVANT SECTOR/GEOGRAPHY UNDER THE NEW RESEARCH PAYMENT MODEL

FIGURE 5: THE NEW COMPETITIVE LANDSCAPE FOR RESEARCH



- Competitive landscape dominated by a handful of tier-1 brokers offering waterfront research coverage
- Tier-2 waterfront research providers are present but are not viewed as 'go to' content providers
- Small concentration of independent research houses providing niche industry/sector coverage
- Highly duplicative offering with large content overlaps

- Competitive landscape significantly more fragmented
- Tier-1 brokers remain a strong competitive force in their chose industries/sectors, though a narrowing of waterfront research coverage is anticipated
- Tier-2 waterfront providers likely to be pushed out of the market
- Proliferation of independent research houses chosen for their specific content expertise
- Considerably fewer content overlaps/redundancies

Source: Quinlan & Associates analysis

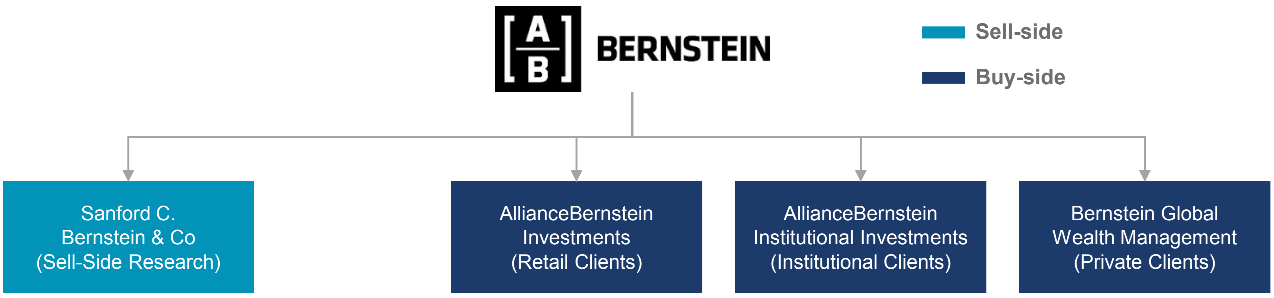
DIFFERENTIATED CONTENT

We believe research content is set for a major overhaul post-2018.

Managers paying for research through the use of RPAs will now be required to regularly evaluate the quality of the research they purchase – including disclosing their evaluation methodology – in a periodic, written policy to clients. Those paying for research out of their own pockets are likely to exercise even more scrutiny in their purchasing decisions. Quality, not quantity, will become the key priority as the buy-side seeks out differentiated, value-add content.

The vast majority of fund management professionals we interviewed said they would only be willing to set aside a limited budget for stock-level maintenance research. Instead, most managers are placing a much higher value on thematic trade ideas, technical/sentiment-based analysis and bespoke, deep-dive industry reports. Sanford C. Bernstein & Co (Bernstein) has successfully capitalised on the buy-side's demand for such content. The broker is renowned for its monthly research *Blackbooks*, which provide unbiased, in-depth company and industry analysis and forecasts with a contrarian flair. Unlike its peers, Bernstein also recruits its senior analysts directly from industry, providing it with a unique competitive edge in the sectors it covers (see Figure 6).

FIGURE 6: SANFORD C. BERNSTEIN & CO RESEARCH OFFERING



RESEARCH BLACKBOOKS

SANFORD C. BERNSTEIN & CO
OVERVIEW

- A wholly-owned subsidiary of the AllianceBernstein Group
- Offers sell-side research to institutional clients, with no investment banking arm or proprietary trading desk
- Senior analysts are recruited directly from industry with deep industry/sector knowledge
- The firm is also renowned for its research ***Blackbooks***, which are in-depth, thematic research reports that offer often-contrarian views on stocks the firm believes it can make a real impact. Past report titles include:
  - *Abating Climate Change: What Will Be Done and the Consequences for Investors*
  - *US Machinery & Capital Goods: A New Look at Cyclicality*
  - *The Dawning Age of Molecular Medicine*

Source: AllianceBernstein company website and presentations, Quinlan & Associates analysis

Recognising the growing emphasis on differentiated content, one of the global investment banks we interviewed has recently started to score every piece of published research based on (1) its intellectual property value and (2) its conviction level. The bank's research analysts are being evaluated on these scores as part of their annual performance reviews which, in-turn, drives their year-end variable compensation. Another tier-1 investment bank we spoke to said they have also recently standardised the format of their published research reports, with a powerful 'key takeaways' summary featuring on the second page of all reports. We see these changes as a clear move to de-emphasise maintenance coverage, make reports more digestible and encourage analysts to focus on delivering high-impact content.

Beyond the content itself, banks will be looking to leverage technology as a critical means by which to differentiate their published research offering, especially with respect to distribution. Many brokers already recognise poor readership rates of traditional email blasts and are investing heavily in technology ranging from mobile apps, social media and multimedia (e.g. videos). In doing so, they are looking to fundamentally augment the user experience.

SECTION 3
CONSIDERATIONS FOR BROKERS

Given the disruptive changes to the industry that lie ahead, we see a number of strategic and operational challenges facing brokerages in coming years.

We have identified 9 key considerations that must be addressed if research brokers are going to be ready for regulatory 'go-live' on 3 January 2018 (see Figure 7).

FIGURE 7: KEY SELL-SIDE CONSIDERATIONS

		CATEGORY	CONSIDERATION
STRATEGIC CONSIDERATIONS	1	GEOGRAPHIC SCOPE	• To what extent should we prepare for research unbundling outside of Europe?
	2	CLIENT SEGMENTATION	• What is the best way to segment our research client base?
	3	PRODUCT OFFERING	• What should our research product offering look like (i.e. content and form)?
	4	COVERAGE & DISTRIBUTION	• How should we cover clients and distribute our research product?
	5	RESEARCH PRICING	• How should we be charging clients for our research services in future?
OPERATIONAL CONSIDERATIONS	6	TECHNOLOGY & OPERATIONS	• What changes will need to be made to our technology and operations?
	7	BILLING & PAYMENT	• What processes are needed to support new research contracts and billing?
	8	PERFORMANCE TRACKING	• How can we measure and track the performance of our research business?
	9	COMPLIANCE & CONTROLS	• How do we ensure ongoing compliance with the new regulations?

Source: Quinlan & Associates analysis

1. GEOGRAPHIC SCOPE

As highlighted earlier in this report, we believe the geographic impact of MiFID II will extend well beyond the Eurozone as international fund managers look to streamline their research spend into a unified global payment model to the greatest extent possible.

As such, the largest sell-side institutions, particularly international investment banks, will need to develop a well-coordinated unbundling strategy for every region in which they operate. At a minimum, we suggest brokers establish regional working groups to properly evaluate the geographic nuances of the new rules in their key operating locations.

2. CLIENT SEGMENTATION

Sell-side institutions will need to develop a robust client segmentation strategy to effectively position their research offering in an unbundled environment. We believe brokers should conduct detailed wallet segmentation exercises for their current (and targeted) clients. For example, this could involve segmenting clients by their total research spend (i.e. wallet size), the broker's market share of their research spend (i.e. wallet penetration) and/or the type of research they value (i.e. wallet tilts/skews). Doing so will allow brokers to develop a structured client prioritsation framework.

Brokers with corporate finance capabilities, particularly full service investment banks, will also need to consider the importance of their research franchise in driving advisory revenues (i.e. fees from M&A, ECM & DCM services). A strong appreciation of client spend in both the primary and secondary space is therefore critical.

Through a better understanding of the wallet dynamics of their existing client base, research providers will be in a much stronger position to calibrate their service levels, ensuring any supply-side decisions are made against a well-informed demand backdrop; in other words, that the right kind of research is going to the right kind of clients.

3. PRODUCT OFFERING

Given the buy-side's increased focus on differentiated content, many research providers will be forced to make tough participation choices around their offering: for tier-1 waterfront providers, this will likely involve narrowing their sector and/or geographic coverage, while for tier-2 providers, this will necessitate a strategic rethink of their value proposition, which may even involve a complete exit from the provision of investment research. Brokers will need to make these participation decisions carefully, given considerable implications on both revenues and costs, as well as potential impacts on adjacent business lines (e.g. ECM).

Even for the industries and/or sectors in which brokers choose to compete, careful consideration will need to be given to content evolution, given the dwindling appeal of maintenance research and growing emphasis on differentiated, thematic insights.

4. COVERAGE & DISTRIBUTION

With major disruptions anticipated around research supply and demand dynamics, brokers will need to assess whether their sales platforms have room to be further optimised. This may include more simple changes such as adaptations to coverage hierarchies (e.g. 'juniorising' headcount to reduce the employee cost base) or more large-scale transformation efforts, such as revamping the overall coverage model. Examples could include moving from country-based coverage to sector-led coverage, re-aligning coverage efforts based on future spend outlook or developing a 'tail' account coverage strategy for smaller clients.

Technology is also set to play an increasingly crucial role with respect to 'low touch' content distribution. Brokers should continue investing in their technology platforms, including mobile apps and social media channels, to not only ensure critical mass of readership, but also to deliver a unique and engaging user experience to their end-clients.

5. RESEARCH PRICING

We believe the price discovery process for research remains the key pain point for both the buy-side and sell-side with respect to unbundling. Even now, both sides appear to be in somewhat of a standoff, with the buy-side asking 'how much are you going to charge?' and the sell side asking 'how much are you willing to pay?' Both sides understand the drawbacks of being the first to show their hand.

We have observed numerous sell-side institutions exploring a range of pricing strategies for their research product, including cost-plus pricing (i.e. estimating the cost of research provision and adding a fixed profit margin), value-based pricing (i.e. charging what clients are willing to pay for) and even auction-based pricing (i.e. charging for defined units of time based on rolling client demand).

Irrespective of the pricing model being used, one thing is clear: there appears to be little congruence with respect to price expectations between research providers and end-consumers, with many brokerages taking considerable haircuts on initial price estimates being quoted to fund managers. We are also likely to see very different pricing schedules for published reports and analyst access, the latter of which will come at a premium.

We believe the sell-side needs to be more proactive in the price discovery process. This not only includes developing a much better understanding of their existing clients' price expectations (potentially through conducting detailed surveys), but also their own research cost drivers. For larger brokers, such as the global investment banks, it will also require a deeper understanding of the pricing models that are currently being utilised by independent research houses. In doing so, brokers will have a better understanding of the pros and cons of various pricing models for their organisation, putting them in a much stronger position to justify their quotes.

6. TECHNOLOGY & OPERATIONS

Technology will be a crucial means by which banks can look to enhance their low-touch, published research offering. To this end, the design of online research portals, particularly the user interface (UI), will be critical in attracting users to a platform. Research portals that are personalised, interactive, mobile-capable and easy to navigate will have a significant advantage in the new competitive environment.

Not only will technology be important from a 'user draw' perspective, but it can also be leveraged to drive smart customer analytics. For example, research brokers can closely track aggregate readership rates for their published reports, allowing them to better understand the types of content that have higher readership penetration.

The unbundling regulations also present a variety of challenges from an operational point of view, especially with respect to client onboarding and servicing. Furthermore, careful consideration will need to be given to how the new regulations will interact with commission management systems (including those used to manage CSA payments) currently used by brokers.

7. BILLING AND PAYMENT

Given the need to tailor research solutions to each fund manager's respective budget and content needs, brokers will need to develop robust billing and payment procedures for their clients.

We believe research providers need to develop an over-arching model for their research contract and billing processes. However, they will still need to ensure it can be effectively customised according to the particular client in question (e.g. a hedge fund with sporadic, deep-dive research needs compared to a long-only manager looking for ongoing coverage of a specific sector or country). At present, many brokers appear to be engaging in somewhat of an ad-hoc negotiation process with their clients. We feel there is considerable scope to make these engagements, and therefore payment models, more structured.

8. PERFORMANCE TRACKING

It will be critical for brokers to implement an effective performance tracking framework for their research platform. At a bare minimum, this will require a sound understanding of the most relevant KPIs for the business: for example, research earnings per analyst. An automated management dashboard will also help to ensure data can be readily interpreted in real-time.

To be most effective, a sound understanding of both revenue and cost drivers is needed, which will require a detailed awareness of account-level resource consumption relative to payment levels. This will allow brokers to readily identify their high-value research clients from an underlying profitability perspective, facilitating improved resource allocation decisions with respect to content development and client coverage.

9. COMPLIANCE & CONTROLS

Research brokers must implement appropriate compliance policies and control frameworks to comply with the new unbundling regulations. In particular, research providers will need to put effective controls in place to ensure content is only being disseminated to clients who are paying for it.

In addition to instituting effective policies, all relevant employees must be well-trained on how the new regulations will impact their daily roles. For example, under the new research model, analysts may be restricted from meeting with or calling particular clients who have not paid for direct access (i.e. the client only pays for access to published reports). Analysts will need to have a strong understanding of such restrictions in order to appropriately manage their interactions with various clients.

SECTION 4
HOW CAN WE HELP?

Our consultants have worked with a number of international brokers on their research unbundling strategies.

Our project work is typically delivered using a 3-phase approach:

PHASE 1

Develop a firm-wide research unbundling strategy, focusing on the nine key considerations outlined in Section 3 of this report, e.g.:

- Conduct client segmentation analysis to drive client prioritsation decisions
- Develop suitable research pricing schedules to maximise firm economics and client demand
- Create performance tracking dashboards, together with relevant KPIs

PHASE 2

Prepare a detailed strategic execution roadmap to facilitate the delivery of all recommendations outlined in Phase 1, e.g.:

- Outline project workstreams and quantify deliverables
- Map out critical project milestones
- Identify accountable stakeholders

PHASE 3

Provide on-site project management support in delivering the strategic execution roadmap outlined in Phase 2, e.g.:

- Establish suitable project management office (PMO) structure
- Oversee project workflow in conjunction with in-house client team
- Develop robust protocols around project governance and processes

We recognise that many sell-side institutions, both large and small, are a long way off developing an effective and workable research unbundling strategy. Even for those who have made some progress, approaches being taken to many of the key strategic and operational consideration around research unbundling appear to be ad-hoc, at best. With only 16 months until the new regulations take effect, stronger measures must be taken by research brokerages to ensure they are adequately prepared for the major implementation challenges that lie ahead.

STRATEGY WITH A DIFFERENCE

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