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March 11, 2019

The Honorable Jay Clayton
Chairman
United States Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

We are writing in response to the request for comments from market participants on how the European Union (EU) Markets in Financial Instruments Directive II (MiFID II) "research provisions are affecting broker-dealers, investors and small, medium, and large issuers, including whether research availability has been adversely affected."
We are an Online Research Marketplace (ORM) and have spent the last 18 months speaking and dealing with research providers (Broker Dealers and Independent Research Providers) and institutions from around the globe, helping them with the challenges they have faced on the back of MiFID II. Below are our observations.

Observations
Even before the implementation of MiFID II in January 2018, clients were being restricted or removed from access to research access from large banks. Banks were looking for clients to pay a minimum amount of commission yearly to be able to have access to research. Having spoken with multiple institutions and family offices, this was restrictive to them as some felt like they were being forced to trade with larger banks so that they could maintain broader access to content rather than smaller brokers. One Australian family office we spoke to said, "We don't trade enough to make their list, but I do need research from time to time on Microsoft (MSFT), but I cannot access that now."

There were concerns pre-MiFID II about the potential drop off in coverage in the mid & small cap space. It is early days, but this doesn't seem to be the case in Europe with only a small slippage in coverage. It has resulted in the rise of company sponsored research though which could mask those numbers. Whilst having coverage is great, many investors question the biased basis of paid research.

Be it RPA, hard dollar or CSA institutions are still happy to pay for research but there is still a mystery on how to price research. This will be an ongoing challenge to both parties and there is no easy answer either. It is hard to price a piece of research when 3 people have very different opinions within a fund on the same report. We have had several examples of this with different funds.

Institutions have been adopting the unbundled model even if not required to. They are seeing benefits of not having to pay for research that they do not need. They prefer being unbundled as they are not 'forced' to pay for research they don't want. When in fact, they have been trading with a specific broker because of flow or better trading tools. Not paying for research that isn't used or wanted also helps the investor in funds that are unbundled.

Recommendation

An unbundled world will benefit both creators and consumers of research. Investors in funds will also benefit as funds will not be paying for research which isn't needed. We understand that this would be an undertaking but believe that everyone would benefit long term.

Conclusion
The Broker Dealer community has faced many challenges over the last decade and arguably technology has advanced quicker than many can keep up with. Smaller broker dealers have felt a lot of the brunt of this with commissions lower and technology expensive. Having a chance to be paid directly for their research would create an opportunity for them to be compensated fairly for the work that they have done. For clients consuming the research an unbundled model will let them have an opportunity to consume the research they want and pay for it transparently.

Regards

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