Dear Chairman Clayton and colleagues,

Thank you for opening up to public consultation the matter of the Impact of MiFID II Research Provisions. I'm am writing to you on behalf of Research Exchange Ltd (RSRCHXchange). We have been actively involved in research unbundling as it unfolded across Europe and have been in constant dialogue with buy and sell side firms. As you investigate the impact of unbundling on broker-deals, investors and issuers, we wanted to share our observations, both qualitative and quantitative.

By way of brief background, we are co-founders at RSRCHXchange, a fintech business founded in 2014 in anticipation of MiFID II, and have backgrounds in sell-side equity research and asset management. As an aggregator and marketplace for research, the business now reaches over 400 banks, brokers and independent research firms and over 1200 asset management firms. 23% of our providers and 17% client firms are based in the US. Our largest institutional shareholder is now CME Group, after their acquisition of Nex Group.

From our unique vantage point, we would summarise the following:

- US investment managers already anticipate research unbundling to take effect in the US
- Research providers have suffered as a result of unsustainable, low pricing
- Small and medium company coverage has not dropped as much as feared
- Overall research remains accessible for investment managers of all sizes

View from US investment managers
Since 2016, we have conducted surveys of the asset management community. Please find attached our most recent survey in Q2 2018, which canvassed over 400 asset management individuals representing 350 firms and more than $30trn in AUM. We covered attitudes toward globalisation as well as what impact the unbundling rules were having in Europe. We will focus on the respondents from outside the EU:

- 83% of those from the US expected unbundling to take effect in the US within 4 years
- 53% think unbundling is good for investors
- 49% expect regulatory change will be the driver
- 29% believe unbundling to be a major changed compared to conducting a broker vote
- 55% expect to be able to adapt their existing commission management agreements to fit
- 91% have at least some awareness or more of research unbundling

Anecdotally we hear from US-based firms that their businesses are global and managing for different research arrangements creates costly operational complexity. Similarly, US-based broker-dealers have incurred added complexity and cost. Additionally, those clients in fully bundled arrangements struggle to access additional sources of research which they would like to incorporate into their investment process.

Unsustainable, low pricing
In our survey, 75% believe current low prices of research are not sustainable. The pains felt by research providers - more so by small independent firms than large broker dealers - can largely

be attributed to high competitive prices. Investment firms in Europe have tended toward paying for research from their own resources instead of charging clients due to the regulatory complexity. As a result, we concur with other industry surveys that equity research budgets fell 20-30% from 2017 to 2018. Anecdotally, the year two drop appears lower at around 5%. Macro pricing has suffered far worse than single issue equity and credit research. On our own marketplace, research providers price individual macro reports at 1/10th to 1/20th the price of equity reports, on average. Not all providers have suffered equally and we would note that as a result of payments for research, UK broker Numis experienced 6% revenue growth^.

Small and medium company coverage
Often remarked as the major unintended consequence of research unbundling, small and medium company research coverage has not fallen as much as predicted. On our own platform, we have not observed a material drop in coverage. The number of analysts per stock listed on London's AIM rose 7.6 percent since MiFID II came in on Jan. 3 last year, according to data from Hardman & Co*. Furthermore, coverage of mid-cap AIM stocks (valuations of $255m-$766 m) increased by 11.3 percent, according to their data data. In our survey, 89% of respondents favoured market forces to help improve small and midcap coverage, instead of alternatives like exchange or corporate sponsored research.

Research remains accessible
While anecdotally most research providers maintained a high percentage of their clients as paying research customers, our survey did indicate that investment managers naturally had less research as they were restricted to those providers they contracted. In our survey, only 15% of operations and compliance respondents felt worse off as a result of reduced coverage. With consumption data now to hand, investment firms have a clearer sense of just how much research they are using from their providers and are able to more clearly value their input and identify gaps in their coverage. Under an unbundled approach, investment managers have freedom to choose the research providers best suited to their needs and non-conflicted flexibility in that provider selection.

While adapting to the rules required resource and more time than the industry had anticipated, benefits of research unbundling are slowly beginning to be felt, mostly by investors and investment firms. We acknowledge a challenging environment for research providers but do not believe it is the separation payment for research from execution, but rather currently low pricing which is the cause.

Thank you for considering our input.

Kind Regards,

Vicky Sanders
Co-CEO
RSRCHXchange

^ " Mifid II launched one year ago and financial brokers are embracing the opportunity", Mitchinson, Ross, CityAM. http://www.cityam.com/271365/mifid-ii-launched-one-year-ago-and-financial-brokers

* "Research coverage of UK AIM stocks has risen since new EU regulation - Hardman", Reid, Helen, Reuters. https://uk.reuters.com/article/uk-eu-markets-mifid-aim/research-coverage-of-uk-aim-stocks-has-risen-since-new-eu-regulation-hardman-idUKKCN1P20GY

PDF Attachment: "Global Research Unbundling Survey - Summary Report", RSRCHXchange, June 2018.

RSRCHXCHANGE

Survation.

Global Research Unbundling Survey - Summary Report

June 2018

Confidential

Table of contents

This is RSRCHXchange's third survey into research unbundling.

Our previous two surveys completed in 2016 & 2017 explored attitudes toward research ahead of MiFID II coming into effect. Now that the much anticipated MiFID II implementation date has passed, RSRCHXchange commissioned Survation to perform an online poll of 418 respondents from over 350 different asset management firms, with a combined AUM of $31tn.

Unlike our previous surveys, we not only wanted to take temperature in Europe, where MiFID II rules are already impacting the research space, but also to look further afield to Asia and North America to see the attitude of so-called 'out of scope' firms to the new rules, and whether the unbundling of research was going to be a global best practice in due course.

We had a great responder breakdown with 61% from PMs and Analysts. Our Europe/Outside Europe split was 64%:36% and responders were split roughly equally across our four AUM groups.

Executive summary

Outside Europe: Expecting Adoption

When we looked at firms outside Europe we were encouraged by the level of awareness around research unbundling, with 56% very aware and in total 91% having at least some awareness - which is an encouraging starting point for a survey on research unbundling. What was interesting was that it was research providers, banks and brokers who were the main source of information, with only 26% having heard about research unbundling from their investors to date.

When we asked people when they thought research unbundling would impact them, it was split around 2-4 years. When we looked within the data it seemed North American respondents were more inclined to 4 years with 48%, whereas those in Asia were more of the view this would be within 2 years with 41% of respondents. 71% of the smallest funds asked thought that the change would be caused by regulatory changes being adopted in their geographies, whereas 56% of the largest funds asked thought it would be due to global policies within their own firms. We are yet to see other regulators make any signs of outrightly adopting research unbundling rules and would expect a 'wait and see' period post MiFID II before any other regulators jump. On the other hand, a lot of firms we speak to are already looking at simplifying their structures and adopting some form of research unbundling globally.

30% of responders thought that research unbundling would represent a significant change to their business, with roughly half thinking it was only a moderate change. The majority felt they would still be able to use or modify their existing CSA/CCA arrangements in order to comply.

Europe: Impact Felt, Still Not Welcome

Turning our attention to those who are now in an unbundled world, there was early evidence of real changes to research consumption, lingering signs of non-compliance and continuing negative feelings toward the rule changes. Consumption and access to research providers has fallen. 63% of respondents were taking less meetings following MiFID II. In our direct conversations with PMs, we hear a lot of confusion about meetings, what they can and cannot take, and what is and is not included in their packages with providers. Press reports last year quoting as much as £28,000 for a meeting - although an exaggerated number from what we can see - obviously have not helped matters.

Nearly 2/3rds of respondents believe unbundling is bad for their businesses. The differences in attitude between front office and operational/ compliance responders were seen here when we asked how they would describe their access to research providers as a result of unbundling; we found 43% of front office responders saying they were reduced and worse off - whilst 54% of those in operations/ compliance said they were reduced but no worse off. Again, we saw a big difference when we asked about budget allocation. 60% of those in front office positions thought over 90% of their research budget had been pre-allocated, whilst the operational and compliance responders were far more evenly spread. This may be down to misunderstandings about voting models, or may just be clever management from those holding the purse strings.

Since the middle of 2017, the price of written research has generally been under pressure. We wanted to see what respondents thought of the current price levels. Of those expressing a view, over three quarters believed that the current levels were not sustainable, but a similar number thought that despite artificially low price levels these did not constitute an inducement.

Smaller Companies: Greater Pain

Finally, we wanted to look at attitudes to smaller companies - a valid concern and an argument often used against research unbundling. Of those expressing a view, over 82% said they expected coverage of small caps to decrease as result of research unbundling, perhaps unsurprising given the column inches devoted to this argument over the last year or so. What was more interesting was the solution respondents plumped for, with 88% believing market forces would resolve this issue over time versus some of the other short term subsidisation options. This tallies with our own view that despite the short term potential disruption, longer term research unbundling should draw analysis away from well-covered, high trading volume stocks and towards high alpha, small cap stocks. In addition,the smallest asset managers feel much worse off than the largest managers.

Overall, this survey is encouraging. There is still a lot of anger, particularly in front office responders, and for many in Europe this has been far more than the 'moderate change' many outside anticipated it to be. A lot of power and choice has been removed from the front office and it is clear that there is some confusion around access to analysts and budgets. However, we are only a few months in and much of this is to be expected as things wash through and we get through the first year. The rest of the world looks on in anticipation of what is to come in the next 2-4 years, and will be hoping that those lessons and teething pains in Europe will not impact them when the time ultimately comes.

RSRCHX

Unlock the research market

Join a trusted community of thousands of fund managers using RSRCHX to access, discover and purchase research from a liquidity hub with over 350 providers

RESEARCH PROVIDERS

- Monetize the value of your research
- Complete control of pricing
- Generate new business
- Access a wide range of institutional clients
- Simplify with one counterparty

ASSET MANAGERS

- Buy subscriptions and individual notes
- Hundreds of banks, broker and boutiques
- Personalization powered by machine learning
- All your research in one place
- Free to use for buy side firms

Summary data

418 respondents from >350 asset management firms with over >$30trn in AUM

Outside Europe

- 83% of those in the US expect unbundling within 4 years
- 53% in Asia expect unbundling within the next 2 years

Smaller companies

- 82% expect small & midcap coverage to decline
- 45% of smallest managers worse off

Europe

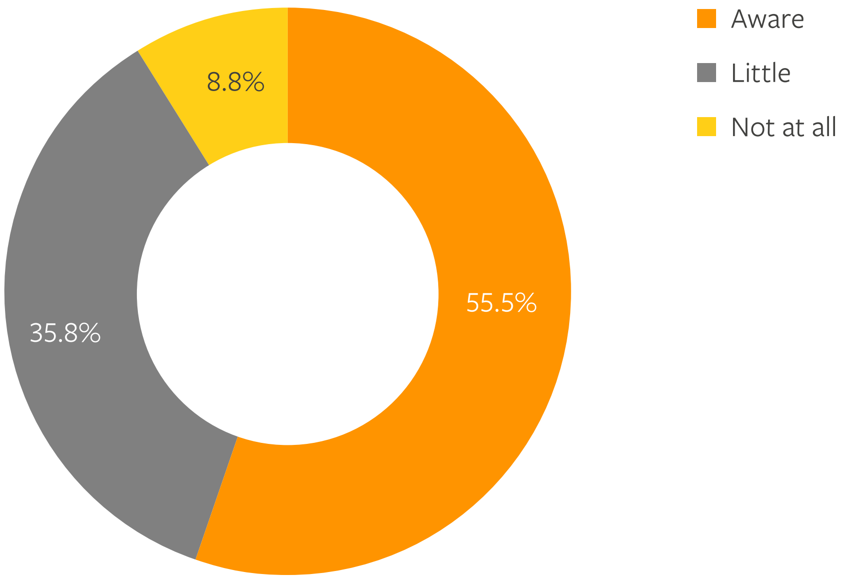
- 75% believe current low prices of research are not sustainable
- 43% of those in front office feel worse off with reduced access to research
- 53% think unbundling is good for investors
- 50% increase in the popularity of aggregators
- 63% of those in front office are taking fewer meetings

Responders outside Europe

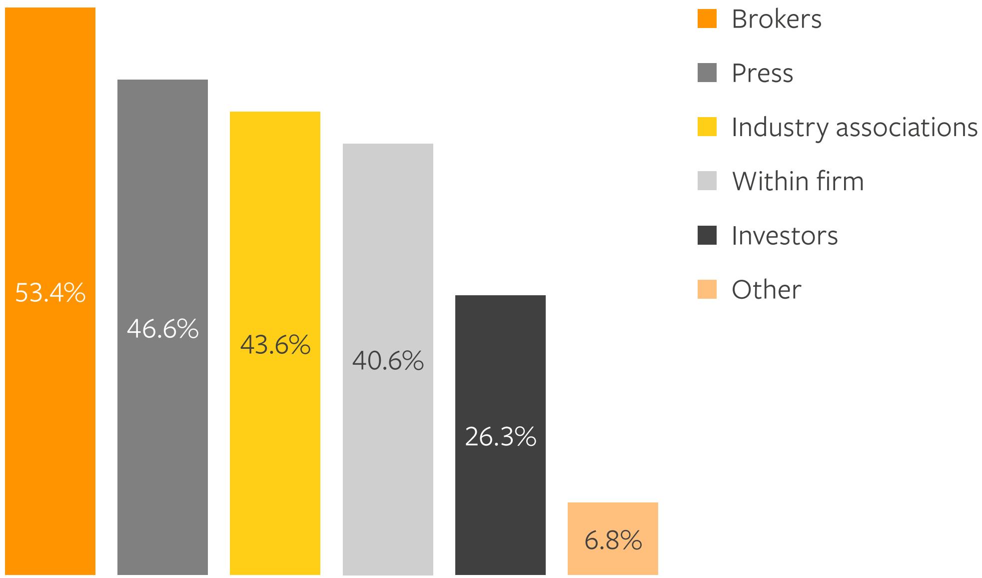
With MiFID II research unbundling live across Europe, we investigate the attitudes towards research unbundling further afield

Knowledge outside Europe

Q - Do you feel you know about research unbundling?



Q - Where have you heard about research unbundling?

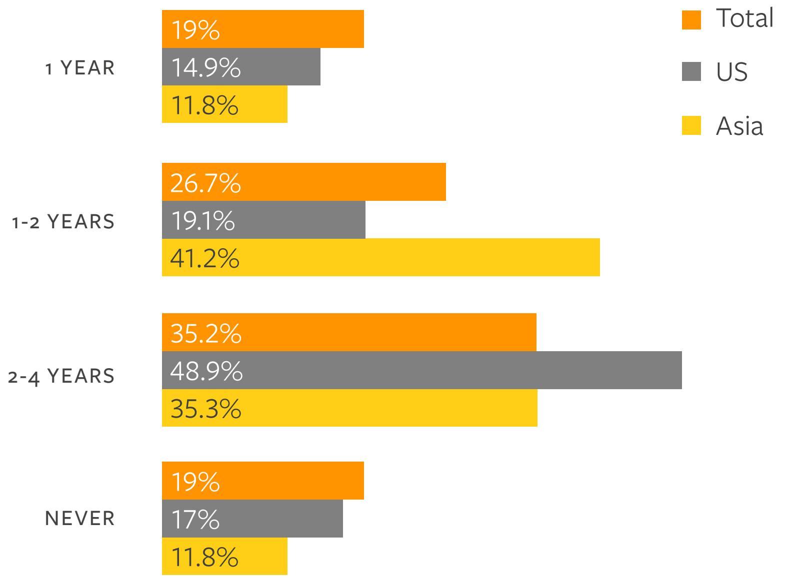


Respondents could select more than one answer

Over 50% of respondents outside Europe were aware of research unbundling, while 36% were still only a little aware. Brokers were the most common port of call for information about unbundling and the Press and Industry Associations have also had an impact. Despite the potential positive impact on Investors, they have not been influential with asset managers in discussing unbundling.

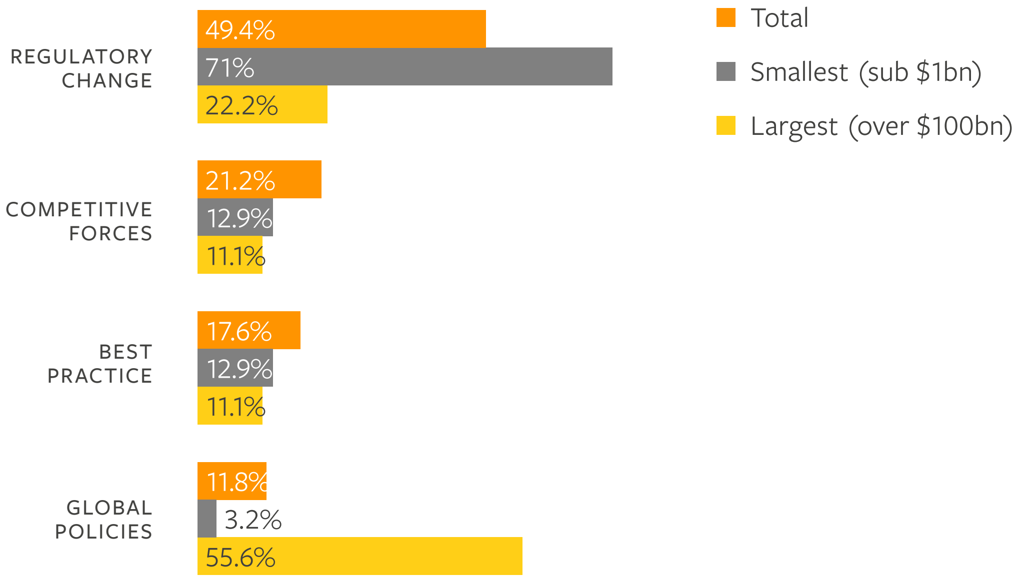
When change occurs and why

Q - Considering your own jurisdiction, in what time frame would you expect research unbundling to take effect?



Respondents are expecting research unbundling in the near term, particularly in Asia where 12% expect unbundling to take effect within a year and 53% within two years. 83% of respondents from the US expect unbundling to come into effect within the next four years compared to just 17% who expect it to never impact the US market.

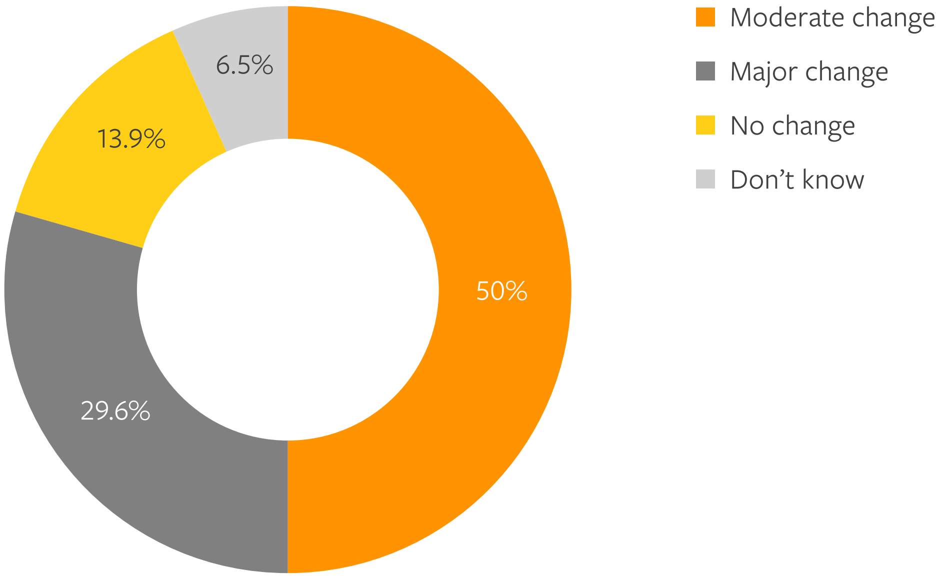
Q - What do you think will be the driver?



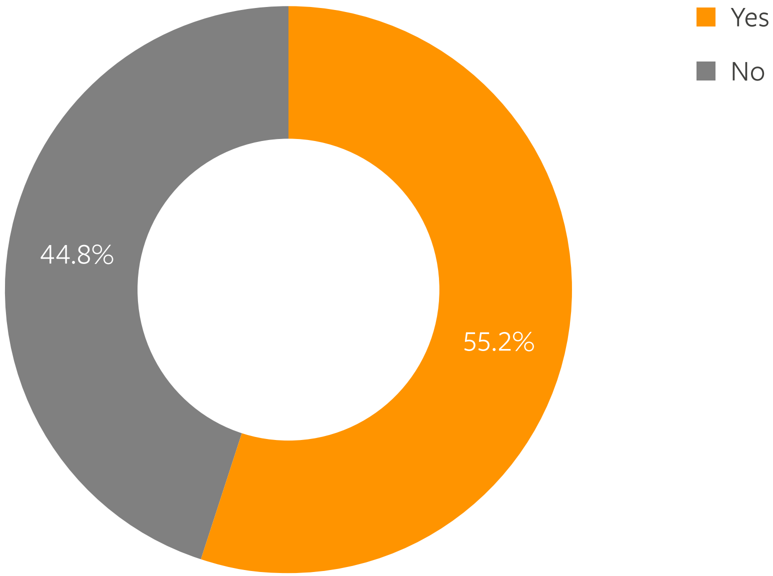
When asked what the driver of research unbundling coming into their own market would be, 49% of respondents thought it would be due to regulatory change. Dividing responses by AUM showed differing opinions. 71% of respondents from the smallest funds agreed that regulatory change would be the main driver. Respondents from the largest firms instead favoured their own internal compliance policies as the root cause.

Scale of change

Q - What level of change do you believe research unbundling would have on your firm, compared to conducting a broker vote?



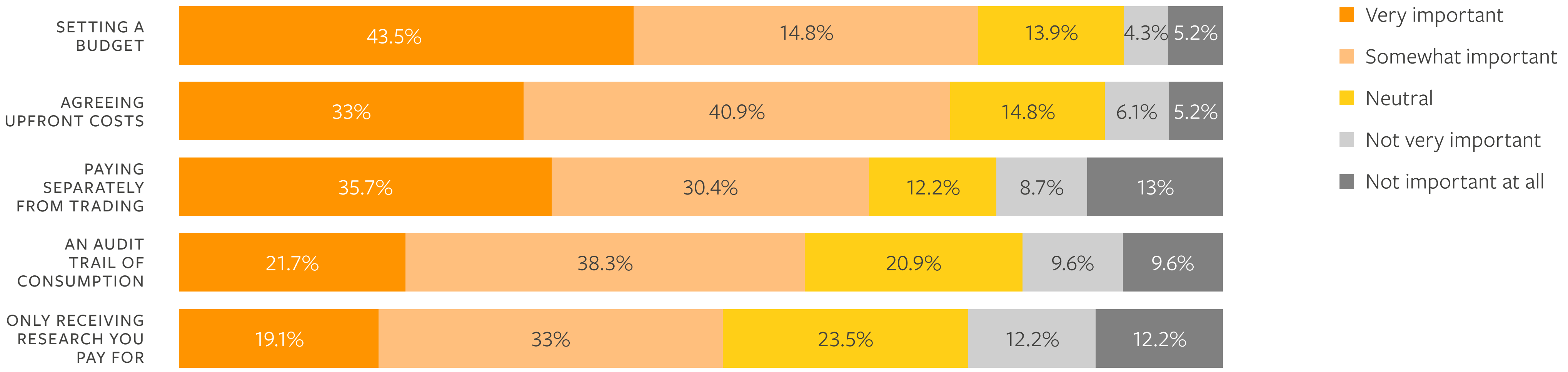
Q - If your firm were to unbundle research, do you think you would be able to maintain your existing Client Commission Agreements (CCAs)?



Respondents outside of Europe did not perceive unbundling as a substantial change compared to the common practice of conducting a broker vote. A slim majority believed that if their firms were to adopt unbundling, they would still be able to adapt their existing commission agreements to fit.

Important elements

Q - In general, to what extent do you consider each of the following to be an important element of research unbundling?



Setting budget and establishing the upfront costs scored highly as important elements. The key inducement element, only receiving the research you pay for, was seen as least important. Interestingly, 22% of respondents felt that separating payments for research from those for trading was not important, despite that being the core definition of unbundling.

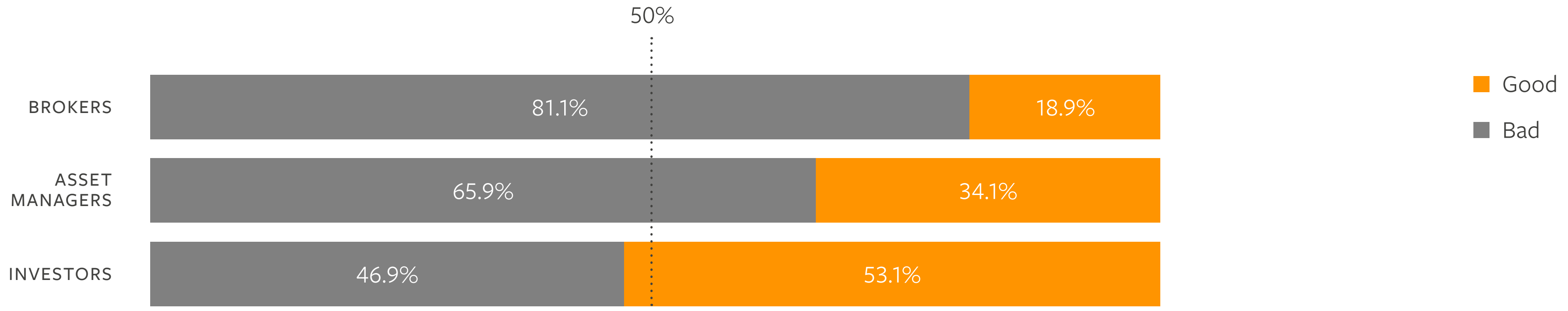
Use of different payment models

Q - Is your firm currently managing different models for paying for research in different geographies?

The majority of firms outside Europe were not using different models to pay for their research in different geographies. The responses differed dramatically based on firm size. The largest firms, facing multiple regulatory jurisdictions and with increased internal complexity and headcounts, were more likely to operate multiple models for paying for research.

Good or bad thing?

Q - Do you think research unbundling is a good thing or a bad thing for each of the following?



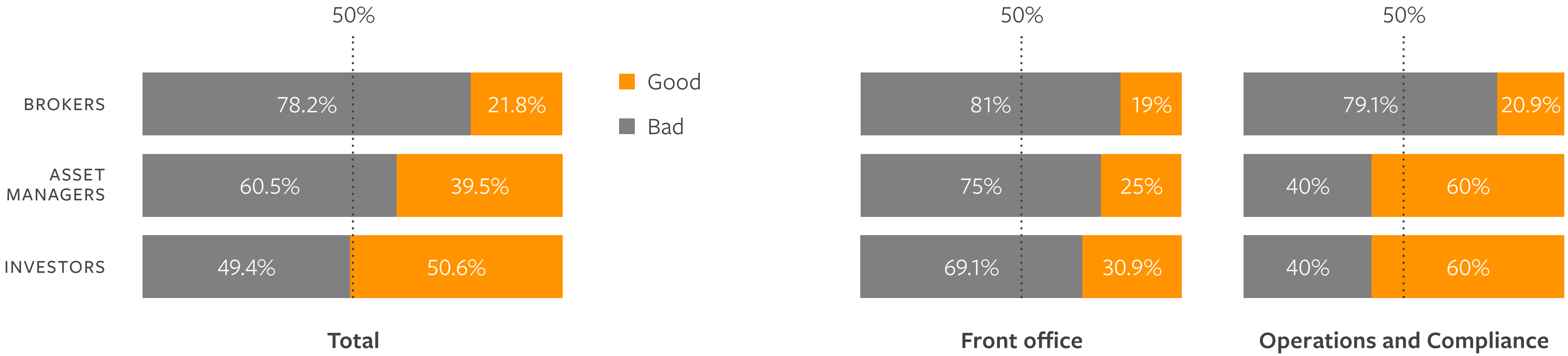
The general sentiment was that unbundling is bad the for the industry overall. While a slim majority of respondents felt it was good for Investors, an overwhelming 81% believe unbundling is bad for Brokers. Brokers, not Investors, are leading the education process for the buy side.

Responders within Europe

With MiFID II already in effect as of January 1st 2018, we explore to what extent changes have already occurred.

Good or bad thing?

Q - Do you think research unbundling is a good thing or a bad thing for each of the following?



European respondents were asked the same question and their answers were very similar to their peers outside of Europe. Brokers were perceived as hardest hit by the regulation with 78% believing it is a bad thing for the sell side, whereas 60% felt that it is bad for Asset Managers. Respondents were evenly split on whether it is good or bad for end investors.

Perceptions varied within organisations. The Front Office were universally bearish about research unbundling with 75% responding it is bad for Asset Managers. In contrast, the Operational and Compliance roles were far more positive. 60% of those respondents believe unbundling is good for their own businesses and for Investors.

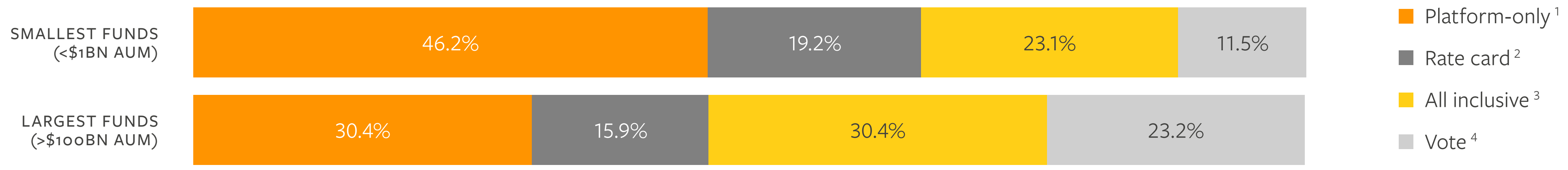
Access to providers

Q - How would you describe the access you have to research providers as a result of unbundling?

Across the board, access to research providers post MiFID II has reduced. 43% of PM and Analyst respondents feel worse off because of reduced access. The majority of Operational and Compliance respondents agree that coverage has been reduced but think they are no worse off as a result.

Different payment models

Q - There are a number of models asset managers and research providers are using. Which of these models is your firm paying for research?

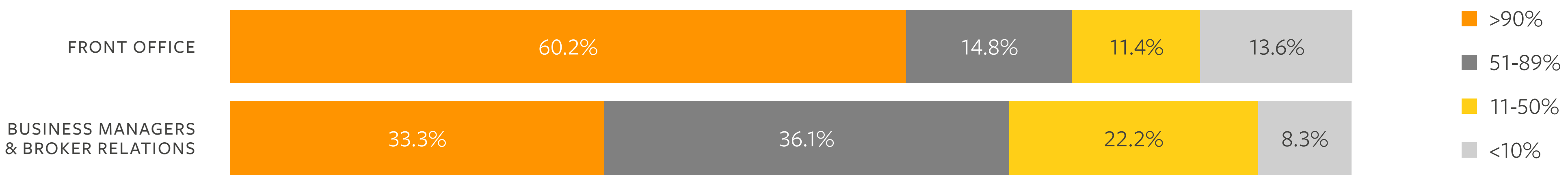


Multiple structures have been adopted by the industry as it transitioned to paying for research. Four major models have emerged, all equally popular. These models include all-inclusive or platform-only access with fees agreed upfront and rate cards where periodic payments are determined by usage. A model most similar to the traditional broker vote still pervades where a small amount is paid in advance, but the majority of the payment is determined by votes from consumers of research. This model is more popular with the largest asset managers and 24% of respondents from firms managing >$100bn in assets are still using the "vote". Platform-only access has proven more popular with the smallest managers who are constrained by limited research budgets. 46% of respondents at firms with AUM <$1bn use this model.

1 Written research or platform access fee only, agreed upfront
2 Platform fee agreed upfront, incremental advisory services rate card agreed in advance, total payment determined by usage
3 Large fee for full service agreed upfront
4 Small fee paid upfront, majority of payment determined by broker vote at a later date

Free wallet

Q - What percentage of your firm's budget has been agreed upfront with providers?

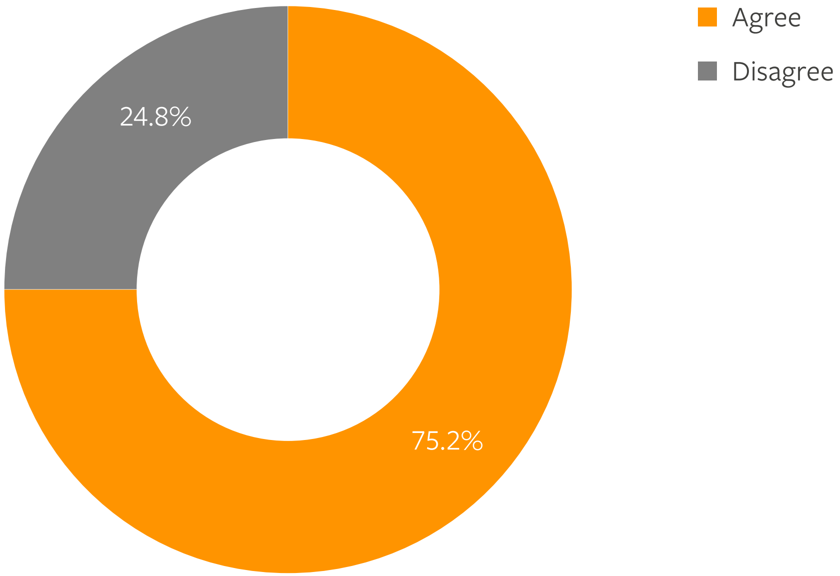


Overall, 42% of respondents have agreed more than 90% of their research budgets upfront with providers. Buy side firms are retaining flexibility to purchase incremental services or add providers throughout the budget period. Surprisingly, 19% did not know how much of their budgets had been agreed in advance.

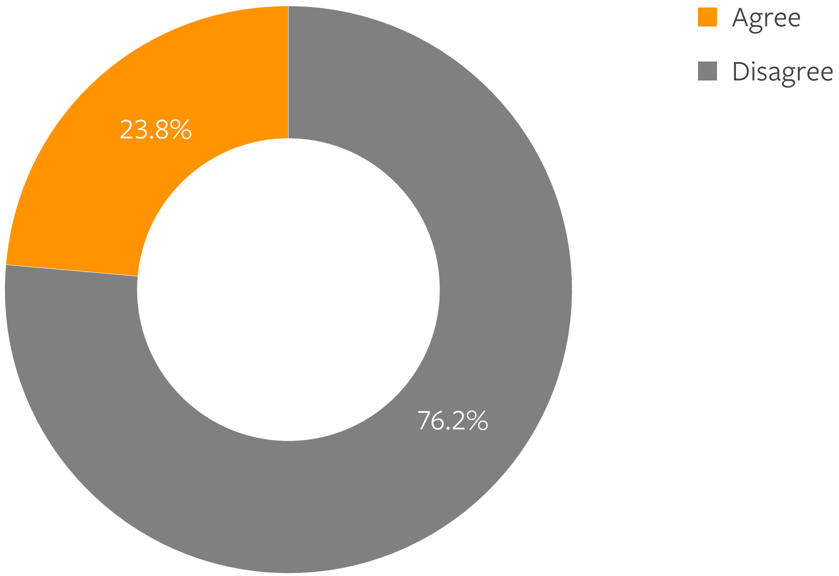
The perception of budget allocation differed between front office and operational respondents. PMs and Analysts believed that most of their research budget had already been allocated, but Research Managers and Broker Relations respondents believed this number to be far lower. This may be down to misunderstandings about voting models or just clever management from those holding the purse strings.

Research pricing

Q - Do you agree or disagree that current prices providers are charging are not sustainable?



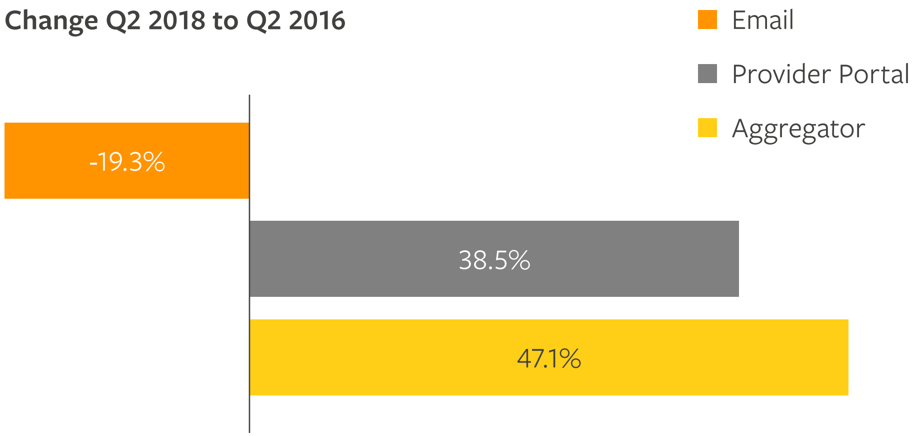
Q - Do you agree or disagree that low research prices constitute an inducement?



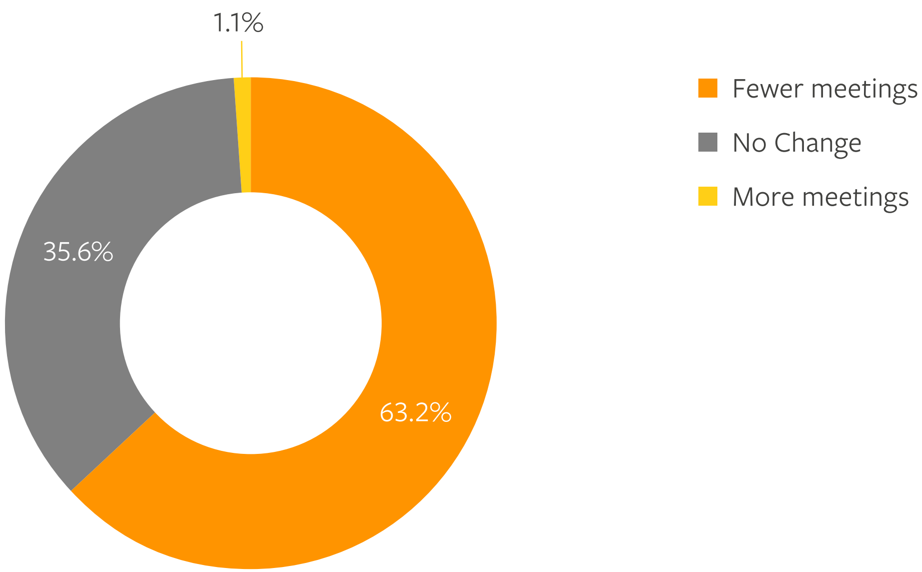
Since the middle of last year, the price of written research has been under pressure. Three-quarters of respondents felt that the current low prices charged by providers are not sustainable. A similar number thought that despite the artificially low levels, prices did not constitute an inducement.

Research consumption

Q - How do you currently access most of your written research?



Q - How has your own consumption of sell-side analyst time changed year on year?



This same question was also included in our previous two surveys. Comparing the responses from Q2 2018 to those from Q2 2016, email has been the biggest loser as a result of research unbundling. The changes have caused a nearly 50% increase in the popularity of aggregators as the preferred venue for consuming research. The increased use of provider portals evidences the improvements in research distribution technology which have occured at the same time.

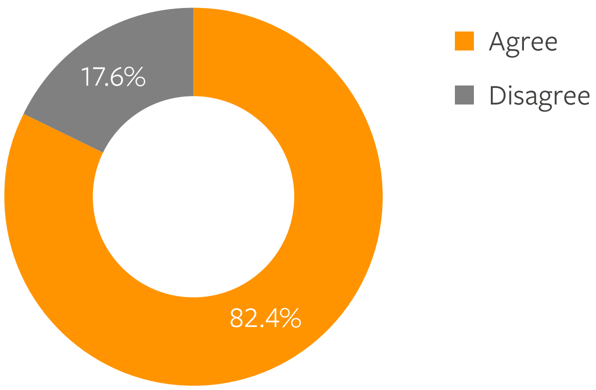
Demand for meetings has fallen considerably over the last year. 63% of Front Office respondents are taking fewer meetings. Fund managers and PMs are less likely to take meetings that they have been offered and are also asking for fewer meetings. Considering this alongside the confusion surrounding upfront budget allocation, uncertainty of meeting costs and what is included within subscription packages with providers may be to blame.

Smaller companies & managers

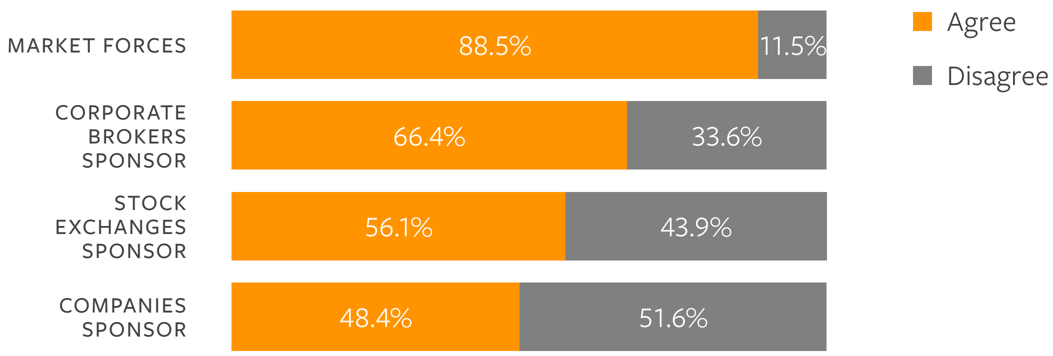
Smaller companies and smaller managers are often cited as coming off worse from research unbundling so we wanted to give this portion of the market a particular focus.

Small cap coverage

Q - Do you agree or disagree that the low prices being paid for research may cause a decline in the coverage of small and midcap companies?



Q - Which of the following do you like to see happen in order to help improve the coverage of small and midcap companies?



An argument often rolled out against research unbundling was that it would disadvantage smaller companies who would experience a drop in their already low coverage. Of those expressing a view, over 82% expected coverage of small caps to decrease as result of research unbundling. Perhaps more interestingly, respondents did not support sponsored research as the solution to improve the coverage of small and midcap companies. Instead, 88% agreed that market forces will help to improve coverage of smaller companies over time. Of the subsidisation options, company sponsored research was viewed as least like to solve this problem.

Historically, with bundled payments coverage of companies has mainly followed trading volumes, and the most liquid companies in the world are frequently followed by 50+ analysts. With the buy side expecting market forces to drive better coverage of small and midcap companies, research unbundling could see that situation unwind. Talent may be drawn away from large stocks to less liquid stocks, where there is unmet demand for coverage and an analyst can add more value and generate greater alpha. The perception that current low prices are unsustainable and more coverage is required for smaller companies could see market forces either drive up those prices, or move the talent to cover niches where they can help clients to make returns.

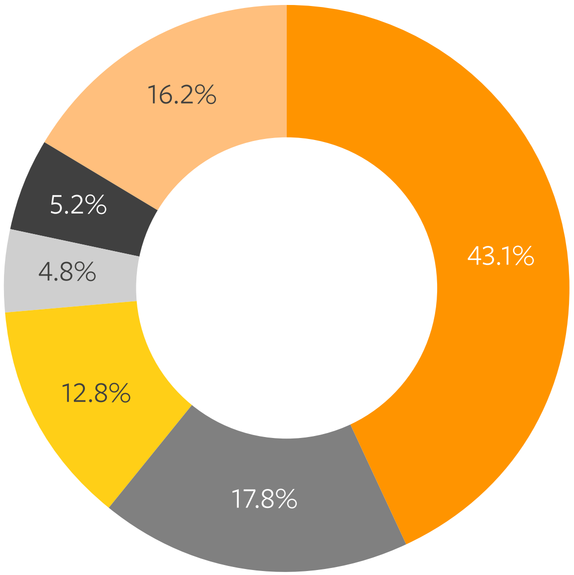
Smaller managers

Q - How would you describe the access you have to research providers as a result of unbundling?

Throughout the survey, responses from individuals at the smallest asset managers have varied from those at the largest firms. Similar to small and midcap companies, the smallest asset managers have also suffered as a result of research unbundling, with 45% of respondents from firms managing less than $1bn in assets feeling worse off because of the reduction in research they receive. In comparison, just 22% of respondents at firms with >$100bn in AUM felt worse off.

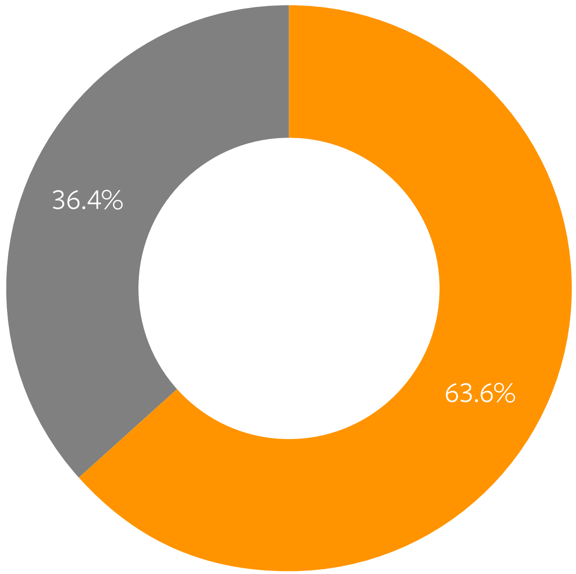
Appendix

418 respondents from over 350 investment firms managing over $30trn in AUM



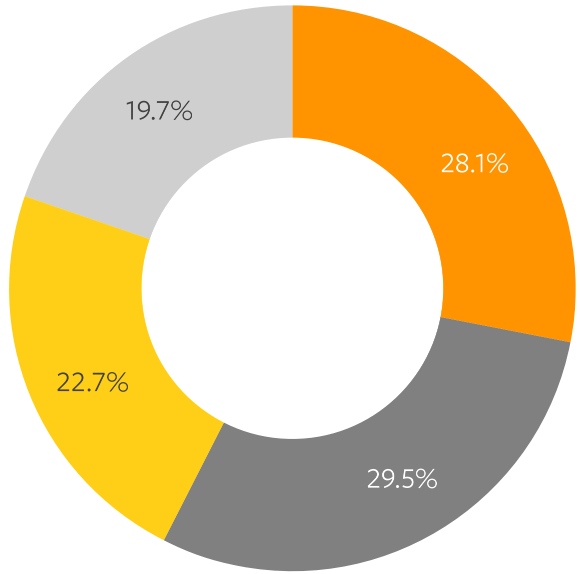
Job titles of respondents

- Portfolio Manager
- Analyst
- Business Manager
- Broker Relations
- Compliance
- Other



Where respondents are based

- Inside Europe
- Outside Europe



Total Assets Under Management

- Less than $1bn
- $1bn-10bn
- $11bn-100bn
- $100bn+

Comments

Respondents were able to leave confidence comments behind. While the comments themselves can't be published, it is clear there is still a level of anger about the change that MiFID II research unbundling has caused, particularly for those in front office roles. This is understandable given the scale of the change and, as evidenced elsewhere in the survey, the loss of control they have experienced in the past 12 months.

Common themes:

- The quality of research would suffer due to low pricing.
- The fear of receiving less content than required now it must be paid for.
- The concern that less research from fewer sources would impact performance over time.
- The view that smaller funds & investors would suffer the most.
- The issues of an additional cost in FICC where research has never been part of a 'commission'.

For more information please visit:
www.rsrchxchange.com

Contact Lucy Baker to create a trial account:
lucy@rsrchx.com