



RBC Capital Markets

RBC MiFID II Survey

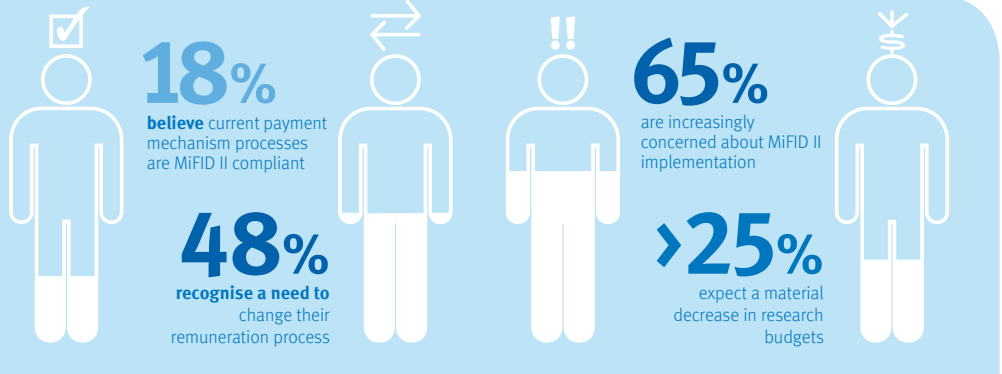
APRIL 2017

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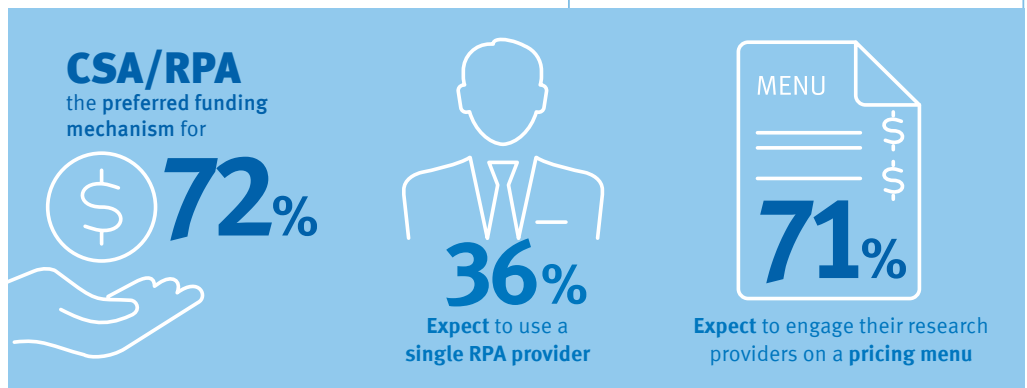
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CLIENT FEEDBACK
SUMMARY

PREPAREDNESS



PAYMENT MECHANISM



REGIONALITY



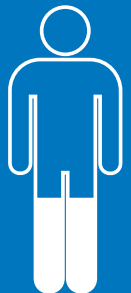
EXECUTION

Over the next **18 months**, respondents expect changes to the number of brokers:

	Execution	Advisory
<10:	38%	25%
11-20:	34%	34%
21-40:	13%	18%
40+:	15%	23%

1/3

of respondents believe that their current execution practices are aligned with the incoming regulatory changes



STILL WORK TO DO AS THE MARKET PREPARES FOR MiFID II

Earlier this year we engaged with our key clients to gauge their preparation for the upcoming MiFID II regulatory changes. More than 380 buy-side professionals contributed to our survey findings, focusing in particular on research pricing, payment mechanisms and the evolution of advisory relationships. At RBC we remain committed to partnering with clients during this challenging transformational period. This publication summarises the main insights from the survey including areas of emerging market consensus.

Within the advisory landscape, MiFID II will obligate buy-side firms to separate payment for research from execution commissions, and will require fund managers to ensure that they are valuing, consuming and paying for research in a way that is beneficial to their end clients.

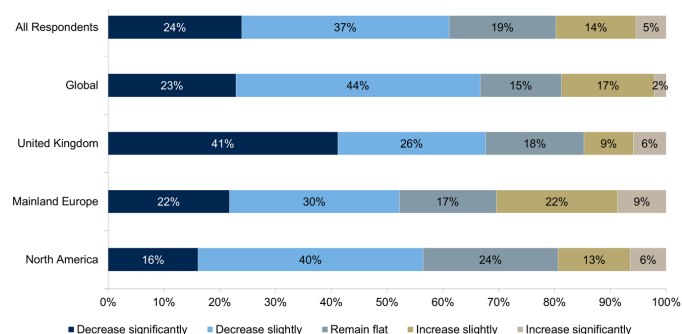
With less than 180 working days until the MiFID II go-live date, uncertainty still remains as to how best to tackle the enormity of reform that this EU regulation will impose. Our survey suggests that over two thirds of respondents have become increasingly concerned as to how to manage MiFID II implementation, while less than a fifth of respondents believe their current payment mechanism is MiFID II compliant. However, firms are resolved to ensure that the correct processes are in place ahead of January 3rd 2018, and clear trends on market consensus are emerging.

Tracking and defining the research budget

According to our survey results, respondents believe that the structure of advisory payments will evolve quickly. Starting with broker votes, 60% believe they will become more granular and transparent, and 35% expect them to become more frequent.

71% of respondents are also looking to engage with research providers on a pricing menu, although with the regulator softening the requirements for pricing on the sellside, the final decision on cost is likely to become a bilateral decision on a firm-by-firm basis.

Q: WHAT DO YOU EXPECT TO HAPPEN TO RESEARCH BUDGETS IN THE LONGER TERM?



Key findings

Still work to do... Only 18% of respondents believe that their current payment mechanism is MiFID II compliant. Although there is a consistent recognition that MiFID II will significantly change the remuneration process for advisory (48%), and to a lesser extent execution (23%).

But firms are solidifying plans towards compliance... 38% of global firms believe they will need to introduce a new payment mechanism.

CSA/RPA model emerges as the most popular payment mechanism with potential uptake of this model set to increase at a far higher rate than P&L. Our survey suggests that 46% of respondents use CSAs today. In the future, 72% of all respondents believe this will be their preferred model, and only 15% see P&L as their preferred model post MiFID II.

The number of CSA partners is expected to increase across all regions, with slowest growth expected in the UK, where CSAs are already the most popular incumbent model.

Transparency is set to improve with 60% believing that broker votes will become more granular and transparent.

Execution processes are set to change alongside advisory. Although over a third of respondents do not expect any change to their current broker remuneration for execution, the majority across all regions expect their broker execution lists to consolidate, particularly in Europe (ex-UK) where 48% expect to use fewer than 10 brokers for their execution services.

Shift towards global regulatory alignment appears to be accelerating. The majority of global respondents we surveyed are planning to adopt a globally consistent approach to MiFID II, with only 17% looking to adopt a regionalised approach. Over three-quarters of global and North American respondents believe that US funds would be affected by research unbundling.

Which payment mechanism?

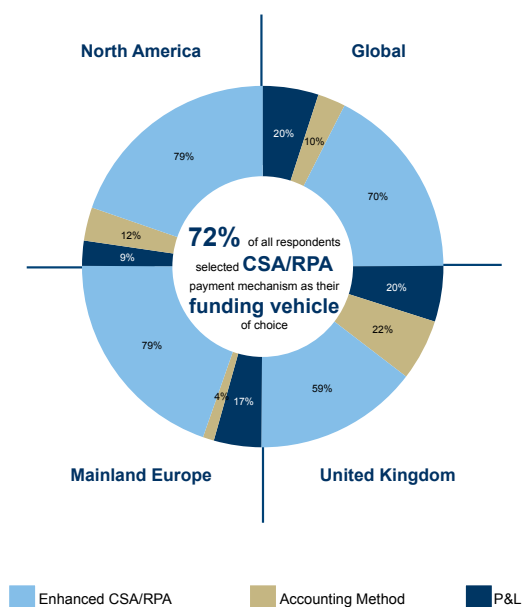
Across all regions, the CSA/RPA emerged as the preferred payment mechanism, with all regions surveyed looking to increase their usage.

The lowest increase in CSA/RPA take-up came from the UK. However, this regional variation is likely to be attributed to the existing popularity of the model in the UK, and also given that some UK respondents appeared to be considering other payment options.

All respondents, (ex the UK) also expected a significant increase in the number of their CSA partners, with European respondents anticipating the most significant increase, with 71% suggesting adding more CSA partners.

While many are still undecided, our survey indicated that there is a definite skew towards using just one RPA provider under MiFID II.

Q: WHICH IS YOUR PREFERRED FUNDING MECHANISM POST MIFID II?



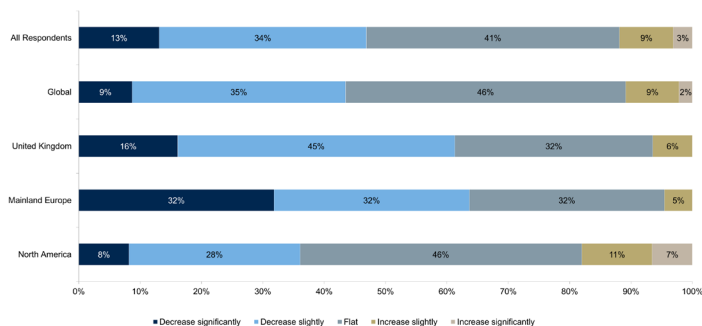
Best execution, and changes to the execution process

As regulation drives the division of the research and execution payment process, it has shined a spotlight on the two areas, increasing the focus on ensuring the quality of service in both products.

Over a third of respondents do not expect any change to their current broker remuneration for execution. However across all regions most respondents expect their broker execution lists to consolidate, particularly in Europe (ex-UK) where 48% expect to use fewer than 10 brokers for their execution services.

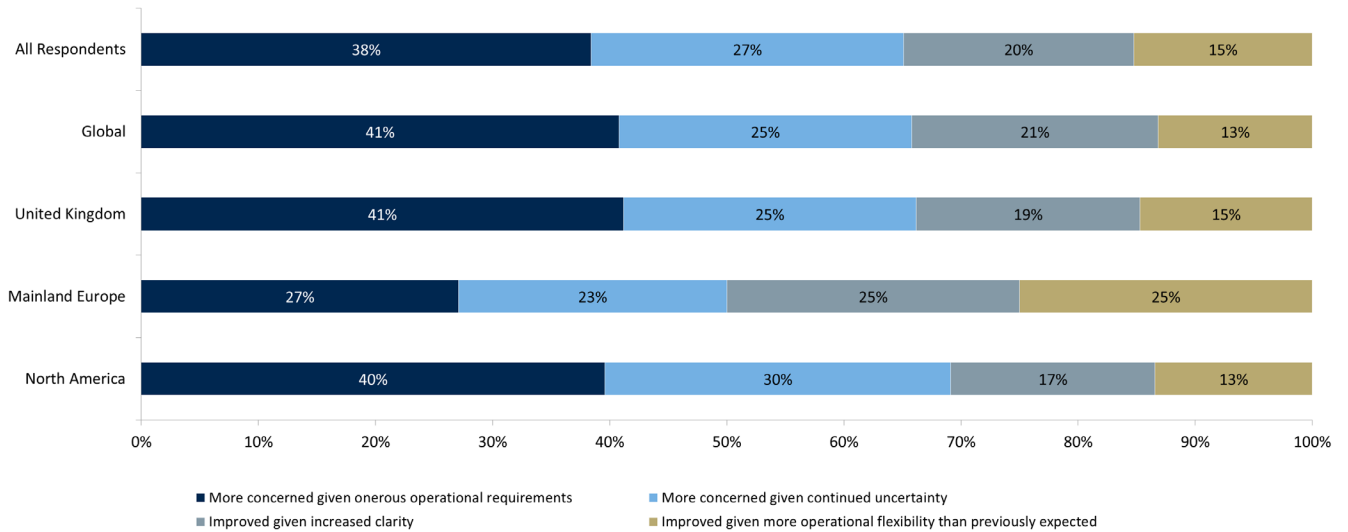
If you would like to discuss any of these topics in further detail please contact your RBC representative.

Q: DO YOU FEEL UPCOMING CHANGES WILL INCREASE/DECREASE YOUR NUMBER OF EXECUTION PROVIDERS?

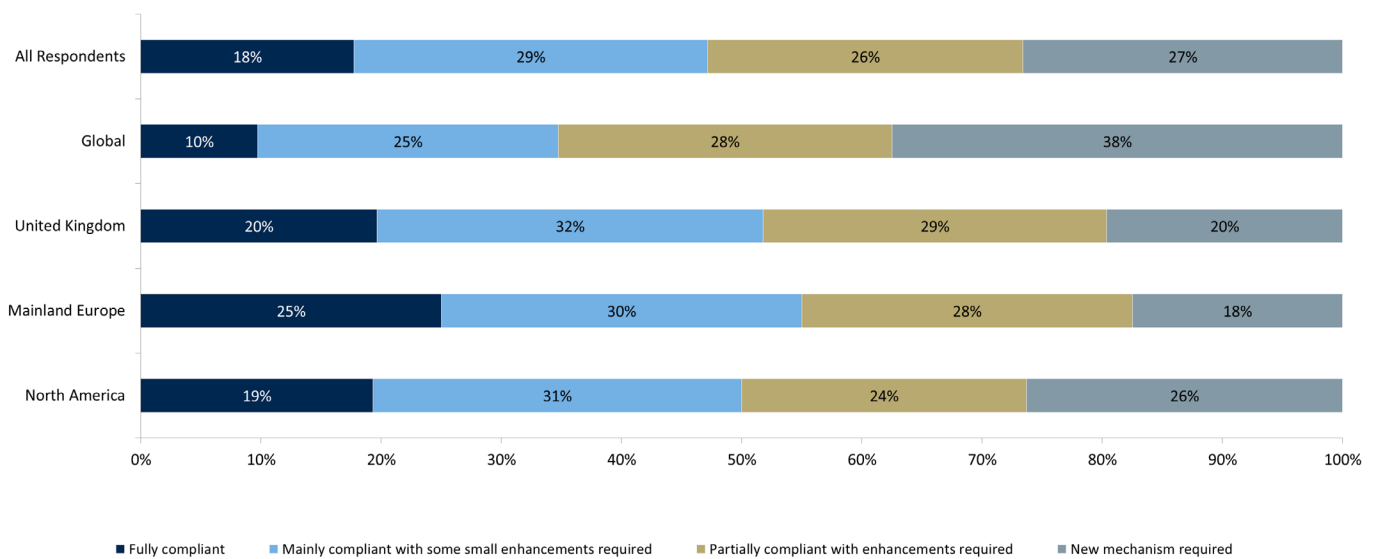


MiFID II SURVEY – FULL RESULTS

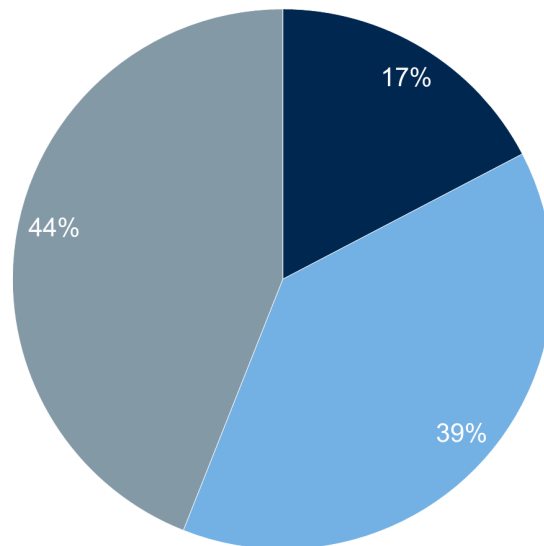
HOW HAS YOUR ATTITUDE TOWARDS MiFID II CHANGED OVER THE LAST 12 MONTHS?



HOW COMPLIANT DO YOU BELIEVE YOUR CURRENT PAYMENT MECHANISM TO BE UNDER MiFID II?

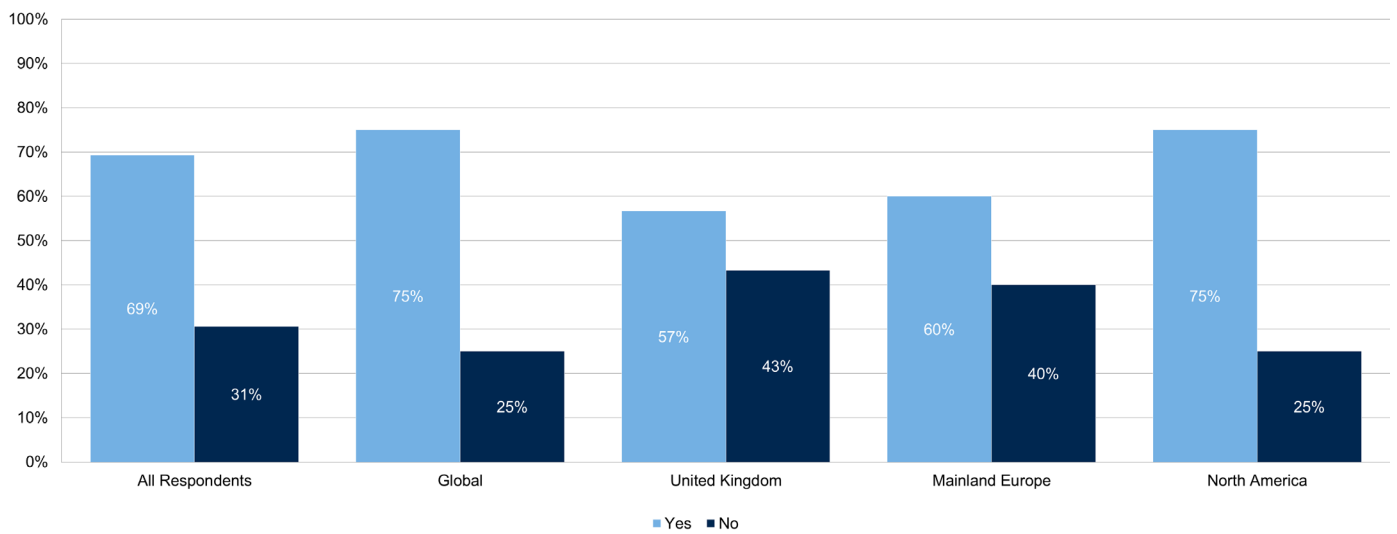


IF YOUR FIRM IS GLOBAL, HOW DO YOU EXPECT TO PREPARE FOR MiFID II?

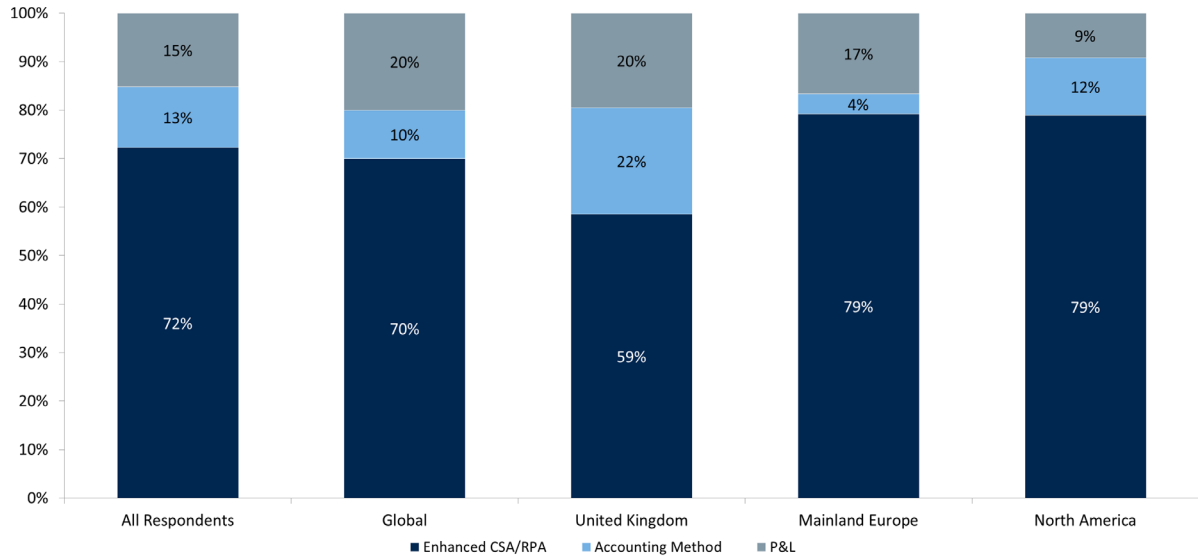


- Adopt a regional approach
- Undecided
- With a global, consistent platform

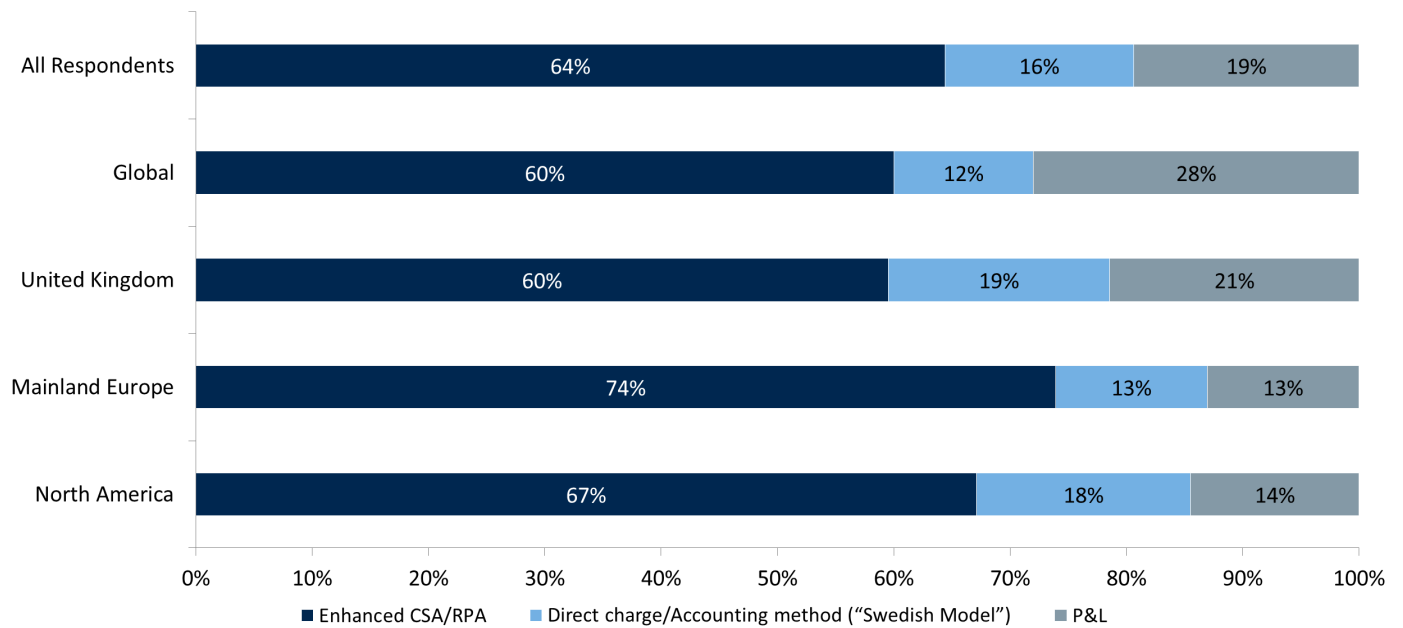
DO YOU BELIEVE THAT US FUNDS WILL BE IMPACTED BY THE UNBUNDLING PROCESS IMPLICATED IN MiFID II?



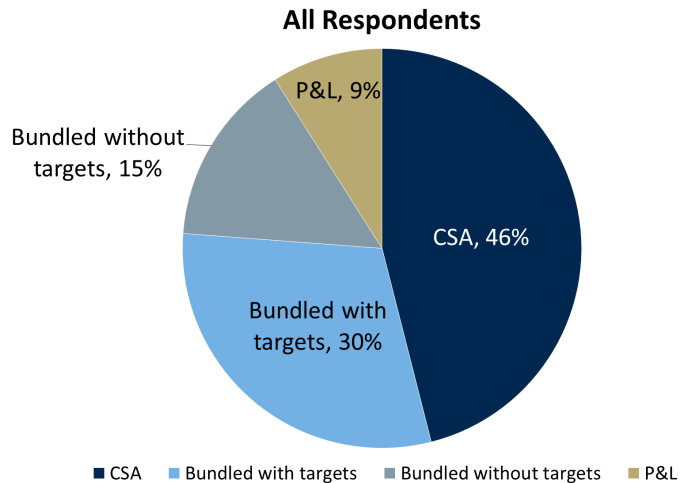
PLEASE RANK THE 3 KEY PAYMENT MECHANISMS THAT HAVE PREVAILED IN ORDER OF PREFERENCE (WITH 1 BEING THE MOST PREFERABLE)



WHICH DO YOU THINK IS THE MOST COMPATIBLE RPA FUNDING MECHANISM UNDER MiFID II?

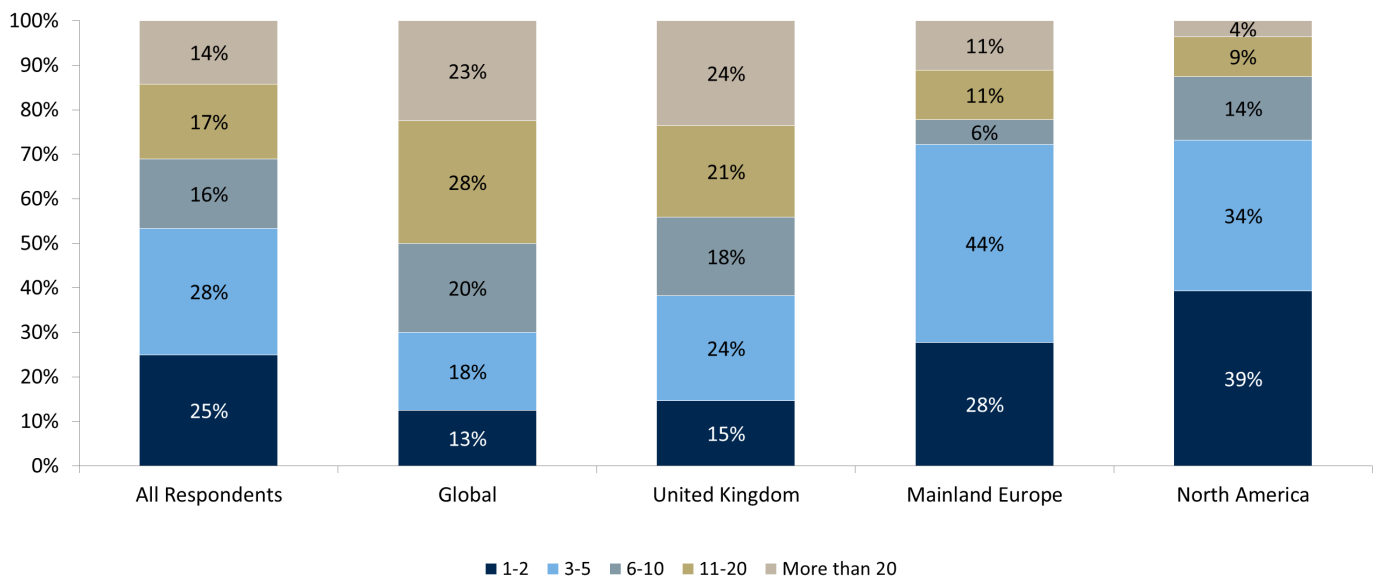


WHAT PAYMENT MECHANISM DO YOU CURRENTLY USE?

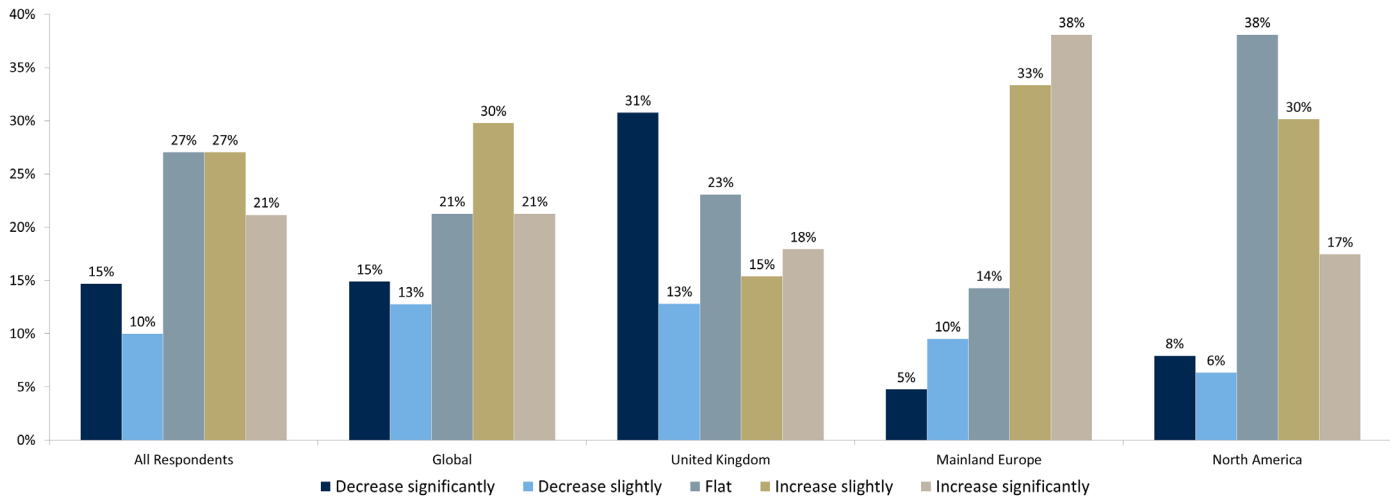


Which region are you primarily operating in?	CSA	Bundled with targets	Bundled without targets	P&L
North America	43%	33%	13%	10%
Mainland Europe	54%	25%	13%	8%
United Kingdom	50%	25%	18%	8%
Global	47%	31%	12%	10%
<i>All Respondents</i>	46%	30%	15%	9%

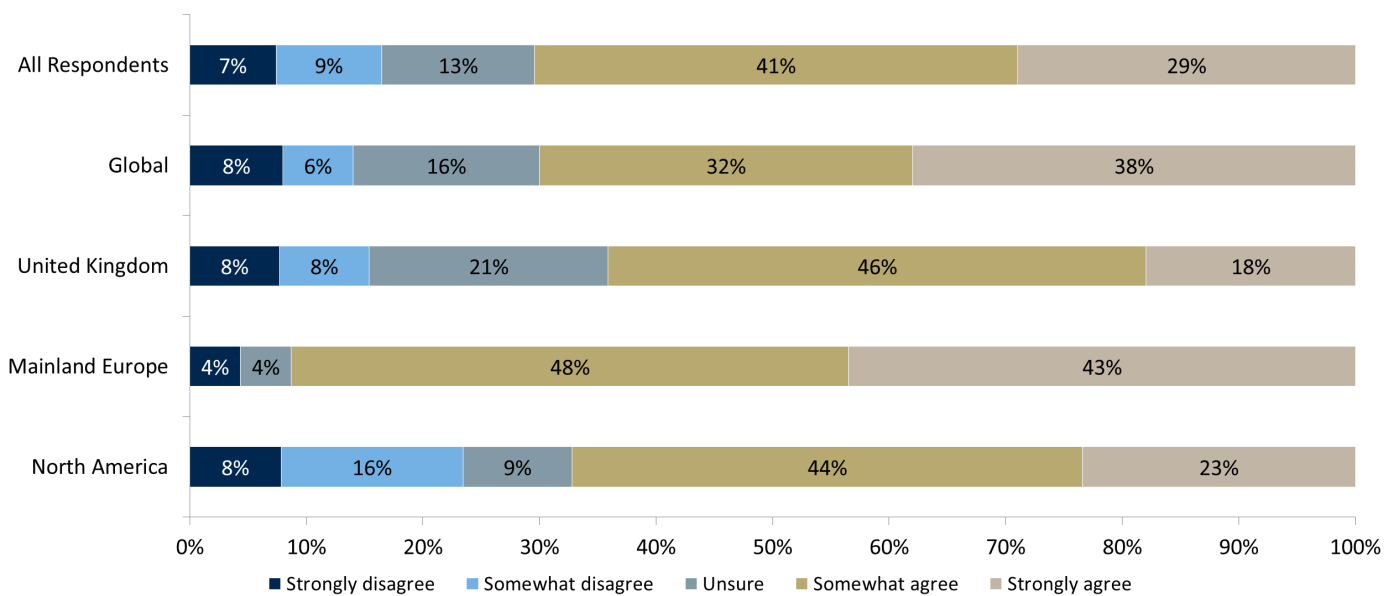
IF YOU USE CSAS, HOW MANY PROVIDERS DO YOU HAVE?



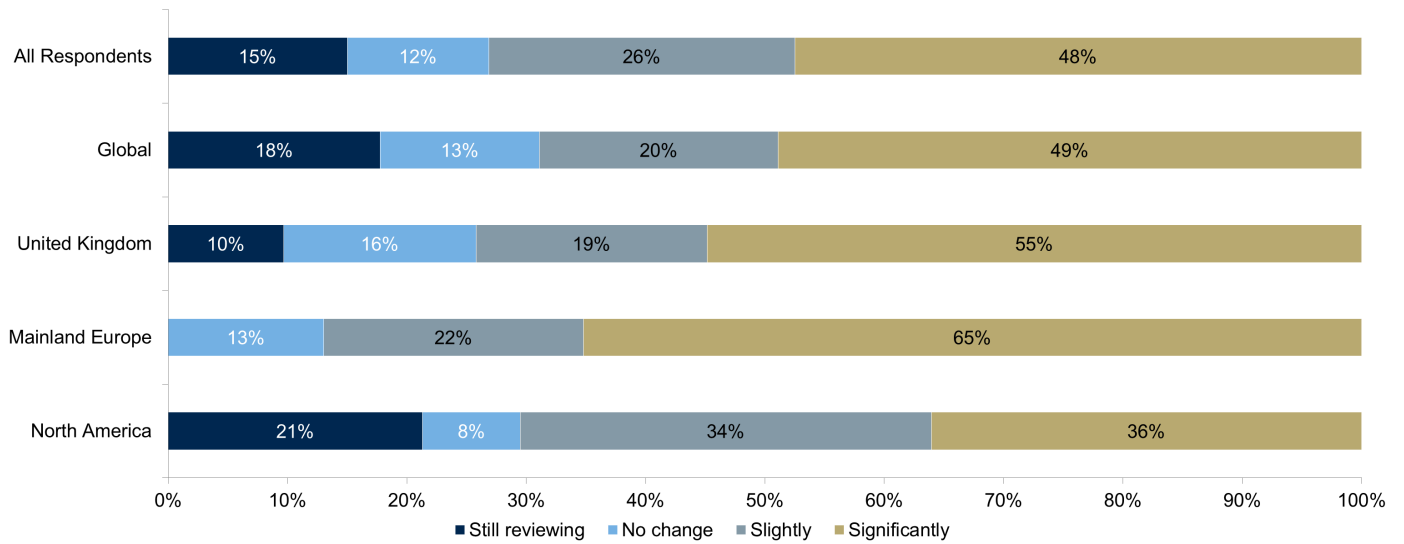
HOW DO YOU THINK YOUR NUMBER OF CSA COUNTERPARTIES WILL EVOLVE OVER NEXT 12 MONTHS?



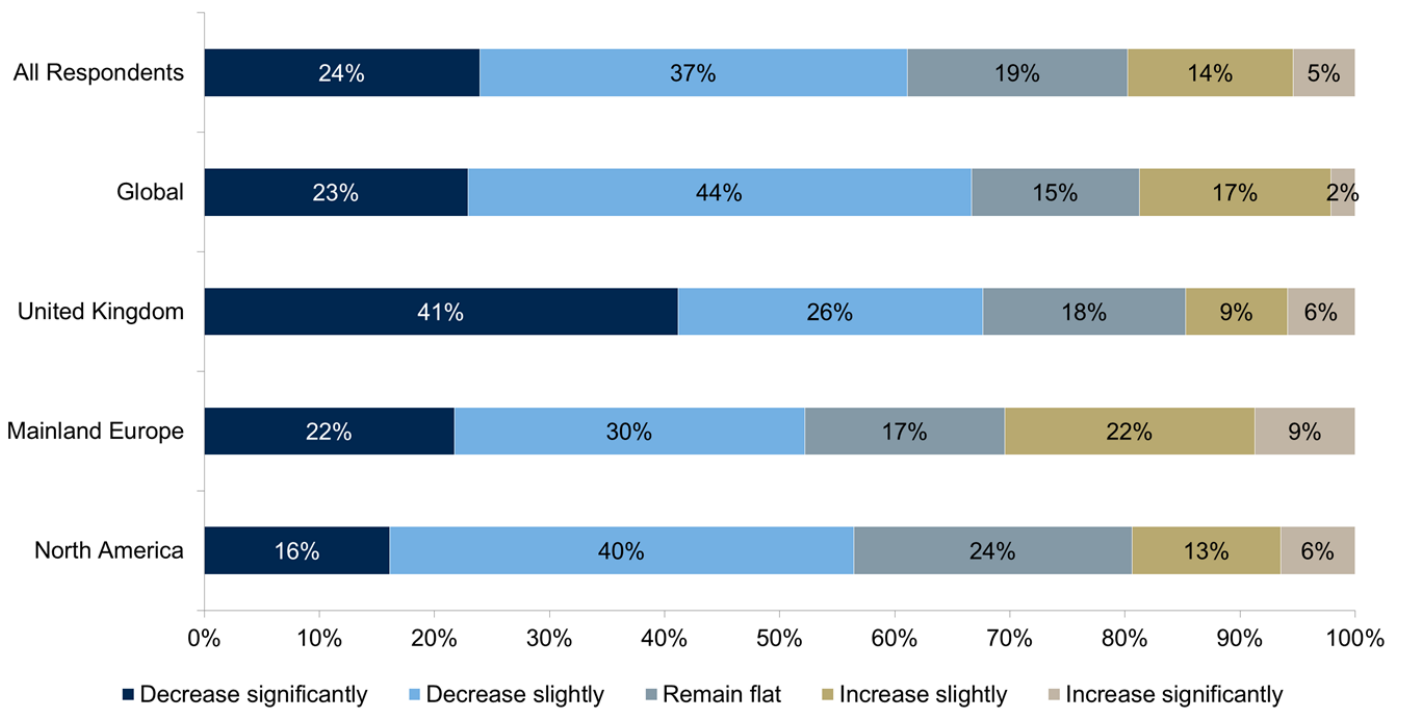
TO WHAT EXTENT DO YOU AGREE WITH THIS STATEMENT: CSA/RPA PARTNERS TEND TO BE MY CORE EXECUTION COUNTERPARTIES?



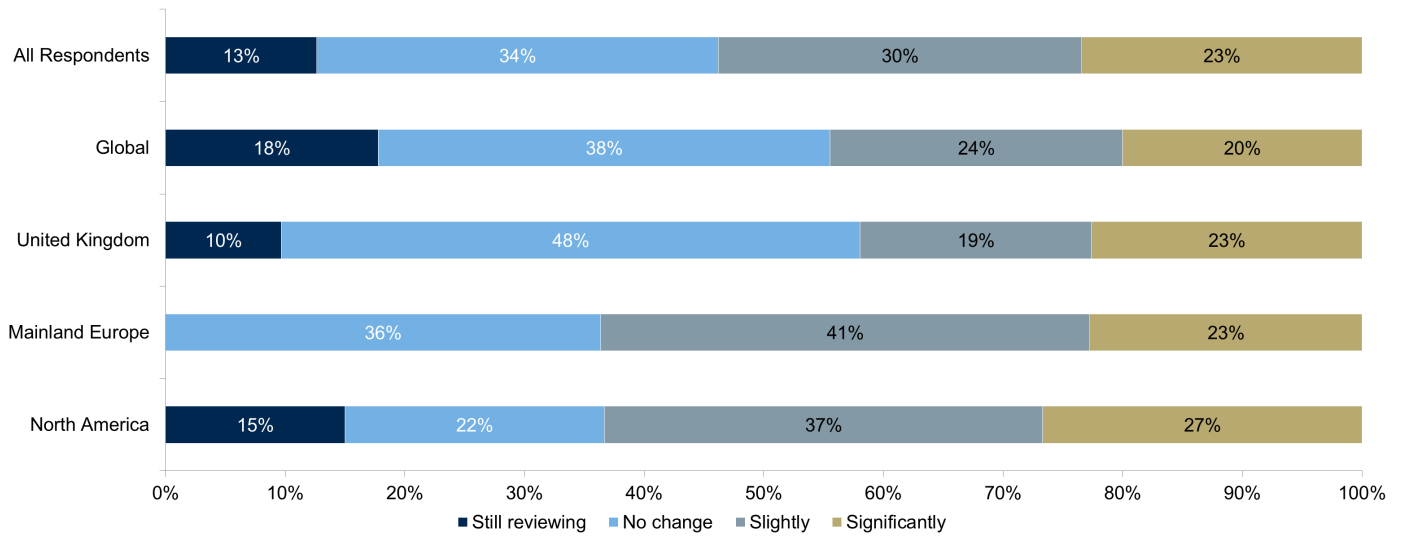
HOW DO YOU FEEL MiFID II WILL CHANGE YOUR BROKER REMUNERATION PROCESS FOR: ADVISORY



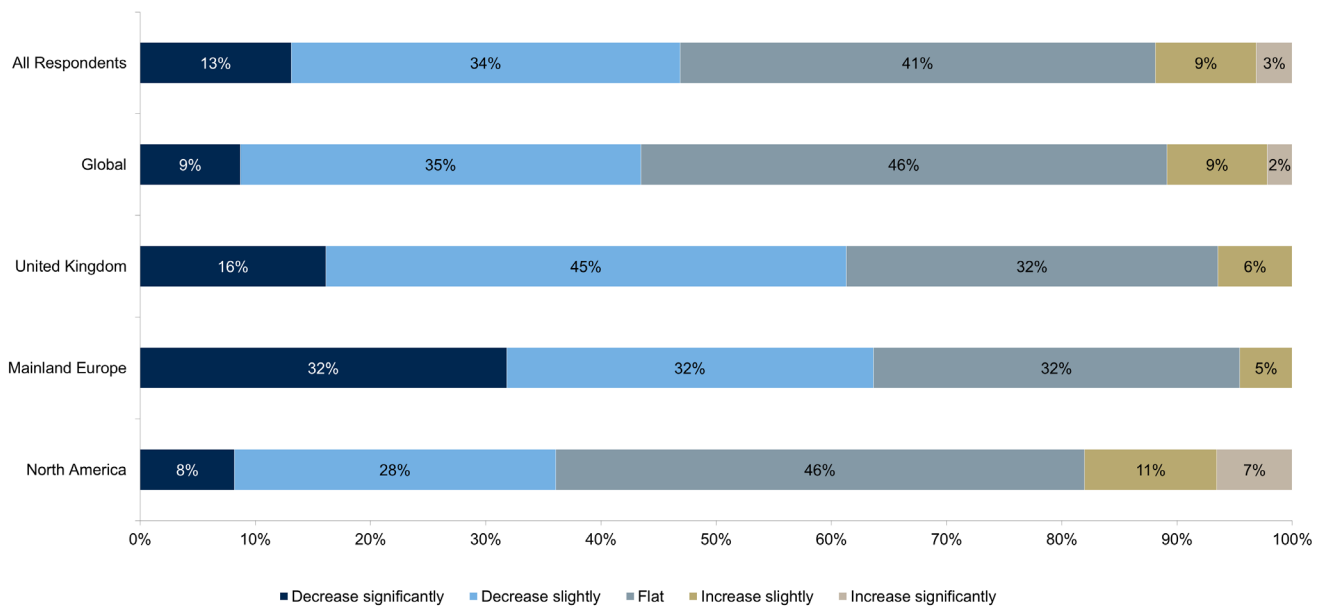
IN THE LONG TERM, I EXPECT RESEARCH BUDGETS TO:



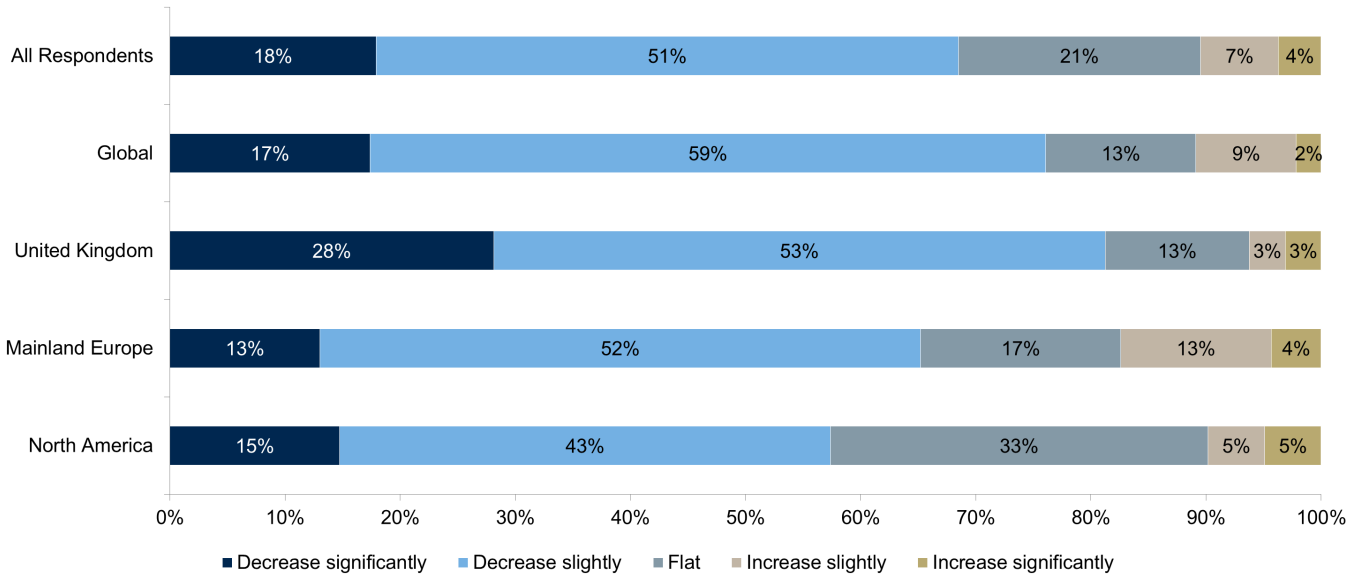
HOW DO YOU FEEL MiFID II WILL CHANGE YOUR BROKER REMUNERATION PROCESS FOR: EXECUTION



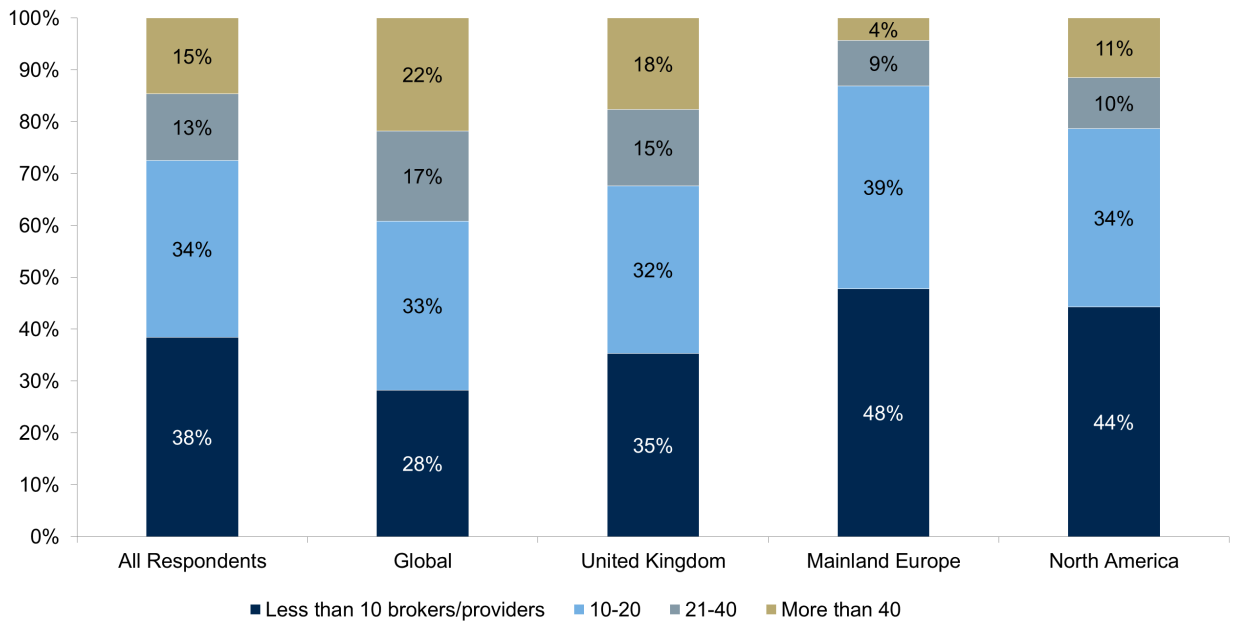
DO YOU FEEL UPCOMING CHANGES WILL INCREASE/DECREASE NUMBER OF PROVIDERS YOU USE FOR: EXECUTION



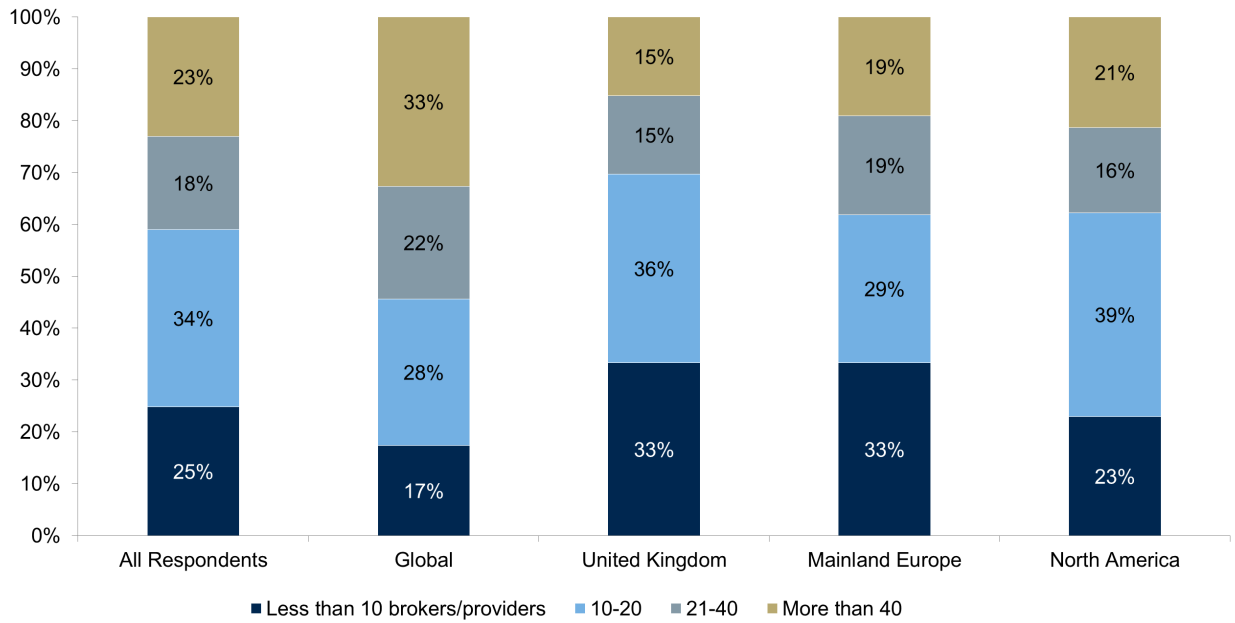
DO YOU FEEL UPCOMING CHANGES WILL INCREASE/DECREASE NUMBER OF PROVIDERS YOU USE FOR: ADVISORY



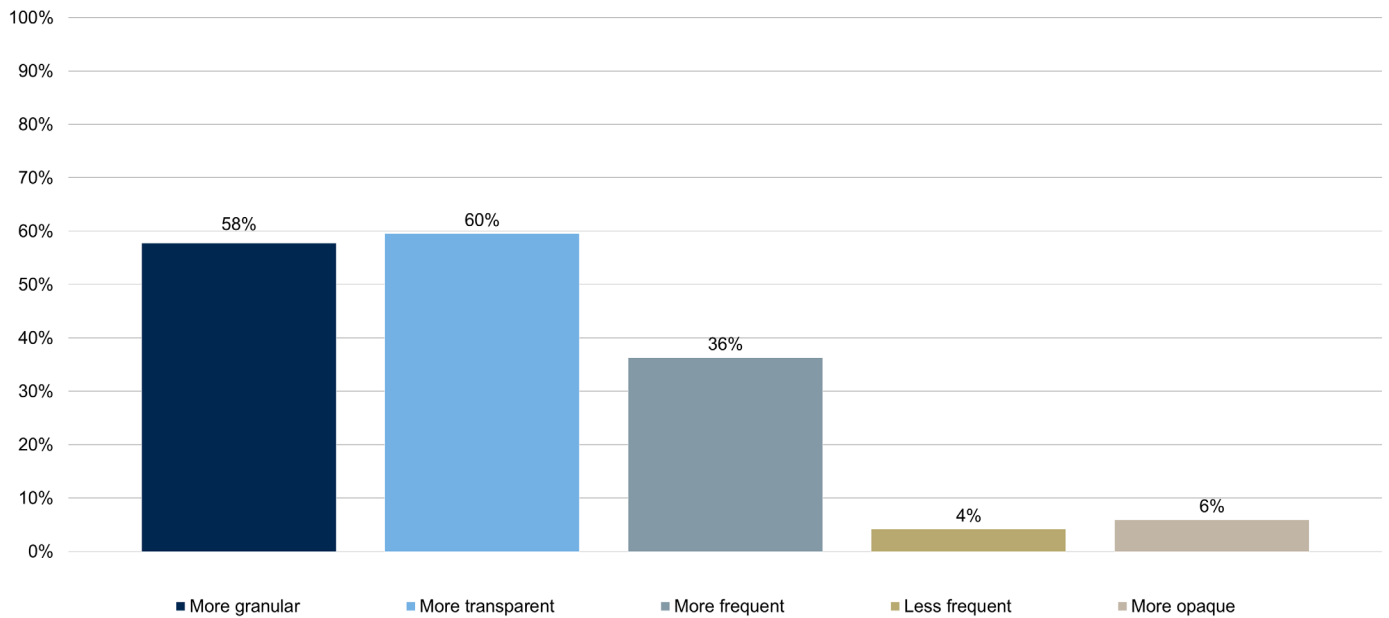
IN 18 MONTHS TIME, I ANTICIPATE THAT I WILL USE THE FOLLOWING NUMBER OF EXECUTION PROVIDERS:



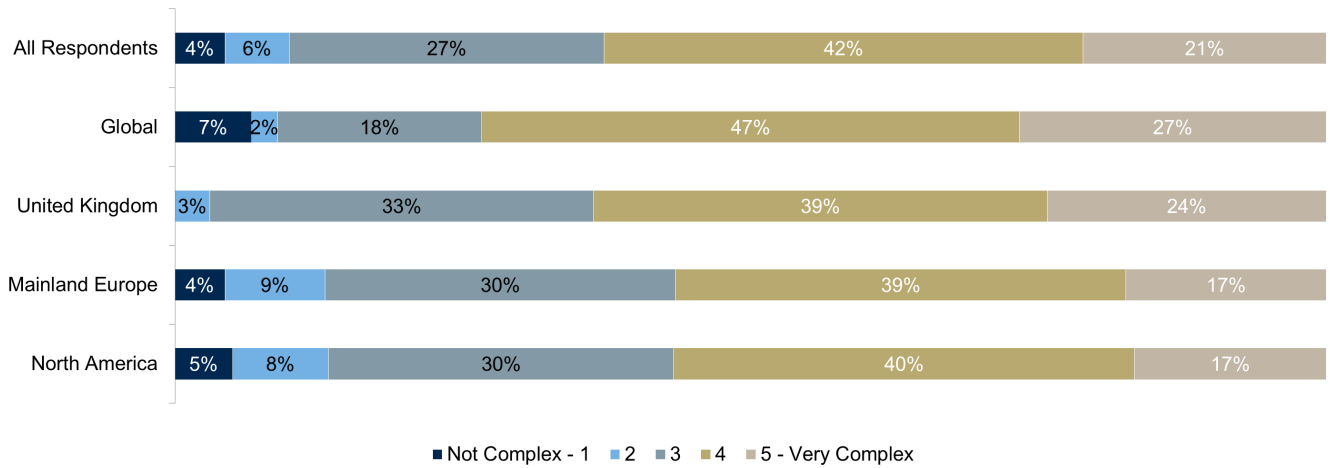
IN 18 MONTHS TIME, I ANTICIPATE THAT I WILL USE THE FOLLOWING NUMBER OF ADVISORY PROVIDERS:



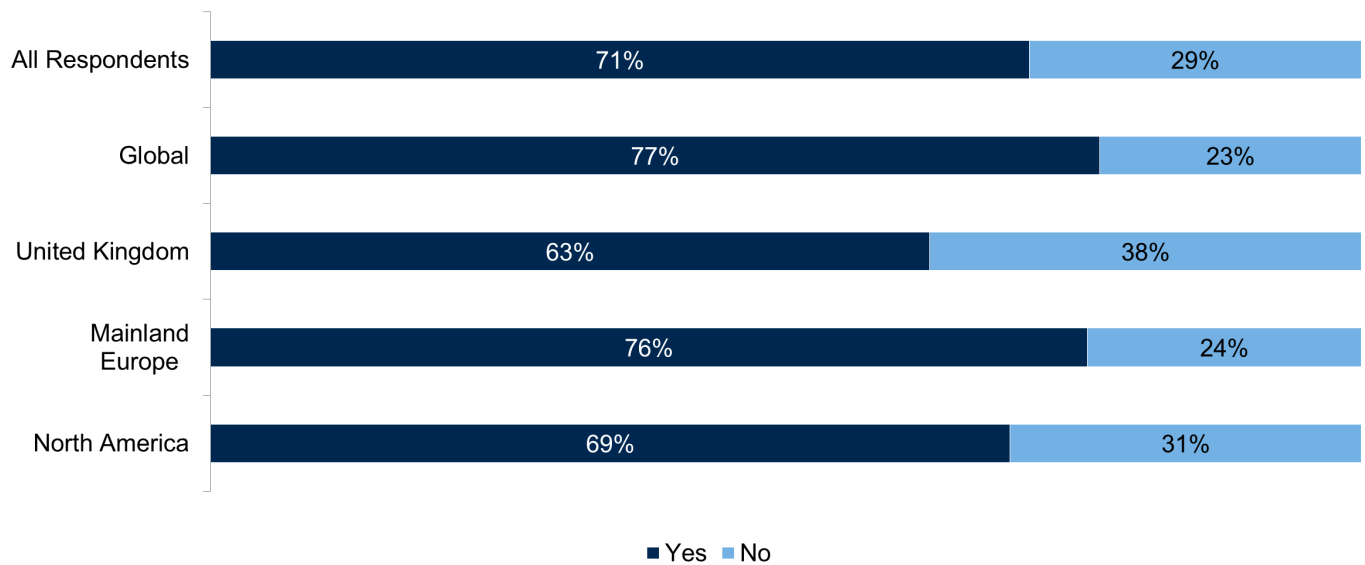
ANTICIPATED CHANGES IN BROKER EVALUATIONS: PERCENTAGE OF RESPONDENTS THAT ANTICIPATE THE FOLLOWING CHANGES:



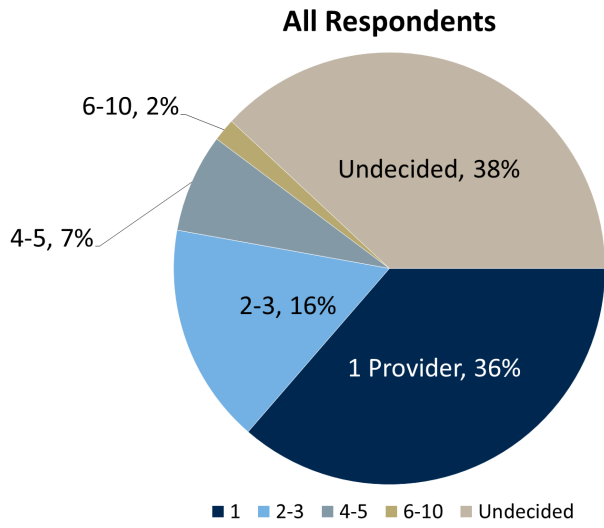
ON A SCALE OF 1-5, HOW COMPLEX DO YOU BELIEVE PRICING RESEARCH TO BE FOR YOUR RESEARCH PROVIDERS?



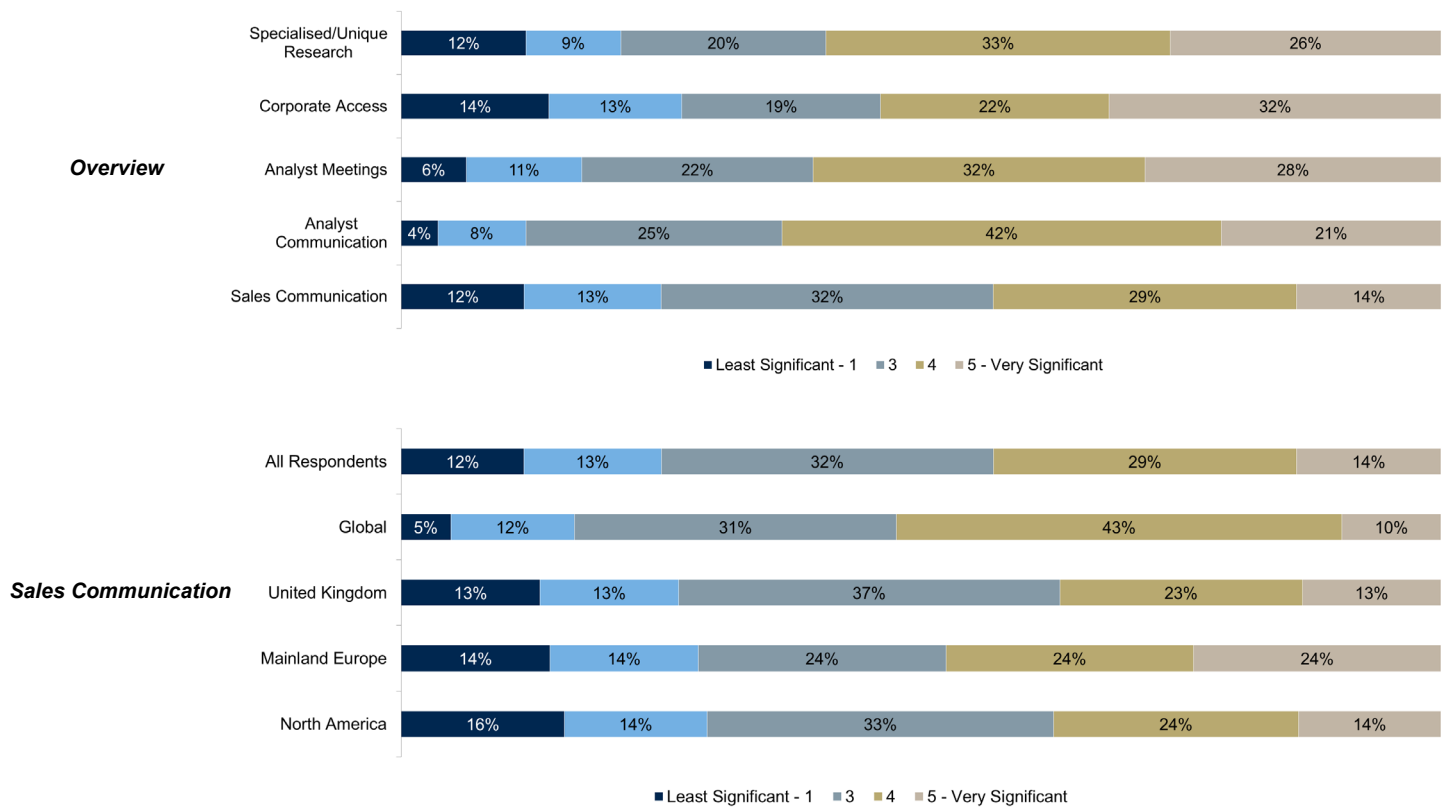
DO YOU PLAN TO ENGAGE YOUR RESEARCH PROVIDERS REGARDING A RESEARCH PRICING MENU?



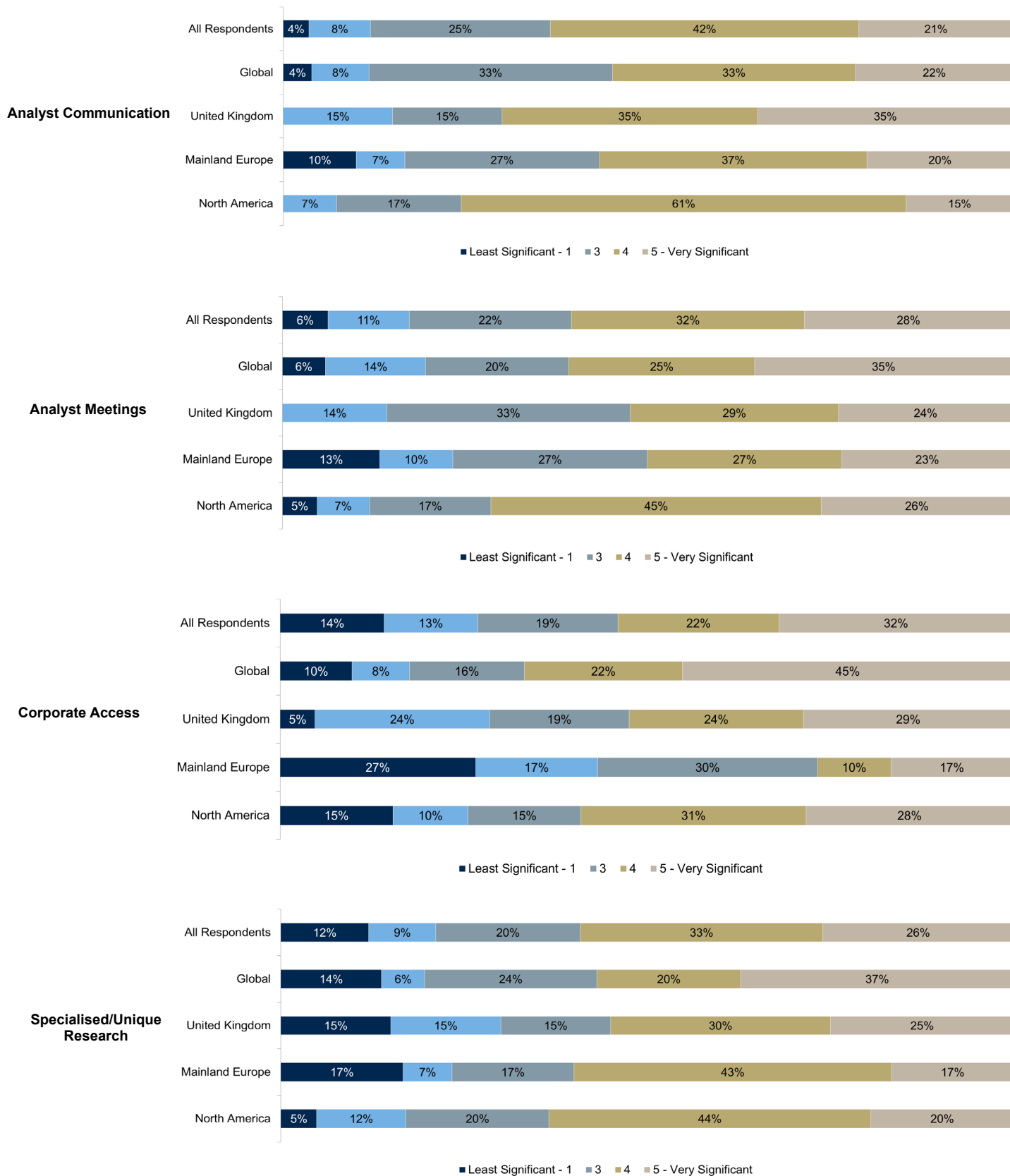
HOW MANY RPA ADMINISTRATORS DO YOU EXPECT TO USE?



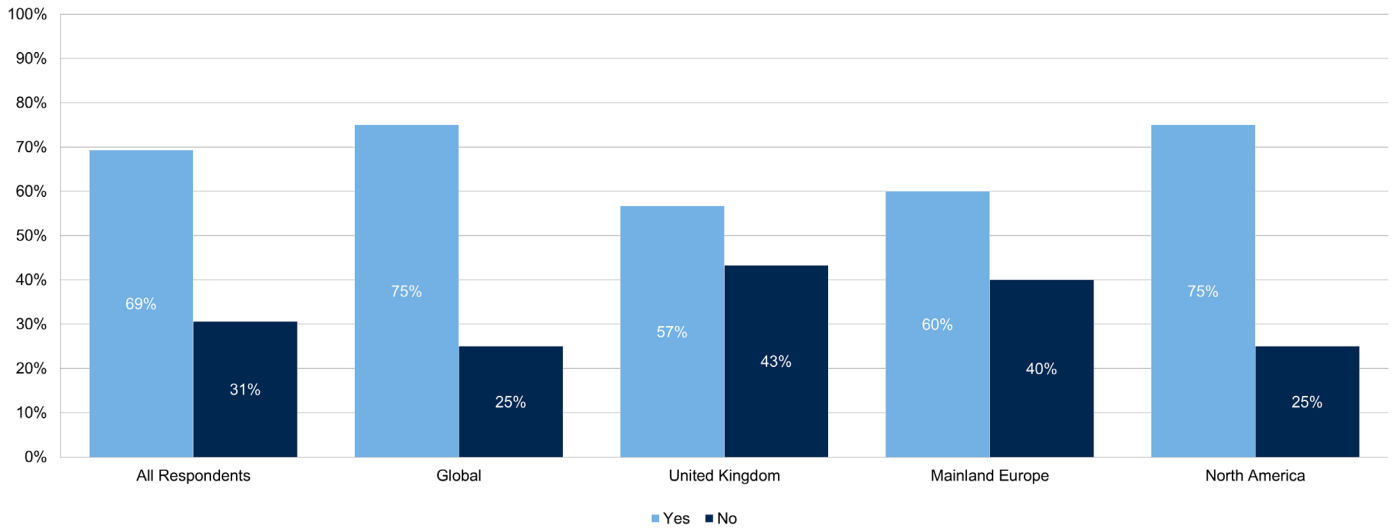
ON A SCALE OF 1-5 (WITH 5 BEING THE MOST SIGNIFICANT), HOW SIGNIFICANT DO YOU BELIEVE THE IMPLICATION OF MiFID II TO BE ON:



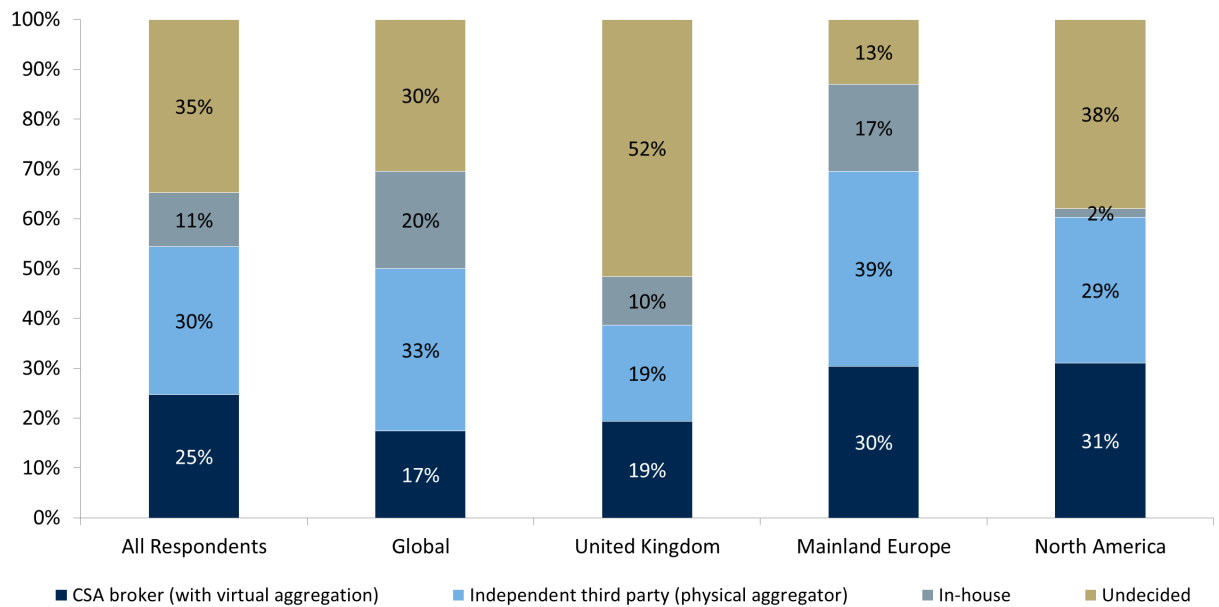
ON A SCALE OF 1-5 (WITH 5 BEING THE MOST SIGNIFICANT), HOW SIGNIFICANT DO YOU BELIEVE THE IMPLICATION OF MiFID II TO BE ON:



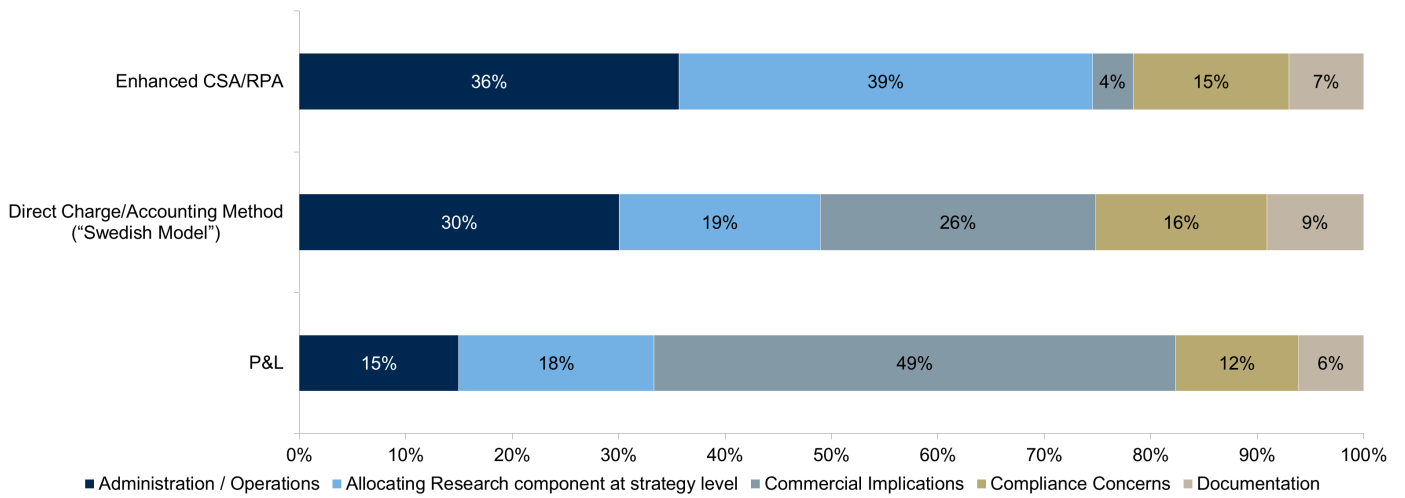
ARE YOU PLANNING TO TRACK INTERACTIONS SYSTEMATICALLY?



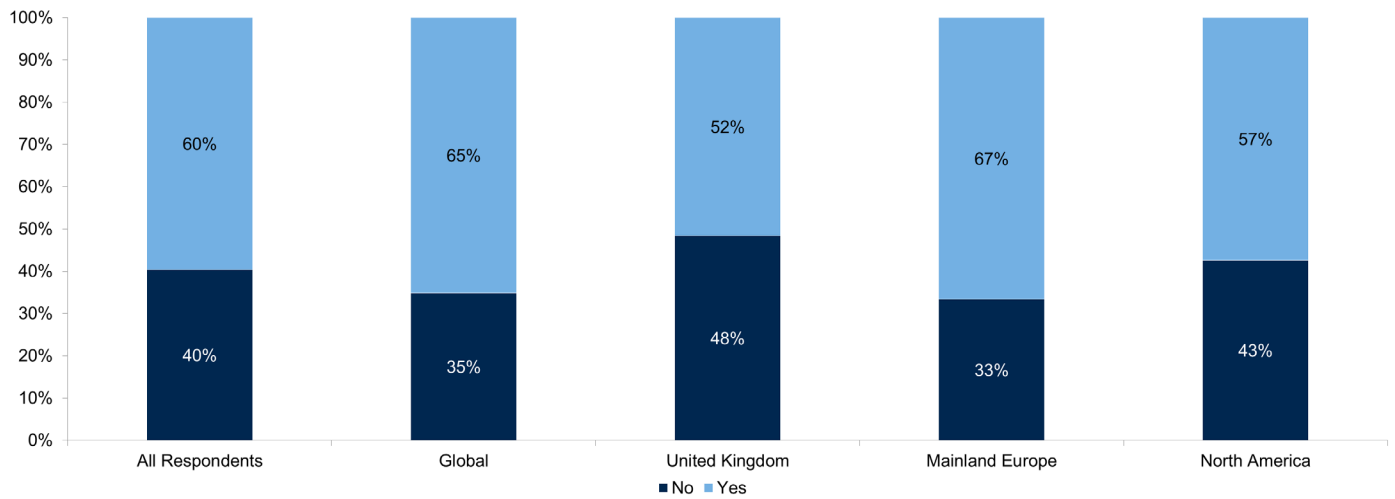
IF LOOKING TO UTILIZE AN RPA, WHICH OF THE FOLLOWING FIRMS DO YOU ANTICIPATE HOLDING AND MANAGING THE RPA FUNDS?



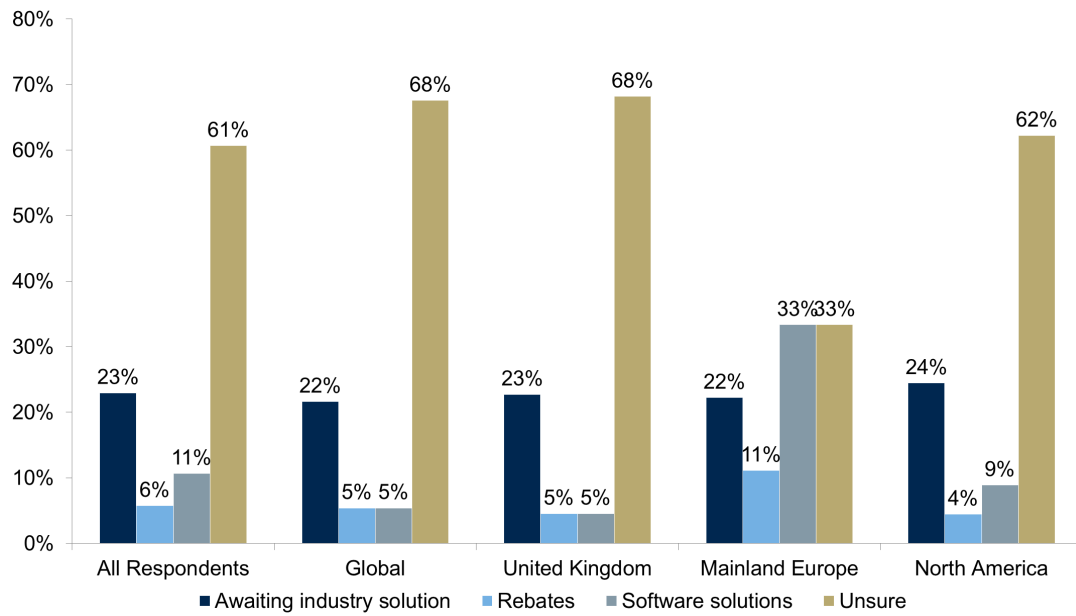
CURRENTLY WHAT IS THE MOST CHALLENGING ASPECT OF THE FOLLOWING THREE APPROACHES?



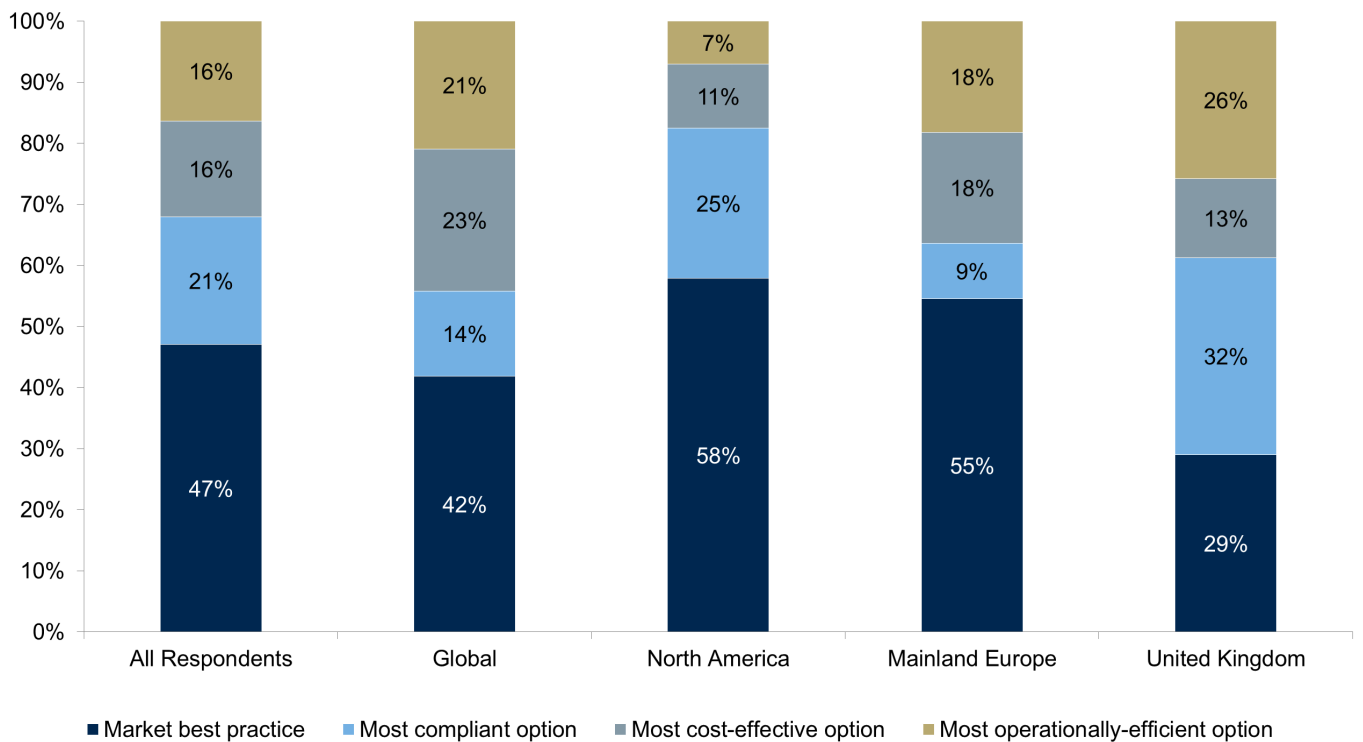
VARYING ACCRUAL RATES HAS EMERGED AS A DIFFICULT PROCESS WITHIN THE ENHANCED CSA/RPA MODEL. IS THIS A CONCERN FOR YOU?



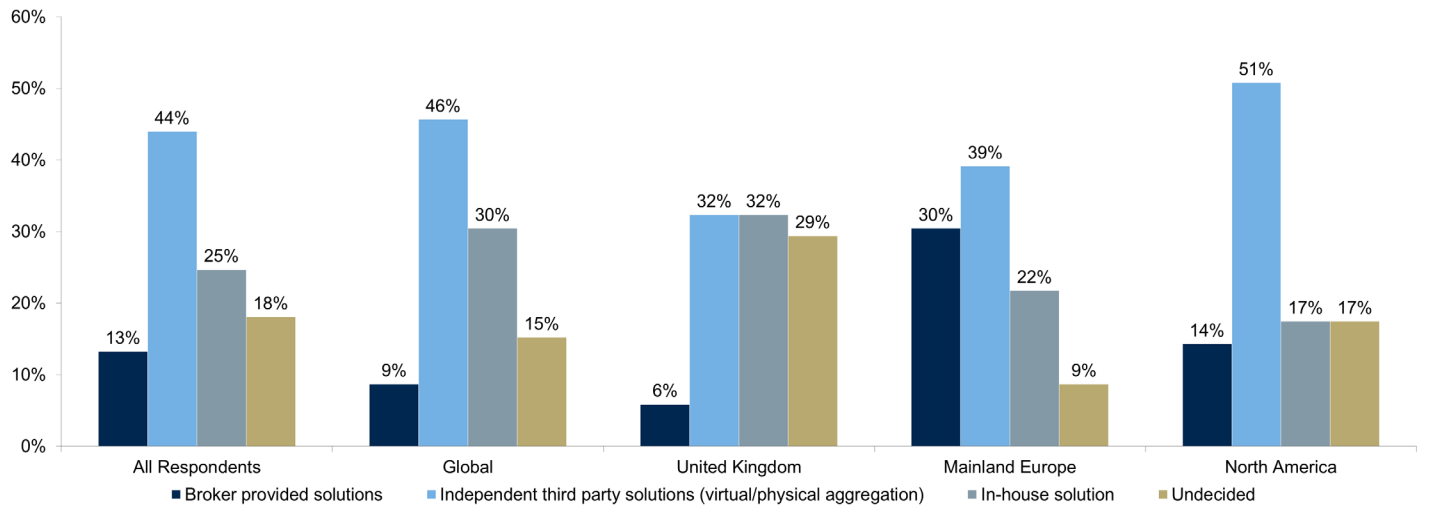
IF YES, HOW ARE YOU APPROACHING THIS?



WHAT WILL BE THE PRIMARY DRIVER OF YOUR DECISION?

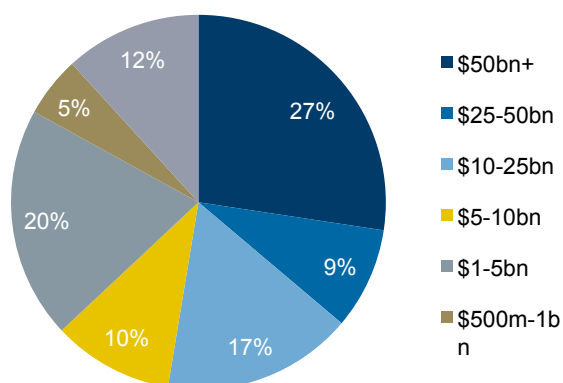


WHICH OF THE FOLLOWING DO YOU ANTICIPATE WILL PROVIDE YOUR TECHNOLOGICAL SOLUTION TO COMMISSION MANAGEMENT?

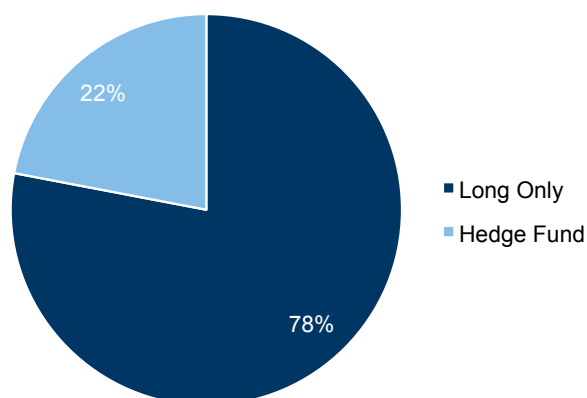


SURVEY RESPONDENT PROFILE

ASSETS UNDER MANAGEMENT



INSTITUTION TYPE



MiFID II SURVEY GLOSSARY

Accounting Method (Swedish Model) – An end-client funded payment mechanism that funds an RPA account via an agreed specific research charge to the fund, collected on a periodic basis. Due to the origins of this approach it is also known as the ‘Swedish Model’.

Broker Vote – A process undertaken by the investment firm, the broker vote is an evaluation of the research services provided by the broker, thus determining their rank and research payment.

Commission Sharing Agreement (CSA) – Mechanism by which a buy-side firm can accrue funds for the purchase of research. When executing trades the buy-side firm pays a base execution fee with an additional CSA charge set aside for research. Also known as a Client Commission Agreement in the U.S.

CSA/RPA – An end-client funded payment mechanism that combines the existing CSA framework and incoming RPA structure. CSA funds are accrued alongside execution before being “swept” to the RPA account. The CSA element of this is sometimes referred to as a Research Collection Account (RCA).

P&L – Payment for research is made directly from an investment firm’s own funds.

Physical RPA – Account used to hold the physical RPA funds. Physical aggregators also offer reconciliation and payment services, managing the administration of the account on behalf of the investment firm.

Research Payment Account (RPA) – Funded via either a CSA or direct charge to the fund, a RPA is a centralised account held in the name of the investment firm that can be used to purchase research. A requirement under MiFID II, those firms utilising the CSA method will feed all accrued funds in to their RPAs on a periodic basis.

Virtual Aggregator – Service provided by a third party for reconciliation of CSA/RPA accounts and aggregation of CSA/RPA balances. The third party will often also offer broker evaluation services, whilst the physical funds will be held with another party.



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