



# blue heron research partners

## MiFID II

## The Evolving Investment Research Landscape

### What is MiFID II?

**Blue Heron Research Partners** has been closely monitoring the European Union's MiFID II legislation. The upcoming regulations have significant implications for our clients and for all consumers of investment research in Europe and globally.

MiFID II is the EU's second iteration of the Markets in Financial Instruments Directive, a sweeping package of financial legislation that overhauls financial markets in Europe. MiFID II sets new transparency standards for how asset managers pay for research and disclose costs to their clients. The regulations also require regular assessment of research quality and value.

### New Rules

When the rules take effect on January 3, 2018, EU-based asset managers and the European arms of global firms will no longer be allowed to bundle research costs with trading commissions. To comply with MiFID II, hedge funds and investment funds (hereafter referred to simply as asset managers) must pay for research either

- 1 Directly from their own P&L or
- 2 Through client-funded research payment accounts (RPAs) with budgets pre-approved by clients.

### Full Disclosure

#### **Result: Increased Scrutiny on Research Costs and Value-Add**

Under MiFID II, EU asset managers using client money to pay for external research are required to clearly disclose payments made to research providers.

Managers must provide clients with a written research policy on how the value and quality of purchased research will be assessed. They also are mandated to regularly assess the quality of research and its ability to contribute to better investment decisions.

The European Securities and Markets Authority (ESMA) encourages asset managers to "set measurable ex ante criteria as to how it will value the types, level and quality of service."

### FCA Policy

The UK's Financial Conduct Authority (FCA) already has a substantive research policy in place, requiring that external research must:

- 1 Provide new insights
- 2 Represent original thought
- 3 Have intellectual rigor
- 4 Present meaningful conclusions

In March 2017, the FCA published a review of the policy stating, "asset managers are not currently providing sufficient evidence that research meets the 'Substantive Research' test."

### Increased Scrutiny

Blue Heron expects the European spotlight on investment research will increase scrutiny on external research costs and quality globally. Clients will expect to see clear underlying value for every research dollar spent as they become accustomed to a new level of transparency and accountability in Europe.

### Custom Research

As you may know, **Blue Heron Research Partners** provides customized, proprietary research with a clear value proposition. Our research is tailored to answer specific questions and to fit the needs of each individual client.

Under MiFID II, asset managers may find it harder to justify the cost and value of expensive research platforms with a vast array of material that largely goes unread and includes undifferentiated analyst reports distributed across Wall Street.

### Unparalleled Results

In contrast, Blue Heron uses investigative journalism skills, broad industry knowledge, and deep source relationships to uncover novel information about public and private companies around the world.

Blue Heron is expert in finding well-placed sources and conducting in-depth interviews to uncover pertinent insights that add clear value to investment decisions.

### Unbiased

As an independent research provider, unaffiliated with any sell-side firms, Blue Heron's insights are unbiased and free from conflicts of interests. We follow strict compliance standards and adhere to securities law.

### Clear Cost Structure

**Blue Heron** charges clients on a per-project basis, making cost disclosure simple and value-add easy to track.

### A Different Type of Corporate Access

ESMA has stated that corporate access "does not appear to be 'research' and should be considered a discrete service." As such, sell-side firms will need to price their corporate access services at commercial levels and asset managers must foot the bill themselves.

### Contact Blue Heron

Find budget-friendly solutions to your research needs.

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