



MiFID II – Unbundling of Research FactSheet

Background

This communication is intended to provide a high level overview of MiFID II rules on the unbundling of research. This note is not intended to address all aspects of the MiFID II unbundling of research rules based on available regulatory text and therefore the contents are subject to additional national rules and any additional regulatory guidance.

1. What are the MiFID II rules on Unbundling of Research?

The Recast Markets in Financial Instruments Directive (2014/65/EU) (“MiFID II”) aims to, among other things, strengthen investor protection. MiFID II introduces changes to the rules on inducements and new requirements in relation to the receipt of research to strengthen transparency and controls by certain investment firms over the costs of third party research.

MiFID II imposes a ban on EEA independent investment advisers and portfolio managers on accepting and retaining inducements from third parties subject to a limited exception for minor non-monetary benefits. The Level 2 measures of MiFID II introduce more detailed rules in relation to the unbundling of research and the circumstances in which the receipt of research would not constitute an inducement subject to this ban on accepting and retaining inducements. These Level 2 measures provide that third party research received by an investment firm providing portfolio management or other investment or ancillary services to clients will not be regarded as an inducement if received in return for:

- Direct payments by the investment firm out of its own resources, which the firm may choose to reflect in whole or in part in an increase in fees to the client; or
- Payments from a separate research payment account (RPA) controlled by the firm but paid for via a client fee.

For other firm types not subject to an inducements ban there is a choice to comply with the unbundling rules for the receipt of research or the general inducements rule. But noting that national Member State implementation may seek to extend the requirement to comply with the unbundling rules to other firm types.

MiFID II further requires an investment firm providing execution services to identify separate charges for these services that only reflect the cost of executing the transaction to enable compliance with the unbundling rules by those receiving research and execution services.

The definition of “Research” in this context is provided in MiFID II Delegated directive Recital 28. It *“should be understood as covering research material or services concerning one or several financial instruments or other assets, or the issuers or potential issuers of financial instruments, or be closely related to a specific industry or market such that it informs views on financial instruments, assets or issuers within that sector. That type of material or services explicitly or implicitly recommends or suggests an investment strategy and provides a substantiated opinion as to the present or future value or price of such instruments or assets, or otherwise contains analysis and original insights and reach conclusions based on new or existing information that could be used to inform an investment strategy and be relevant and capable of adding value to the investment firm’s decisions on behalf of clients being charged for that research”*.



Regulation **MiFID II**
September 2017

Key Dates

20 October 2011

The European Commission adopted a legislative proposal for the revision of MiFID in the form of a revised Directive (Recast MiFID) and a new Regulation (MiFIR), together MiFID II.

15 April 2014

MiFID II was adopted by the European Parliament.

4 April 2017

ESMA published a Q&A document on the implementation of investor protection topics under MiFID II, including research

3 July 2017

Deadline for transposition of MiFID II into national law by member states.

3 July 2017

FCA published Policy Statement PS 17/14 which includes transposition of unbundling of research rules

28 July 2017

AMF published an explanatory guide for the funding of research

3 January 2018

Application of MiFID II within all Member States

However, the delegated directive also mentions some exemptions, in particular in the Recital 29: *“non-substantive material or services consisting of short term market commentary on the latest economic statistics or company results for example or information on upcoming releases or events, which is provided by a third party and contains only a brief summary of its own opinion on such information that is not substantiated nor includes any substantive analysis such as where they simply reiterate a view based on an existing recommendation or substantive research material or services, can be deemed to be information relating to a financial instrument or investment service of a scale and nature such so that it constitutes an acceptable minor non-monetary benefit.”*

The MiFID II unbundling of research provisions will apply from 3 January 2018.

Clients are encouraged to consult the national rules implementing the MiFID II requirements which are applicable to them.

Please note that BNP Paribas does not provide legal or compliance advice to our clients. Please contact your Compliance or Legal department for more details on these MiFID II requirements and how they may impact you.

2. How is BNP Paribas Global Markets, as a research provider, preparing for these rules?

Our pricing and terms and conditions are available. Please contact your usual sales coverage person to obtain further details on our offering.

FURTHER QUESTIONS

If you have any other comments or questions, please contact the BNP Paribas European Regulatory Reform Team (regreform.eu@uk.bnpparibas.com) or your usual relationship or sales contact.

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