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## **ITG Presents Results of French CSA and Research Payment Survey**

### **Joint Survey in Collaboration with FinFees and AlphaValue**

**NEW YORK, July 10, 2014** – ITG (NYSE: ITG), a leading independent execution and research broker, ITG and FinFees, today released the results of a survey on *Research Remuneration and Commission Sharing Arrangements in France*. The survey, conducted in collaboration with AlphaValue, was conducted at an event in Paris on Tuesday, June 24<sup>th</sup>. More than 130 attended the event, mostly represented by the buy-side, including senior management, dealing desks, and compliance.

Representatives from each of the key French stakeholders were present and were provided with the opportunity to express their opinions: AMF (Autorité des Marchés Financiers), AFG (the French Asset Management Association), AMAFI (the representative body for professionals working in the securities industry and financial markets in France), and SFAF (the French Society of Financial Analysts).

Those who attended were provided with audience response system keypads and asked for their perspectives on key topics relating to research remuneration, CSAs, and MiFID II. The results of these are presented in graphical form below. Please note that these do not represent statistical evidence.

Additionally, FinFees carried out a study on research and execution, the results of which were presented at the event.

#### **Highlights:**

- 70% of French Asset Managers have implemented CSAs.<sup>1</sup>
- Research is perceived to be a service providing intellectual rigor which has predetermined price.<sup>2</sup>
- 66% of the French Asset Managers surveyed believe that Corporate Access should not be paid for by the end investor.<sup>2</sup>

Certain participants said that the questions raised by MiFID II sometimes contradict the reforms initiated by the FCA in the UK, and require clarification on research and its remuneration. Although the objective is to protect the end investor, the regulatory changes raise several questions:

- How do you provide transparency on the use of dealing commissions to the end customer (investor protection)?
- Further, how can the buy-side gain more transparency on the remuneration of services offered by the sell-side?



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<sup>1</sup> FinFees study of more than 40 French institutions involved in CSA (asset managers, brokers, independent research providers, and institutional investors). The study also relies on public information such as regulatory reportings on brokerage commissions published by asset managers. The study was carried out between March and June 2014 with results published on the 24<sup>th</sup> June 2014.

<sup>3</sup> Feedback from participating attendees at the event on June 24th via audience response systems. These graphs do not represent statistical evidence



These two issues collide and challenge the industry to answer essential questions which were discussed at the insightful morning meeting. We believe that this discussion and similar discussions will better position the French industry to prepare for the upcoming regulatory deadlines.

Several major issues have emerged and require an urgent debate:

- Impacts and lessons of CSA implementation
- Reclassification of different forms of research services (“substantive” or not)
- Transparency of broker vote models and the audit trail
- Pricing of research

#### **IMPACTS & LESSONS OF CSA IMPLEMENTATION**

In the wake of the debate initiated by the FCA on the use of dealing commissions and during the MiFID II consultation period, FinFees met with stakeholders to evaluate their positions.

The objective of the study is to identify the perspectives of firms providing research and execution services as well as the expected impacts for the asset management industry.

The findings of the study FinFees conducted, having interviewed more than 40 asset managers, were as follows:

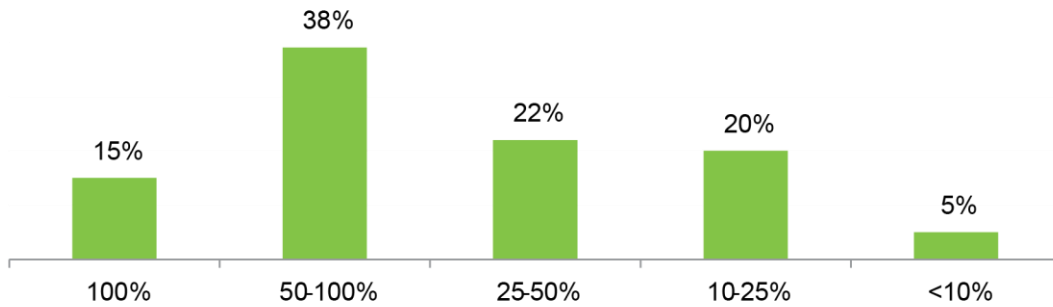
- 70% of French asset management firms have put in place CSA programs
- Since the implementation of MiFID, asset managers have reduced their broker lists to a third of their previous size. Dealing commissions have been halved.
- Institutional investors consider “best execution” and “unbundling” to be positive measures and perceive research to be a significant component of investment performance.

38% of asset managers who have implemented CSAs currently have more than 5 CSA brokers and 41% of them plan to increase their list of CSA brokers over the next two years.

This increase in CSA brokers drives the demand to facilitate the administration and management of commissions, particularly by outsourcing the process to CSA aggregation providers.



**What portion of the research budget do you remunerate via CSAs?**

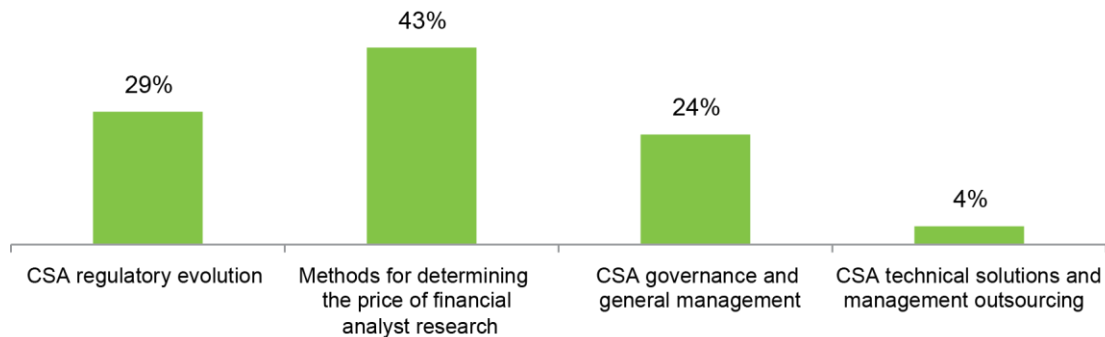


**RECLASSIFICATION OF THE DIFFERENT TYPES OF RESEARCH SERVICES (“SUBSTANTIVE” OR NOT)**

The objective is to define guidelines to classify and quantify “substantive research” so that it can be funded using fees paid by the funds.

When asked which topic was most important to explore further, a majority of participants that voted (using the audience response system) said that finding a method for pricing research was the priority for asset managers.

**Which of the following topics are you most interested in learning more about at this event?**

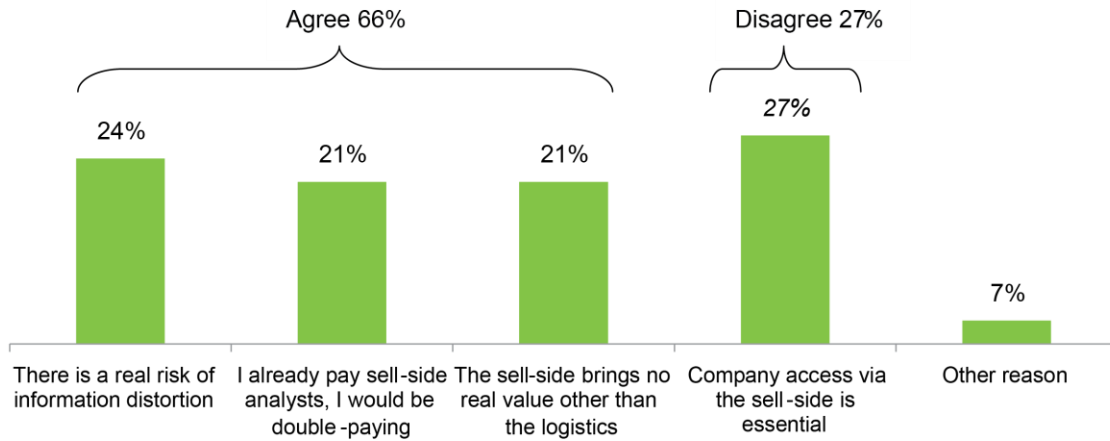




## CORPORATE ACCESS

The FCA called it a “concierge” service, and ruled that corporate access can no longer be remunerated using dealing commissions paid by the end investor. The French industry professionals seem to agree.

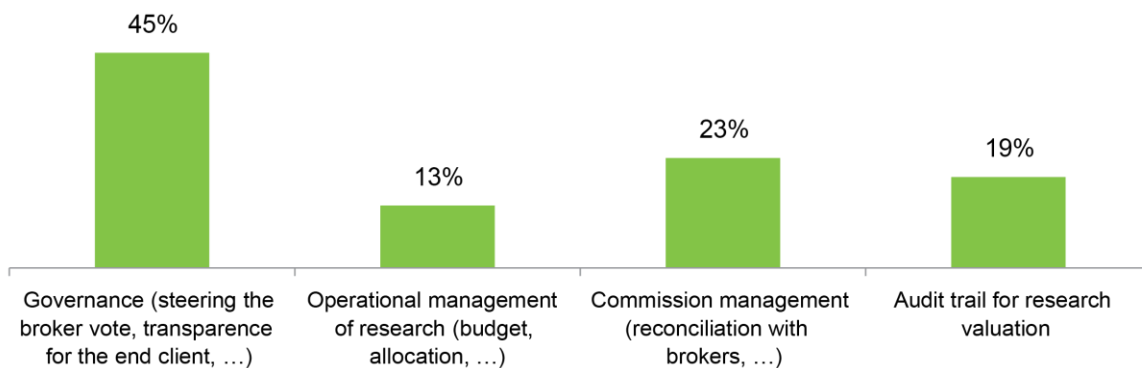
**The FCA does not consider corporate access to be research (i.e. it is not payable via dealing commissions), what do you think?**





## TRANSPARENCY FOR BROKER VOTE MODELS AND AUDIT TRAILS

What area of your organization do you think needs the most improvement?

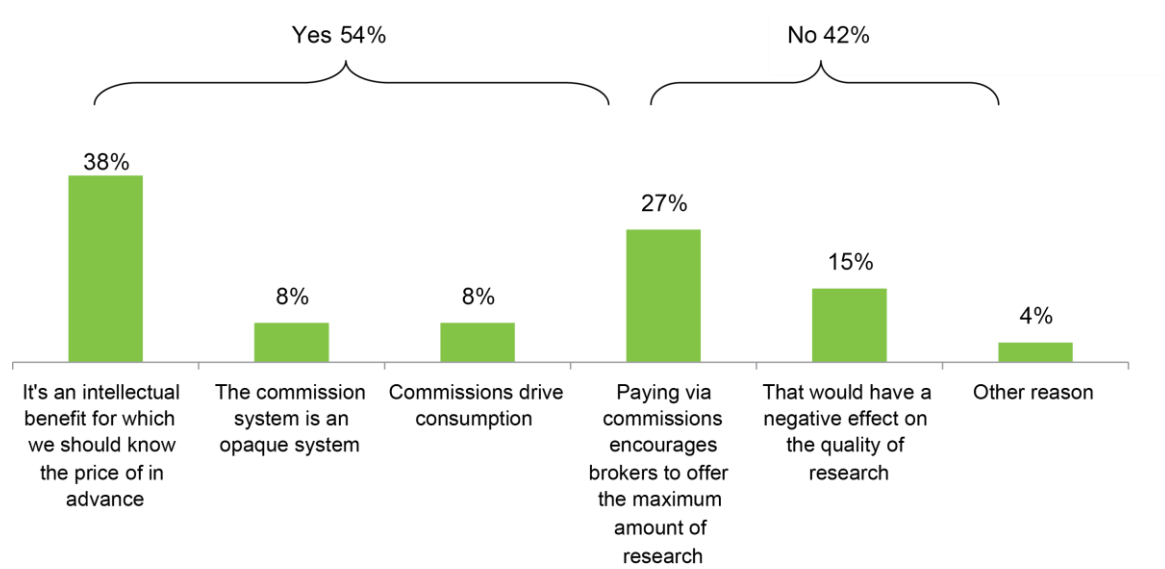


## PRICING OF RESEARCH

There is much debate within the industry as to how research should be valued, priced, and paid for. The current trend is for asset managers to either pay for research as a bundled service with execution or pay for research separately (usually by using CSAs to separate the execution and research components of the commission). The research portion of the commission is then left to accrue in a “pot” held by the executing brokers until the payments to service providers need to be made. Separating the research payments from execution commissions allow asset managers to pay a fixed charge rather than a variable charge which, in a bundled model, is linked to trading volumes rather than the level of research consumed. Additionally to this, as execution is exempt from VAT, in a bundled model, VAT is not applicable. Once unbundled however, the research portion is no longer exempt from VAT.

In addition, there are further questions on how research should be valued. Typically, asset managers use a broker voting tool, whereby buy-side representatives at a firm (usually the portfolio managers, analysts and traders) will vote and rank the research services that have been provided to them from brokers. These results would then dictate which portion of the asset manager’s budget a certain broker would receive. Independent research however, is typically priced prior to obtaining the service in the form of “menu pricing” and paid for by check directly or from a CSA pot.

**Can broker research evolve towards a fixed price model?**



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**About ITG**

ITG is an independent execution and research broker that partners with global portfolio managers and traders to provide unique data-driven insights throughout the investment process. From investment decision through settlement, ITG helps clients understand market trends, improve performance, mitigate risk and navigate increasingly complex markets. ITG ® is a global brand that, with offices in North America, Europe, and Asia Pacific. In Europe, Investment Technology Group Limited, is registered in Ireland No. 283940 ("ITGL") and/or Investment Technology Group Europe Limited, registered in Ireland No. 283939 ("ITGEL"). The registered office of ITGL and ITGEL is Block A, Georges Quay, Dublin 2, Ireland. ITGL and ITGEL are authorised and regulated by the Central Bank of Ireland. ITGL operates POSIT®, the multilateral trading facility. ITGEL operates a branch in London, England (No. BR004642) which is registered with the UK Financial Conduct Authority and a branch in Paris, France (No. 501891477) which is registered with the Banque de France.

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**A propos de Finfees**

FinFees is a market initiative that gathers investment managers around questions relating to financial fees and the financing of research in the asset management sector. The objective is to provide its members with a knowledge base to help them answer their stakes and encourage the development of pragmatic and operating solutions.

[www.finfees.com](http://www.finfees.com)

**About Alphavalue**

AlphaValue is the European leader in independent equity research, with coverage of 460 European securities spanning across all sectors. Relying on a team of 25 analysts, AlphaValue provides financial analysis using a transparent methodology, enabling pure and robust homogeneous and pertinent comparisons based on financial and extra-financial criteria. As of June 2014, more than 400 portfolio managers around the world use AlphaValue's research.

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