In the consultancy firm's poll of 100 asset managers, 26% said they would end the practice, roughly half of the number revealed by Cordium polling in February.

EY's data showed just 19% of those polled intend to continue charging clients for the cost of research, while 47% were still undecided.

The polling also revealed that only 15% of asset managers said they would definitely continue to utilise commission sharing arrangements (CSAs), despite the European Commision's (EC) decision to allow the practice to continue beyond 2018.

In its final proposed rules on aspects of Mifid II, the EC confirmed firms would be able to continue to bundle research payments with commission if they comply with strict new transparency rules.

This includes specific research charges based on a research budget set by the investment firm that has established the need for third-party research.

It must not be linked to the volume or value of trades executed for clients. Firms must regularly assess a research budget which must be subject to appropriate controls and oversight such as clear audit trails.

Managers will also have to produce written policy to clients to inform them of the benefit of the research they are paying for.

ESMA

MIFID II BOND RULES TO BE PHASED-IN

Pan-European regulator Esma has proposed amendments to non-equity transparency requirements under Mifid II that would see the implementation of a four-year 'phase-in' approach.

The regulator has also suggested changes to the methodology for the calculation and application of position limits for commodity derivatives under the regime.

Esma's proposals for non-equity transparency requirements would impact the reporting of bonds, structured finance products, emission allowances and derivatives.

The phased-in approach, which would see initially less demanding transparency requirements apply, was requested by the European Commission (EC) in order to mitigate liquidity risks to bond markets.

The plans would see requirements gradually increased over the four years until they reach the level of transparency initially proposed by Esma, significantly reducing the number of instruments subject to the real-time transparency regime when Mifid II comes into force.

While under the EC proposals the RTS would only specify criteria applicable for the first stage of the phase-in and Esma would conduct a yearly liquidity assessment, Esma has argued for an automatic phase-in process, with all the stages already prescribed in the RTS.

In addition, Esma's automated phase-in would be accompanied by an annual liquidity assessment by the regulator and the RTS would be amended in case of significantly negative impacts on liquidity.

OFFSHORE

OSBORNE PRAISES CAYMAN ON TAX TRANSPARENCY

Chancellor George Osborne has heaped praise on the Cayman Islands for tax transparency in the wake of a damaging series of scandals for offshore centres.

The letter, published on 18 May, was written ahead of a global anti-corruption summit in London on 12 May focusing on tax transparency.

Some experts fear Cayman and other fund centres could be caught up in a political backlash against offshore fund centres after the leaked Panama Papers revealed extensive tax evasion and money laundering.

60 SECONDS

Todd Cipperman, Compliance consultant

HFMCompliance talks to compliance consultant Todd Cipperman about outsourced CCOs, career advice and running the SEC.

What is the biggest challenge facing hedge fund CCOs today?

The proliferation of rules affecting the industry is always challenging. However, a bigger challenge may be in creating a culture of compliance in firms that only registered a few years ago. It's not that most of these firms are bad actors; it's more that they haven't created systems to document and test compliance. It is sometimes difficult for firms to put value on a function that does not manage assets or raise money. Another significant challenge is the regulators recent focus on CCO personal liability including criminal prosecution in certain areas (e.g. AML). The fear of prosecution is pushing qualified compliance people out of the industry, causing a talent shortage.

What advice would you give to someone starting out in hedge fund compliance today?

Compliance officers must have 7 major attributes: (1) an in-depth knowledge of the relevant laws, regulations, interpretations; and regulatory positions, (2) insight into the firm's organization, finances, clients, and culture; (3) intelligence about how other industry players implement products, develop structures, work with the regulators, and utilise technologies; (4) flexibility to adopt new approaches; (5) political skills to convince business executives; (6) grace under pressure; and (7) independence.

If you were in charge of the SEC for a day, what would you do?

Adopt the impending proposal to require third-party compliance reviews of all fund managers. Right now, there are too few examiners for too many funds. Compliance needs to follow the public audit model and hire the examiners directly in order to make sure there is a uniform process across the industry. It will also give institutional investors a tool to police the industry.