



CAPIS executives recently met with other industry insiders to discuss current industry developments. The meeting covered a multitude of topics including new and emerging trends, upcoming compliance changes as well as the forecast for the remaining half of 2009.

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## Market Buzz

### Significant changes happening in the research industry.

- The research industry seems to be consolidating as a result of fewer research analysts and a reduction in coverage. It is estimated that research staff in the US has decreased around 10 - 15% in the past 12 months and the bulge brackets' research coverage in the US now ranges from 700 to 900 stocks.
- Regional brokers have increased their market share while agency brokers have started to expand their research offerings. Non-traditional research continues to grow more so than fundamental research. Popular non-traditional research areas include: political intelligence, industry consultants, expert networks, economic research, and corporate access.

### CCAs/CSAs continue to add value.

- The adoption of CCAs/CSAs has slowed but their usage has increased. Currently, 48% of institutional investors use CCAs/CSAs to acquire research.
- The trend to reduce the number of CCA/CSA counterparties has stalled. Investors are actually increasing the number of providers.
- Agency and regional brokers are capturing market share at the expense of bulge bracket brokers.

### The regulatory front is relatively quiet.

- We are still awaiting the SEC's new guidance for mutual fund directors. While the comment period ended in October 2008, the SEC has been focusing on other priorities including short sale regulations, high frequency trading, dark pools, and single fiduciary standards.
- The upcoming SIPC release may place pressure on firms to treat CCA/CSA monies as part of the 15c-3 (net capital) credit process. The SEC, without SIPC guidance is asking firms, "did the broker treat the funds as client funds or not?" While broad, this seems to be the current litmus test.

- The NYSE and FINRA rulebooks are being combined. This will harmonize the rulebooks and change or eliminate those rules that are obsolete or duplicative. In certain areas new rules are under consideration. The combined rulebooks could result in changes to the markup area (5% rule) and make research rules more principle-based.
- The Obama administration is considering legislation that would create a common standard for both investment advisors (IA) and broker-dealers (BD) in relation to client advice and fiduciary standard. FINRA hopes the administration will recognize that BDs are more complex than IAs and that they will look at all the consequences before legislation is passed.

**The short-term outlook is for continued consolidation and greater fragmentation.**

- Even after the market recovers, consolidation is expected to continue as there is an abundance of fundamental research. At the same time, alpha seekers will continue to value bespoke research which will create smaller niche research providers further fueling fragmentation.
- The buy-side will become more selective about the research they use.



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Capital Institutional Services, Inc. | 1601 Elm Street | Suite 3900 | Dallas | TX | 75201