Receipt of SP Angel's research under MiFID II

We believe that all research produced by SP Angel falls within the exemptions set out in the MiFID II and FCA rules.

The two important exemptions that we are relying on are that the new rules requiring payment for research do not apply to (i) research commissioned or paid for by a corporate client and (ii) research which may otherwise be considered as "short term market commentary".

In summary, we are of the firm view that all our research falls into one or both of the above exemptions. The vast majority of research produced by SP Angel relates to research which has been commissioned and paid for by corporate clients. The remainder is of a sufficiently small scale and character as to be an acceptable non-monetary benefit. Therefore, we believe that persons subject to the MiFID II and FCA rules regarding inducements may continue to receive all of our research without charge.

In this connection, we would point out that SP Angel offers only a minimal secondary execution service (principally to assist existing corporate clients and investors in them). Our research has always been and continues to be produced to support our corporate broking and corporate finance business. It has never been an attempt to win secondary trading business and, we would argue, could not therefore present any kind of inducement.

A more detailed analysis is given below. We hope you will find it to be of assistance.

In the event you do not agree with our analysis (whether out of interpretation or caution) we can of course continue to provide some or all of our research and commentary, plus access to analysts, for payment. Where this is the case, please contact our head of Research, John Meyer to discuss pricing.

Tel: +44 20 3470 0470 Email: john.meyer@spangel.co.uk

The nature of SP Angel research

SP Angel's approach has always been different in that the production and distribution of our research is undertaken as a service for those companies by whom we are retained as corporate broker and for general marketing and promoting of the SP Angel name. We do not have a meaningful secondary market business and do not generally seek to encourage fund managers to deal through us.

From January 2018, SP Angel will produce only two types of research:

1. Morning briefing notes being the mining focused Morning View produced by John Meyer and his team and the oil & gas focused First Oil produced by Zac Phillips.

   The Morning View is produced on a daily basis (usually distributed by 10.30am) and includes information on key economic and commodity data and developments plus a summary of news released that morning by quoted mining companies. The majority of companies covered are corporate broking clients of SP Angel, although it does also cover non-client companies. On occasion, the note includes brief comments and views from SP Angel on the company news but there is no fundamental analysis or valuation.

   First Oil is produced 2 or 3 times a week and is a short note commenting on corporate news released that day, usually from only one or two companies. As with the Morning View it includes brief comments and views from SP Angel on the company news but there is no fundamental analysis or valuation.

2. Research notes on individual companies providing comprehensive analysis and valuation.

From January 2018, all such reports will be produced only for companies who pay SP Angel a fee to produce research. The majority of the companies covered will be in the natural resources sectors, although we are retained by companies in other sectors.

Acceptable non-monetary benefit

There are exceptions and guidance within the inducement rules which means that affected recipients can continue to receive research and similar written material without payment in certain circumstances.

In our case, this means the '**acceptable non-monetary benefit**' provisions of MiFID II and FCA's rules (in particular, COBS 2.3A.19).

Under COBS 2.3A.19 for any benefit to qualify as an acceptable non-monetary benefit it must first satisfy the following four conditions.

1. *It must be clearly disclosed prior to the provision of the relevant service to the client.*

   This is something you, as recipient, would need to do as regards your clients.

2. *It must be capable of enhancing the quality of service provided to the client.*

   This is clearly a matter of opinion and for you to decide although we believe our research will be useful to anyone interested in the sectors we cover.

3. *It must be of a scale and nature that it could not be judged to impair the firm's compliance with its duty to act honestly, fairly and professionally in the best interests of the client.*

   The mining Morning View is, if printed, five or six pages long, First Oil a page. Much of the Morning Note is an overnight news digest with commentary and a summary of relevant commodity moves. Individual companies are covered by half a dozen bullet points. First Oil typically covers up to four companies, devoting a paragraph to each. It is difficult to see how either document could be of a scale and nature to impair a recipient's duty to act honestly etc. Our corporate notes are produced only occasionally. Overall, we cover only a very small section of the market both by number of companies and, especially, by market capitalisation.

4. *It must be reasonable, proportionate and of a scale that is unlikely to influence the firm's behaviour in any way that is detrimental to the interests of the relevant client.*

   As above.

After satisfying these four conditions the benefit must then be one of a number of types given by the rule. In our case, these are 2.3A.19(5) (a) and (b). Taking (b) first:

1. 2.3A.19(5) (b) *is 'written material from a third party that is commissioned and paid for by a corporate issuer or potential issuer to promote a new issuance by the company, or where the third party firm is contractually engaged and paid by the issuer to produce such material on an ongoing basis, provided that the relationship is clearly disclosed in the material and that the material is made available at the same time to any firms wishing to receive it, or to the general public';*

   The significant majority of individual companies appearing in our mining Morning View are corporate clients. The written material we produce is paid for by them as part of our corporate broking fee. The occasional company-specific pieces we put out will have been paid for by the subject company.

SPANGEL

2. 2.3A.19(5) (a) *is 'information or documentation relating to a financial instrument or an investment service, that is generic in nature or personalised to reflect the circumstances of an individual client'.*

   This (rather unclear) description is clarified by Recital 29 of the MiFID Delegated Directive[1] which states that:

   'In addition, 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.'

   To the extent that material in our mining Morning View or First Oil is not already covered by the corporate issuer exemption, we are of the view that the other material is covered by the above. As existing recipients will know very well, the mining Morning View is, as its name suggests, a daily publication, highly topical, reactive to short-term events and of necessity brief. First Oil is a similarly brief piece, devoting no more than one paragraph to a company and usually comprising no or little more than a single page. With no false modesty on our part and by design, neither publication could be considered a full or substantiated piece of fundamental research.

Last but by no means least - the spirit of the law

The MiFID II research restrictions are, we believe, directed at banks and brokers with significant secondary market businesses and the fund managers with whom they transact. Where there is no real secondary or other business that client commissions or fees could be improperly directed to in order to covertly pay for research there is little or no scope for an improper inducement to be given or received. In this connection we would make the following observations:

1. SPA is very much a corporate broking and primary fundraising business operating in the small cap sector. We are not a trading house and engage in only very limited secondary market execution (mainly to assist issuer clients and investors in them).

2. Research is produced as a service to our corporate clients. Keeping the market informed of their business is a key part of our corporate finance offering. It is emphatically not and never has been an attempt to win secondary market execution business and has therefore never come close to being an inappropriate or unreasonable inducement.

3. Non-issuer corporates and other developments are often covered briefly in our Morning Note or First Oil. Since they will often be operating in the same sectors as our clients we are of the view that a wider context or basis for comparison is useful for all, issuers and investors.

4. Investors in placings[2] brought by SPA invest on the basis of any and all of the placing document, issuer presentations and their own due diligence. They do not invest on the basis of six bullet points in the Morning View or a single paragraph in First Oil.

[1] Commission Delegated Directive of 07.04.16 – C(2016) 2031 – supplementing MiFID II

[2] Regarding placings and IPOs we would note that FCA considers that research produced by analysts connected to the offering may be regarded in the same way as research commissioned by the issuer and thus within the exemption (see, for example, PS 17/14).