

Note

The Impact of MiFID II rules on Investment Research

DG-FISMA of the European Commission has engaged Risk Control to analyse the effects of the MiFID II unbundling rules on investment research. Under the new rules, introduced in January 2018, execution, research and other advisory service must be identified and charged for separately. Buy-side firms must demonstrate value for money, while sell-side firms have to devise and administer potentially complex research pricing arrangements, setting fees and periodically renegotiating access with their clients.

The radical scope of these changes raises the possibility of significant unintended consequences. Bond market liquidity might suffer if the quantity and quality of fixed income research is impaired. On equities, smaller firms, which were poorly covered by research even before MiFID II, could experience a further reduction in research coverage. On the other hand, in a post-MiFID II environment, it is possible that the quality and quantity of research might improve (a) if an environment favorable to Independent Research Providers (IRPs) were to emerge or (b) if breaking the link between transactions and payment for research reduces distortions in the incentives of researchers.

The project will address four questions:

1. What is the market and legal landscape for European securities research with particular focus on corporate bonds and small cap equities?
2. How have buy-side research budgets evolved before and after the introduction of MiFID II?
3. What determines the pricing and quality of securities research provided by the sell-side?
4. How have the MiFID II rules affected access to finance for medium sized companies?

To answer these questions, Risk Control is employing a combination of statistical analysis, surveys and structured interviews. The statistical analysis will measure how analyst coverage has changed over time and, in particular, since January 2018. The surveys are being organised with the cooperation of the major industry associations for buy-side, sell-side and IRPs.

Links to the surveys may be found at:

<http://www.riskcontrollimited.com/insights/survey-on-the-impact-of-mifid-ii-on-european-investment-research/>

Interviews will permit an in-depth coverage of issues raised in a more summary way via the surveys. While the study will examine core markets in depth, the coverage of the project will be extensive in that the effects on research will be analysed for almost all EU member states.

In studying these issues, Risk Control would very much welcome the cooperation of industry and regulatory representatives across multiple European countries. Risk Control will seek to meet with buy-side firms, brokers, IRPs, securities issuers and regulators to discuss the effects of the MiFID II rules on investment research on a confidential basis.

Contact: William Perraudin
Telephone: +44 (0)20 3307 0731
Mobile: +44 (0)7968 328459
Email: william.perraudin@riskcontrollimited.com