EFFAS® | The European Federation of Financial Analysts Societies

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To
Ursula von der Leyen, President of the European Commission
Valdis Dombrovskis, Executive Vice-President of the European Commission
Mairead McGuinness, Commissioner for Financial Services, Stability and Capital Markets Union
Paolo Gentiloni, Commissioner for Economy
Thierry Breton, Commissioner for Internal Market
Johannes Hahn, Commissioner for Budget and Administration
Verena Ross, ESMA Chair
Natasha Cazenave, ESMA Executive Director

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Frankfurt, 17th March 2024

Comments from EFFAS on the rejection of MiFID by UK regulator FCA

Dear Ladies and Gentlemen,

Since the UK left the European Union, UK regulator FCA has had the intention to reverse MiFID rules on investment research. We at EFFAS - the "European Federation of Financial Analysts Societies", with 16,000 members in Europe - find this process shameful. After all, it was the UK and the British commissioner - when they were still in the EU - that introduced MiFID.

Please see the article in the FT stating that the UK wants to revitalize its own capital market by abolishing MiFID. In other words: We are left alone with MiFID and are no longer competitive in global competition with European capital markets.

We urge you as representatives of the EU and ESMA to suspend or completely revise these rules. The capital market is obviously very important to the UK - in contrast with the EU. Otherwise, this would mean a fundamental disadvantage for the functioning and diversity of European markets. This is particularly the case compared to the US and now the UK, where we will definitely be at a competitive disadvantage.

We at EFFAS believe that transparency and compliance are of course enormously important, but MiFID overshoots the mark by far and has nothing to do with improving professionalism or the perception of investors regarding the reality of financial markets. We have been critical of MiFID from the outset (see our letter from November 2019, attached). The points made at that time remain fully valid!

The regulation of MiFID II is not only complex and insufficiently concrete; in reality, its introduction has in many respects resulted in disorientation and uncertainty within our markets.

Why?

- MiFID has led to fewer financial analyses on the market.
- Research only focuses on larger listed blue chip companies.
- Research coverage of small and mid-cap stocks has come under further pressure.

- This means that innovative SMEs are not able to finance themselves via the capital market.
- Smaller asset managers who cannot afford high-quality research (pricing) are disappearing from the market.
- Fund managers are not willing to invest in SMEs/IPOs, which increases the hurdle for companies to go public.
- There has been a concentration among fund managers, reducing the diversity of market participants and brokers' client base.
- **Private retail investors no longer have access to professional (non-public) research.**
- **It was a goal of the EU/EC to create a better functioning liquid market than in the US or Asia (market capitalization in relation to GDP and value creation in Europe is significantly lower).**
- **With MiFID, it is impossible to attract medium-sized/small and innovative companies, start-ups, etc., to the capital market (clear disadvantage compared to the US, etc.).**

The purpose of MiFID was to create greater transparency. This specific objective has not been achieved, as surveys among the most important international players indicate that the lack of orientation and uncertainty has become greater than before. In addition, the administrative burden is enormous.

We are very concerned about the further development of our European capital markets. EFFAS, as a professional association, is committed to ensuring that its members, all investment professionals, maintain the highest standards of honesty, integrity, fairness and education and perform their duties with the utmost care.

Adherence to MiFID means a further step backwards for the European capital markets in international competition and puts European financial centers at a clear disadvantage.

With the request for your valued feedback.

Yours faithfully,

For the EFFAS Executive Management Committee

Jesús López Zaballos, PhD
EFFAS Chair

Fritz Mostböck, CEFA©, CESGA®
EFFAS Deputy Chair

Thorsten Müller, CEFA©, CESGA®
EFFAS Board Member

The European Federation of Financial Analysts Societies (EFFAS) is a not-for-profit organisation established in 1962 as an association for nationally based investment professionals in Europe. Headquartered in Frankfurt am Main, EFFAS comprises 14-member organizations representing more than 16,000 investment professionals in the areas of equity, fixed income and credit research, asset management as well as investment advice. We promote international relationships and the dissemination of professional standards to contribute towards a high level of quality in professional practice following a code of ethics and promoting the public understanding of financial investments. EFFAS has certified over 24.000 professionals.

Source: Financial Times

FCA proposes to reverse Mifid rules on investment research

UK regulator says asset managers should be able to pay for ‘bundled’ research and trading fees

Nikou Asgari and Emma Dunkley in London, 10 April 2024

Asset managers should be able to pay for their investment research alongside fees for trading, the UK market regulator has proposed, reversing a long-standing policy in an effort to energise the UK’s capital markets.

The Financial Conduct Authority on Wednesday said fund managers should be able to “bundle” fees for investment bank research with their trading costs after a review of the controversial practice.

Its proposal would row back on an important plank of Mifid II, the EU’s post-2008 financial reforms package, and spearheaded by London’s politicians and regulators.

Although the rules were intended to clamp down on conflicts of interest and boost more independent coverage, they led to even less coverage of small and medium-sized stocks. After the UK left the EU, some politicians and Westminster think-tanks encouraged the UK to ditch the rules. EU officials are also rolling back their investment research rules.

Last year, UK chancellor Jeremy Hunt said he would encourage more research on small and medium-sized companies and entice more businesses to list in London.

“It is ironic that this is probably going to be positioned as a post-Brexit freedom but we were the ones that pushed this on to the Europeans, we drove this,” said Mike Carrodus, founder of Substantive Research, an investment research analytics company.

He added that changing the rules alone was unlikely to boost research on new asset classes or companies. “None of this is going to happen without demand coming from the end investor in new areas . . . which then requires external research to service those assets.”

Steven Fine, chief executive of Peel Hunt, told the Financial Times that the move was “one of a series of measures necessary to reinvigorate UK markets”.

Mifid II rules came into force in 2018 and led to the separation of fees charged by investment banks to asset management clients for trading execution and research.

However, this “unbundling” often left asset managers paying upfront for the cost of research, putting greater pressure on smaller companies in particular.

“There’s a degree of ‘the horse has already bolted’,” said Barry Norris, an equity fund manager at investment boutique Argonaut Capital, adding that “the quality of broker research is also a lot worse now than it used to be. The other thing is that the banks, having dropped their prices for dealing, will now struggle to put them back up even if it does include research.”

Under the proposals, asset managers would be able to choose whether to pay for research separately, or together with other trade services.

The FCA said the move would give fund managers “greater freedom in how they pay for research, supporting their investment decisions”, and bring the UK more in line with EU and US rules on paying for investment research.

A chief executive in the industry said: “Smaller asset managers are having a tough time and are more likely to bundle and pass on costs to end investors.”

He added that the FCA was “trying to ensure there’s plenty of research produced for small UK companies”, noting that fees for research on small-cap stocks were generally low.

Independent brokers — especially those that trade small-cap stocks — have felt the heat, as Mifid II made it harder for them to compete with the larger investment banks. Many smaller brokers have been forced to cull their research teams or merge with rivals.

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Frankfurt, 29th November 2019

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To

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Mr. **Valdis Dombrovskis**, Vice-President of the European Commission
Mr. **Paolo Gentiloni**, Commissioner for Economy
Mr. **Thierry Breton**, Commissioner for Internal Market
Mr. **Phil Hogan**, Commissioner for Trade
Mr. **Nicolas Schmit**, Commissioner for Jobs
Mr. **Johannes Hahn**, Commissioner for Budget and Administration
Mr. **Steven Maijoor**, ESMA Chairman
Ms. **Verena Ross**, ESMA Executive Director

Comments by EFFAS on the Consequences of MiFID II

Dear Ladies and Gentlemen,

We, as the "European Federation of Financial Analysts Societies" (EFFAS), think that, based on feedback from our members and the experience of a broad range of market participants, **MiFID II** fails to meet market requirements in the field of financial analysis.

The regulation of MiFID II is too complex and not sufficiently concrete; in reality, its introduction has in many respects contributed to dramatically reduce financial reports on equities (especially on small medium caps), creating a severe lack of knowledge in the investment industry.

The main statements that support our argument regarding current and future adverse consequences are the following:

1. **A sharp reduction in the supply of good research,** which has offset the positive impact, due to the introduction of market-based pricing of research, with the aim of increasing quality and transparency; in the long run, less investment research will be available in the market. Research will be concentrated on the largest stock listed companies (blue chips) and coverage of small- and mid-sized stocks will be under pressure.
2. **Significant concentration of research providers** (investment bank, brokers, independent) **and users** (asset managers), since smaller asset managers, who can no longer afford high-quality research (pricing), will most likely exit the business. This will drive higher concentration among fund managers, reducing the brokerage client base, and the complexity of the process is detrimental to smaller independent research providers.
3. **A lack of attractivity of capital markets, which is detrimental to the growth of** SME at the heart of our economic growth and job creation. Fund managers will be reluctant to invest in smaller caps and IPOs, raising the hurdle for companies to go public and **private (retail) investors will no longer truly have access to professional quality research** (not publicly available).

It was always a goal of the EU/European Commission to establish a better functioning liquid capital market in order to compete with the US capital market and close the existing gap, as reflected by the lower level of market capitalization to GDP. We fear that the outcome of MIFID II will be, on the contrary, a dramatic reduction of the attraction of markets for mid- and small-sized companies, reducing innovation benefits for our economies - a clear disadvantage in comparison to US capital markets.

The point of departure of MiFID II was supposed to be that it would facilitate greater transparency. This specific goal was not met, as surveys of major international players suggest that disorientation has become a dominant issue and uncertainty has increased. Moreover, the administrative burden is staggering.

We are very concerned about the further positive development of our European capital markets in the future. EFFAS, as a professional body, strives for its members, all investment professionals, to observe the highest standards of honesty, integrity, fairness and education and perform their duties with all due care and diligence.

Recent news of a further review of the MiFID II regulation is very encouraging. We know how difficult your task is, appreciate all the efforts being made to further lead the European Union in the right direction, and are at your disposal to share, in detail, the comments and statements of our constituents and members.

Yours faithfully,
For the EFFAS Executive Management Committee

Jesús López Zaballos, Ph.D.	Friedrich Mostböck, CEFA
EFFAS Chairman	EFFAS Deputy Chairman

"The European Federation of Financial Analysts Societies" (EFFAS) is the European umbrella organization of national analysts' societies. It comprises 18 country members, representing more than 15,000 investment professionals in the areas of equity, fixed income and credit research, asset management as well as investment advice.