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European Securities and Markets Authority (ESMA)
via esma.europa.eu

Frankfurt, 27 January 2025

Ref. ESMA35-335435667-5979

Dear Sir or Madam,

DVFA, the German Association of Investment Professionals, welcomes this consultation. To strengthen European Capital Markets, it is essential to have a well-suited balance between market forces and regulation. Right now, we feel that we have surpassed a critical level of (micro) regulation. Therefore, we clearly encourage ESMA to streamline its regulations wherever possible in order to foster a competitive European marketplace.

Please find below our detailed answers to your consultation:

Question 1: Do you agree with the proposed approach? Or would you prefer a more or less detailed approach? Please state the reasons for your answer.

We agree with the approach (Option 3).

Questions 2: Do you agree with the introduction of new paragraph 1b in Article 13 of Commission Delegated Directive (EU) 2017/593? Please explain why.

We disagree. Please refer to Q3.

Question 3: If you do not agree with the introduction of new paragraph 1b in Article 13 of Commission Delegated Directive (EU) 2017/593, please provide alternative suggestions and / or explain how investment firms operating a research payment account currently assess the quality of research purchased (Article 13. Point 1 (b) (iv) Delegated Directive).

Both the asset management industry and the market for investment research providers are highly competitive. On both sides, providers must offer value to retain clients. Therefore, investment firms have a strong incentive to monitor the quality of research themselves as it is a key element of future performance. As the investment styles of funds and the respective asset management differ a lot, the relevant criteria will also differ substantially. However, investment firms should decide autonomously, which criteria they use for evaluating the research they use.

In assessing the quality of research acquired by an asset manager, the following – not necessarily exhaustive – list of criteria can be used:

– Relevance to the investment strategy of the fund's investment philosophy by focussing on the same markets, sectors, or assets of interest to the portfolio,

- Depth of the research by using robust methodologies and credible sources,
- Timeliness, measured by the speed of analysis after the publication of time-sensitive information,
- Accuracy and track record,
- Readability,
- Sector know-how, peer group comparisons,
- Breadth of coverage relevant to the fund, including niche or under covered segments,
- Independence of the research provider, avoiding conflicts of interest that could bias their analysis,
- Access to management, i. e. client support and engagement in general.

Further on to properly evaluate the quality of research, a longer evaluation period (different market drivers, different stage of economic cycle, investment sentiments, projections, performance pattern) is important. We suggest having an obligatory assessment after three years and a voluntary assessment on a yearly basis. This will give investment firms more flexibility, while safeguarding the quality of research.

Question 4: Do you agree that, when conducting the annual assessment provided in new Article 24(9a) (c) of MiFID II, an investment firm could be required to include a comparison with potential alternative research providers? Please state the reasons for your answer. Please also provide feedback on the availability of free trials for research services and why they may or may not be appropriate for investment firms to fulfil their obligations under Article 24(9a) (c). If free trials are not appropriate, which other methods could be used for comparison?

No, we do not agree. There is no need for regulation.

The investment research market is already highly competitive. Research providers must offer value to retain clients. Evaluation is a pure business decision. Investment firms will search for alternative research providers themselves. Depending on the investment style the content of the respective research will differ. So will the pricing.

Further on mandatory comparisons may duplicate efforts that asset managers already undertake to stay competitive and meet client expectations. A mandatory comparison imposes additional operational and compliance costs on firms, especially smaller ones. These firms might lack the resources to survey the market exhaustively or conduct meaningful comparisons. The costs incurred from such assessments might ultimately be passed on to clients, diminishing their returns. Also, comparing research providers is not always straightforward: Quality, usability, and the relevance of research often depend on subjective criteria like alignment with investment strategies or the expertise of analysts. Simply comparing price or access might be a significant oversimplification. Finally, regulation might discourage innovation among research providers, as they may prioritize meeting regulatory requirements over tailoring their services to client needs, reducing overall market efficiency

Free trials can be a useful tool and should be encouraged.

Question 5: Do you agree with the introduction of new paragraph 10 in Article 13 of Commission Delegated Directive (EU) 2017/593? Please state the reasons for your answer.

No, we disagree. There is no need for regulation.

Investment firms have a strong interest not to overpay research. Pricing of research is a clear business topic.

For years, asset managers have implemented clear policies and frameworks for approving research expenditures. Compared to other industries, there is no dominant research provider that may command premium (monopolistic) pricing, leveraging their reputation or scale, even if their research quality may not be significantly superior to that of smaller providers.

In addition, large research providers typically do not address small cap issuers, so that niche or independent research providers are able to offer more competitive pricing and specialized insights.

The mandatory publication of the Total Expense Ratio (TER) will also safeguard investors. Further on, the publication of net returns of funds will put constant pressure on research costs.

Question 6: Do you think that any further requirements or conditions applicable to investment research provided by third parties to investment firms should be introduced in the proposed amendments to Commission Delegated Directive (EU) 2017/593?

We believe the proposed amendments are comprehensive and sufficient. Additional requirements may further risk over-complicating the framework and will hinder the objective of revitalising the market for investment research.

From DVFA's view it is highly important to grant more flexibility to market participants and to clearly stay away from a very detailed (micro type) regulation approach. E. g. a regulation of investment firms by requesting the publication of a Total Expense Ratio (TER) is much more efficient than a regulation requesting detailed information about pricing models.

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