 

Asset Management

by Patrik Karlsson and Bogdan Pop

MiFID II/R implementation: research unbundling

It is now less than three months until the new MiFID II unbundling rules come into effect. Several large asset managers have announced their position in recent months on how to pay for research, establishing a market trend towards firms absorbing the costs and not passing them directly on to clients by using a research payment account (RPA). Despite this trend, there are still many asset managers who have not yet decided or are still negotiating with their clients about the possible outcome.

In the ESMA Investor Protection Q&A, Question 8 states that an exception to macroeconomic research being considered "research" is where a provider makes macroeconomic-related material openly available at the same time to any investment firms wishing to receive it or to the general public, for example on a website. Material made available in this way could be justified as a minor non-monetary benefit – representing "information … relating to a financial instrument or investment service" that is "generic in nature" under Article 12(3)(a) of the Delegated Directive. While this would not capture all FICC research (particularly where research recommends a specific investment strategy), it could allow more generic FICC papers to be shared freely.

There have been numerous press articles on the likelihood of one or more broker dealers publishing their FICC research in this way, but few confirmed cases. This is an evolving area of the research unbundling implementation process which AMIC will continue to monitor on behalf of members. More details on the ESMA Q&A can be found in an AMIC briefing. The FCA has recently commented that there is a settled picture in terms of policy expectations on the MiFID II research rules, with ESMA not expected to produce any further Q&A or guidance materials on this topic.

Once the unbundling rules come into force, it is widely expected that buy-side participants will consume less external research and may attempt to offset this by increasing in-house research capabilities or relying more on research made available for free by various research providers, as described above.

Research providers will eventually need to adjust to meet this reduced demand. This has raised concerns about the potential for reduced coverage of smaller issuers which could in turn lead to a change in investor behaviour towards debt issues. In the long term, however, it is possible that specialist research providers could fill the gap and increase coverage of smaller issuers, as the value of research becomes more established.

Contact: Bogdan Pop
bogdan.pop@icmagroup.org