European investment professionals expect firms to absorb cost of research under MiFID II, but views range widely on pricing

Transition will be disruptive but it will deliver a more efficient market in the long run

London, 20 November 2017: CFA Institute conducted a survey of its European members to understand the expectations of buy-side professionals regarding pricing of research for different asset classes, the allocation of costs and related issues. The results have been published in a new report, *MiFID II: A New Paradigm for Investment Research*, with three key findings as follows:

- Most respondents expect firms to absorb cost of investment research, whilst only 15 percent expect to charge clients
- Concerns that new regulation will adversely affect smaller firms and reduce competition
- Majority of respondents expect to source less research from investment banks

Rhodri Preece, CFA, Head of Capital Markets Policy EMEA, CFA Institute, and author of the report, commented: "CFA Institute supports the objectives of these reforms, which are to remove potential conflicts of interest between asset managers and their clients when transacting with brokers, and to deliver a more transparent, competitive and efficient market for research. But the rules are not a panacea. Some respondents were concerned about unintended consequences, including a decrease in the availability of research and a reduction in research coverage."

As the revised Markets in Financial Instruments Directive (MiFID II) comes into effect on 3 January 2018, one of the most significant aspects for investment managers and brokers is the requirement to establish a price for investment research and charge for it separately from execution services across all asset classes. CFA Institute, the global association of investment professionals, conducted its survey in September 2017. Respondents include investment professionals, including C-suite contacts among the largest 400 asset managers in Europe.

In terms of the expected annual cost of research under MiFID II, the survey revealed a wide range of responses, reflecting both the diversity of investment strategies pursued and uncertainty over pricing with negotiations ongoing. The median value of the annual expected cost of equity research was 10 basis points. This equates to €1 million per annum on a notional €1 billion assets under management (AUM). The cost of fixed income, currencies and commodities (FICC) research was lower, costing approximately half as much as for equity research at approximately €350,000 per annum on a notional €1 billion AUM.

With regard to the allocation of research costs, 21% of respondents were still unsure about how they expected their firm to cover most of the cost of investment research; 53% of respondents indicated that they expect firms to absorb the cost compared to 15% who expect their firms to charge clients for the research. Twelve per cent of respondents expect a mixed attribution.

The proportion of respondents anticipating their firm to absorb the cost of research directly corresponds to the size of assets under management. Sixty-seven per cent of respondents with assets under management (AUM) higher than €250 billion expect their firm to carry the cost, whereas only 42% of respondents from firms with less than €1 billion AUM expect their firm to absorb research costs. Respondents raised concerns over a possible competitive disadvantage for smaller firms, echoing industry fears that the changes could result in the loss of some small businesses and further industry consolidation in favour of major global organisations.

MiFID II is also expected to have an impact on research providers, with 78% of respondents indicating that they expect to source less research from investment banks under MiFID II, while 44% of respondents expect to bring relatively more research in-house.

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For further information, please contact Nicole Haroutunian, Director, Corporate Communications EMEA.

Notes to Editors

Survey methodology

The survey was conducted in September 2016 and was sent to investment professionals working in relevant job functions. The survey was also sent to a sample of asset management firms, including C-suite contacts among the largest 400 asset managers in Europe.

In total, 12,671 invitations were sent to members and external contacts, and 705 responses were received. Two screening questions were then applied to ensure that only investment professionals working on the buy-side and who are involved in using, producing, or procuring investment research were eligible to complete the survey.

Following this screening process, a final set of up to 365 valid responses were received. The response rate was 2.9% and the margin of error of ±4.5%. The respondents came from 330 firms and 28 different European countries.

Five countries cover 68% of total responses: United Kingdom, Germany, Switzerland, France and the Netherlands.

CFA Institute

CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organisation is a champion for ethical behaviour in investment markets and a respected source of knowledge in the global financial community. The end goal: to create an environment where investors' interests come first, markets function at their best, and economies grow. CFA Institute has over 145, 000 members in 163 countries and territories, including 140, 000 CFA charterholders, and 148 member societies. For more information, visit www.cfainstitute.org.