**FT Trading Room** Financial Conduct Authority UK

# FCA says Mifid II has had 'positive' effects

Aim of the rule was to toughen investor protections and reduce conflicts of interest

Andrew Bailey, chief executive of the Financial Conduct Authority: 'We are seeing changes in behaviour which are starting to deliver the intended effects — reducing conflicts of interest, improving accountability and producing cost savings for investors' © Bloomberg

Philip Stafford and Siobhan Riding in London FEBRUARY 26, 2019

The UK's market watchdog has vowed to examine the effects of tough new EU-wide standards on analyst research — but warned struggling providers that it has so far seen a "positive impact" from the rules.

In a speech on Monday, Andrew Bailey, chief executive of the Financial Conduct Authority, said equity investors in the UK had saved more than £180m from changes to the way asset managers paid for research last year.

He added the market for pricing analysts' work was still evolving but noted that increased competition and more transparent pricing was creating "winners and losers".

His comments come as smaller brokers and research providers say they have been squeezed by the arrival of the flagship markets regulation known as Mifid II.

The stated aim of the rule, which was introduced in January last year, was to toughen investor protections and reduce conflicts of interest. Among the changes: a requirement for asset managers to clearly separate payments for analyst research and insights, from commission for trading. Historically many banks and brokers had "bundled" the two services, making the research free in return for luring a fund manager to trade with them.

The shake-up has had the effect of squeezing fund managers' budgets for research by 20-30 per cent, according to the FCA, and has prompted brokers to engage in a fierce price war. Independent research providers have lost out the most as the largest institutions made the biggest cuts in budgets, a recent survey by the CFA Institute, a trade association, found.

Many brokers have struggled to interpret the rules around inducements and smaller firms are consolidating to survive. Hundreds of analysts have left the industry.

Mr Bailey told the gathering of the European Association of Independent Research Providers that the evidence of a negative impact on the industry was "inconclusive". He said that the price of written research "is much lower than initial forecasts" but added: "We are seeing changes in behaviour which are starting to deliver the intended effects — reducing conflicts of interest, improving accountability and producing cost savings for investors."

**Recommended**

The FCA lobbied strongest for the changes in Mifid, arguing the previous system was a throwback to the world before the Big Bang financial market reforms of the 1980s. In response, several big investment banks opted to slash the prices they charged for analyst research in an attempt to protect their market shares.

"Very low pricing also raises competition questions about the future of a sustainable and diverse research market in the interests of consumers," Mr Bailey added.

"This is something we are keen to scrutinise and test — especially low-cost 'all you can eat' packages or one-off events such as conferences priced substantially below cost."

Analysts at JPMorgan said the regulation had led to more electronic trading and tougher competition, but it was not clear that the cost of trading or market liquidity had improved.

"Equities appear to have reacted . . . by fragmenting liquidity over a wider range of new execution options that allow for less rather than more transparency," said analyst Nikolaos Panigirtzoglou.

The FCA also found there was a broader industry move to electronic trading but argued that brokers' commissions had fallen.

Managing Assets for Insurers UK 2019

London
04 April 2019

Finding growth at a time of increasing uncertainty

Register now

Presented by

Copyright The Financial Times Limited 2019. All rights reserved.

Experimental feature

Hide

**Topic Tracker: EU financial regulation**

Added

0 1000

## Read next

Topic Tracker measures how much of a topic you have covered and suggests the best articles to keep you one step ahead.

Give Feedback

## Latest on Financial Conduct Authority UK

## Follow the topics in this article

**Fund management**

**European banks**

**Financial services**

**Mifid**

**Investment research**

**How easy or hard was it to use FT.com today?**

Leave feedback