International
Capital
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Association

ICMA

ASSET MANAGEMENT AND INVESTORS COUNCIL

Wholesale Conduct Policy Team
Markets Division
Financial Conduct Autorhity
25 The North Colonnade
Canary Wharf
London E14 5HS

London, 10 October, 2014

Response to FCA Discussion Paper DP14/3

Dear Sirs,

The ICMA Asset Management and Investors Council ('AMIC') was established in March 2008 to represent the buy-side members of the ICMA membership. ICMA is one of the few trade associations with a European focus having both buy-side and sell-side representation.

The AMIC composition embraces the diversification and the current dynamics of the industry – representing the full array of buy side interests both by type and geography. The AMIC's focus is on issues which are of concern to its broad membership, rather than having a specific product focus.

The members of the AMIC welcome the opportunity to respond to the FCA discussion paper on the use of dealing commission rules, following our response to the FCA consultation CP 13/17 earlier this year.

Our members continue to acknowledge the importance of ensuring that clients can be confident that managers are acting in their best interest when they produce or purchase research, and continue to support rules changes that are designed to enhance investor protection and market integrity.

AMIC members have the following general points to highlight.

- The international dimension of the change of rules in the UK, and global level playing field: it is welcome that the FCA has devoted its attention to this issue which we and others raised in CP13/7, in particular with regard to the introduction of MiFID II. Nevertheless, we still feel that there is insufficient concern in the FCA about the effect on UK-based international managers operating sub-advisory arrangements internationally outside the EEA will be left at a regulatory disadvantage in other markets, particularly the US and Asia.
- The impact on choice and availability of quality research: while we share the goal of the reforms outlined in the DP, namely more relevant and higher quality research, we are concerned about potential impact on the availability of quality

research for SMEs, damage to small and medium fund managers, and independent research firms in the transition period.
- Need for transparent pricing: AMIC members continue to urge greater pressure on sell-side firms to develop transparent classification and pricing of research.

These three points are considered in the detailed response below.

The international dimension

The proposed rules changes provide a level playing field to asset managers operating solely within the UK. UK-based international managers operating sub-advisory international arrangements are left at a regulatory disadvantage compared to other markets where research, including corporate access, paid from dealing commission is not a banned activity. As we have noted previously, in the US the SEC recognises corporate access as a commissionable research service.

Market practice is guided by regulation, so in locations such as the US and particularly Asia (e.g. in China almost all corporate interaction is broker-managed), UK asset managers will be competitively disadvantaged.

AMIC members believe that, in addition to raising this in international fora, the FCA and ESMA could consider further guidance in respect of the territorial reach of the current COBS and future MiFID II rules.

The impact on the choice and availability of quality research

AMIC members are concerned that the current proposal may result in a decrease in available quality research, especially for SMEs and will most likely be detrimental to small and medium fund managers who cannot afford to have their own research department. And this may have, in turn, an impact on the quality of the service to clients.

We note that the European Association of Independent Research Providers (Euro IRP) has raised the risk that a contraction of research spending during a long transition period, before MiFID II application, could lead to a severe squeeze of the revenues of independent research providers. If these providers are unable to recover these revenues in the short or medium term it could potentially lead to a sharp reduction in independent research providers. Brokers, on the other hand, could temporarily cross-subsidise their research to survive such a transition period, further skewing the research market in their favour. This could lead to a shortfall in quality and quantity of research on less covered sectors of the equity market.

Classification and pricing of research

We welcome the FCA's high level cost/benefit assessment in section 5 of the discussion paper, and welcome the conclusion that buy-side firms require brokers to develop a richer, relevant and more consistently identifiable classification and pricing of research and advisory services to help AMIC members identify and assess value in research services provided.

However, we recognise that since PS 14/7 was published the landscape has started changing for the better; with some investment banks now publishing prices.

Furthermore, in considering the changes already brought in to COBS 11.6 and to a potential ban on paying for substantive equity research in MiFID II, AMIC members would like the FCA to consider if there is a potential impact on fixed income research, where currently the costs are included in the bid/offer spread.

The AMIC would be happy to discuss further with you the points made in this letter. The Secretaries of the AMIC, Nathalie Aubry-Stacey or Patrik Karlsson, can be reached at nathalie.aubry-stacey@icmagroup.org or patrik.karlsson@icmagroup.org should you need further information.

Yours sincerely,

Robert Parker
AMIC Chairman