



AMIC response
EC consultation on research
11 September 2020

We welcome the opportunity to comment on the [draft delegated act](#) seeking to review research unbundling rules as part of the Commission's overall coronavirus recovery strategy.

Unbundling has clearly not contributed to revive SME research (which was already on the decline prior the entry application of MiFID 2), but following the extensive restructuring undertaken by the industry in order to meet the new requirements, **partially reviewing this provision will not tackle the issue to any meaningful extent. The majority of our members would practically not be able to make use of the options proposed and we outline the reasons why below.** There may however be certain small specialist firms who are able to make use of this option.

Anticipating these potential issues **ICMA's Asset Management and Investors Council recommended in its response to the recent MiFID review consultation to instead focus on policies that are less intrusive from firm operational perspective but probably more efficient and constructive from a policy outcome view (sponsored-research, free-trial).**

Following the introduction of MiFID 2 a majority of large asset managers have decided to absorb the cost of research on their P&L. This required significant operational change and extensive negotiations with research providers. It also required communications exercise with clients. These asset managers are very unlikely to ask investors to return to paying for research again. Regardless of their current set-up, **making use of this optional regime comes with several other implementation difficulties for asset managers:**

- The proposal seems to ignore that mandates and funds very often invest across asset classes such as large caps, small caps, and fixed income. Implementing a dual regime within a fund/mandate would be onerous, not to say confusing for investors. It is very unlikely to be appealing, especially for large asset managers managing hundreds of funds and mandates.
- This proposal might be complicated in practice for fixed income instruments, since structurally we cannot easily distinguish the share of the value attributed to research in the bid/ask price knowing that for fixed income there is no brokerage fee.
- Monitoring companies to ensure that they remain under the EUR 1bn threshold with market volatility, and explaining this to clients, is operationally burdensome.
- The proposal assumes that asset managers wish to trade with the same brokers from whom they will also buy research.

- The term “exclusively” in Article 13 paragraph 10 could create another problem. If several types of research are provided together (e.g. through a “package” contract), should we then make two distinct contracts?

Furthermore, we doubt that the new regime would contribute to revive SME research. Payment for research is often centrally budgeted within asset managers. The research is used across all types of funds. If exercised, the EC proposal would create an investment silo meaning that this cross-subsidy could not work.

Given the operational challenges highlighted above, we believe it is critical to make sure that the regime remains optional and under the mutual agreement of both asset managers and research providers. Neither asset managers nor research providers should be required to re-bundle.

Therefore, considering the concerns expressed above, we recommend the EC consider other policy options to support SME research and funding:

- **Free trial:** AMIC members would welcome an amendment extending the trial period to 6 months to match the bond research cycle. Currently, ESMA has limited trial periods to three months. This approach clashes with the bi-annual research cycle and is not helping independent research firms, whose visibility with investors is ensured by sending research. In addition, several trial periods with a given sell-side research firm could also be allowed, but on different classes of financial instruments.
- **Issuer-sponsored research:** Issuer-sponsored research is a useful tool for investors and issuers. From an investor perspective, the reliability of data and information on the business model coming from sponsored research is particularly valuable beyond the recommendation itself. Issuer-sponsored research can also enhance secondary market liquidity of SMEs’ securities markets. Overall, we believe that, in the context of the post-COVID recovery, the EU could further promote issuer-sponsored research. The EC could create a pan-European framework for issuer-sponsored research, which is currently tackled in various ways across EU jurisdictions. The EC could for instance recognise that issuer-sponsored research is labelled as “investment research” and not a “marketing communication” to ease its distribution and come up with minimum requirements to manage potential conflict of interests (e.g. explicit disclosure: “research paid by the company”; entirely free of charge and distributable to investors). In that context, there might also be a need to assess the compatibility of issuer-sponsored research with article 37 of delegated regulation (EU) 2017/565.

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