



EFFAS THE EUROPEAN FEDERATION OF FINANCIAL ANALYSTS SOCIETIES

To: ESMA

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Reference: Impact of the inducements and costs and charges disclosure requirements under MiFID II

Dear Sir,

EFFAS, as a pan-European organization of Financial Analysts is very committed to the improvement of the European project, namely a deepening integration and harmonization of its financial markets. For them to work it is important that the CMU project becomes central and core to the new 2019 European Commission, and for that a MiFID II revision is a welcome step in the right direction if its recent consequences are well understood.

This letter, in response to ESMA's call for evidence, gathers some input and thoughts from EFFAS members. This represents the majority of opinions/feedback, which we received out of the market represented by EFFAS.

1. In general, it is NOT with mandatory disclosures of inducements and costs that we create a better functioning market with higher transparency. This is mainly an administrative exercise, with high costs for market participants (buyers/sellers of research), which should be partly in place anyway, where it makes sense.
2. The point of departure of MiFID II was supposed to be to facilitate greater transparency: the largest investment banks obviously served their "better clients", with whom they generated higher revenues / provisions - time-wise earlier and with a higher level of detail vs. others and e.g. the normal retail investors. This had to be regulated in terms of compliance rules and disclosures. Now, with MiFID II, everybody is on the same level and financial analysis has to be priced separately, but with access distribution channels increasing widely well beyond the mere mailed written report. Thus, research receives a concrete monetary value for the first time which is a very positive aspect! But the retail/ private investor is now completely out of business and has no access to professional information anymore.
3. Research costs differ completely country wise: costs cannot be compared between Paris/ Frankfurt/ Milan/ Brussels/ Vienna/ Madrid/ Lisbon/ Stockholm/ Budapest/



Prague/ Bucharest/ Athens, etc. because of different wage levels, structures and taxes on wages.

4. The pricing of research is often a guess / estimation and has less to do with real costs because it is a mix of different forces working differently across companies and countries:
 - a. internal costs (labour, IT, Cost of Space, others)
 - b. price ranges of competitors (domestic and International)
 - c. Prices, which ultimately customers are willing, or accept, to pay!
5. So consequently, MiFID II is not able to enhance the quality of service. And precisely the opposite becomes the central case under current regulation:
 - a. the number of qualified asset managers is shrinking, instead of growing
 - b. Namely, in the smallest countries, the number of professional research providers will shrink as well putting pressure on Cost of Capital for smaller listed firms
 - c. The important private (retail) investor is completely out of reach of a professional information source.
6. Research & corporate access fees are being concentrated via bigger investment banks on larger stock listed blue chips where Passive Investment is already a major price-driving force with its lack of discriminatory Research. Companies with less Research coverage will not be attractive anymore from the Capital Markets perspective and a trend to become Private could increase.
7. Research coverage & corporate access fees for small / mid-sized banks and smaller stock listed firms are under pressure, since their smaller teams are not able to provide a fully-fledged service on a European Basis.
8. Smaller players (banks but also asset managers who cannot afford high-quality research anymore) could probably go out of business (no evidence for the moment).
9. Fund managers not willing to invest in smaller caps / IPOs, raising the hurdle for companies to go public and making CMU an even more difficult project. Concentration among fund managers (not European) will reduce the brokerage client base.
10. It was always a goal of the EU / European Commission to establish a better functioning liquid market vs. the US (MarketCap to GDP, value creation and Going Publics / IPOs of start-up). Likewise, the small private investor plays an important role as a long-term stabilizing portion/ overall percentage of shareholdings within



the market. With MiFID II it is practically impossible to attract further mid / small sized & innovative companies, start-ups, etc. for a financing via the capital market (clear disadvantage vs. the US).

11. Therefore, overall, MiFID II has become mainly a nice costly administrative exercise and is NOT creating a better functioning market with higher transparency relative to the previous market organization. Higher costs (Research + Trading) decreased market efficiency, increased barriers, allow the biggest to become bigger and in the end do not promote integration with the EU financial market, making the Cost of Capital for market participants, mainly smaller ones, a difficult problem to solve for the European project .

Yours faithfully,
For the EFFAS Executive Management Committee

Jesús López Zaballo, Ph.D.
EFFAS Chairman

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EFFAS EMC member

"The European Federation of Financial Analysts Societies" (EFFAS) is the European umbrella organization of national analysts' societies. It comprises 18 country members, representing more than 15,000 investment professionals in the areas of equity, fixed income and credit research, asset management as well as investment advice.

