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INSTITUTO ESPAÑOL DE ANALISTAS FINANCIEROS

FUNDACIÓN DE ESTUDIOS FINANCIEROS

Ref: **ESMA call for evidence: Impact of the inducements and cost and charges disclosure requirements under MiFID II**

Madrid, September 6, 2019

To whom it may concern:

The ***Instituto Español de Analistas Financieros*** **(IEAF)** is a non-profit-making professional association incorporated on September 18, 1965 for financial analysts and financial investment and management professionals and is an associate member of **EFFAS (the European Federation of Financial Analyst Societies**), a pan European organisation that brings together financial analysts' associations of various EU member countries.

As a member of EFFAS, the *Instituto Español de Analistas Financieros* fully concurs with the comments made by the former on September 5, 2019 in response to the ESMA document *Call for evidence: Impact of the inducements and cost and charges disclosure requirements under MiFID II.*

In addition, as a contribution to ESMA's call for evidence from the sector, we include some of the conclusions of a recent study[1] carried out by the *Fundación de Estudios Financieros* (FEF) - an IEAF think tank providing independent research, training and ideas - regarding the impact of MiFID II requirements on markets, and in particular, the impact of the unbundling of research and execution costs on financial intermediaries and markets.

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1.- In general, the costs being incurred by financial entities in order to comply with MiFID II requirements are very high, causing significant changes in their transaction revenues and costs structures and resulting in the need for significant technological capabilities in order to meet regulatory obligations or, at least, the practical interpretation being made of these. Consequently,

- in many cases, depending on their size, some entities have been unable to make the necessary changes in all their business areas, and so have discontinued operations in certain instruments or markets or specific client segments.
- also, (i) the increase in transparency that means clients have to be informed of and/or provided with all the explicit and implicit costs associated with the services provided, (ii) the increase in these costs caused by having to deal with complex compliance issues that require real time monitoring, and (iii) the need to invest in technology and information, may result in a reduction in operators' revenues and, in the short term, in a smaller product range.
- In this scenario, the viability of some business models may be adversely affected to the extent they have to abandon the market, favouring an increase in the size of operators and consequently the concentration of the business in fewer and larger entities. The consequence is less competition, a situation that does not

[1] *Observatorio sobre la Reforma de los Mercados Financieros Europeos 2018. Fundación de Estudios Financieros.*

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benefit end clients. Although the existence of large entities with significant operating capabilities enables economies of scale and compliance with all regulatory requirements, concentration reduces competition and may imply the standardisation of the services provided to clients, at the expense of those with higher added value.

2.- The treatment of research as an incentive, with intermediaries being required to unbundle research and execution charges, has led a large number of international managers to charge research expenses against their own P&L statements and not against the funds or portfolios they manage.

This has resulted in a significant reduction in the budget allocated to research by managers in order to safeguard their financial viability. In turn, providers of reports are reducing their teams in order to balance their P&L statements and are also reducing the number of companies covered, which could favour concentration in this sector.

The likely negative consequences of this scenario are:

(i) small and mid-size companies finding it more difficult to obtain stock market funding,

(ii) a reduction in the liquidity of these companies' shares due to a lack of coverage by independent analysts,

(iii) distortions in the value/price the markets assign to companies with low liquidity and scant coverage and

(iv) an increase in research paid for by the issuers themselves, with potential implications as regards conflicts of interest.

The impacts outlined above are occurring in the middle of the implementation of the European CMU and are at odds with one of the most important of its aims which is to achieve greater funding for small and mid-size companies via capital markets.

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Yours faithfully;

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