Financial Times - Suplemento FTfm
lunes, 21 de enero de 2019
Pág: 10
Ocupación: 84,02% Valor: 63.444,13 € Tirada: No disp. Difusión: 88.000 Audiencia: No disp.

Mifid II's transparency rules go global

Pressure grows on rivals as $1.87tn US manager moves to absorb the cost of commissioning research, writes *Siobhan Riding*

European financial regulation usually strikes fear into US asset managers. Twelve months after the implementation of Mifid II, however, some US managers are voluntarily signing up for transparency rules that do not apply to them.

The second Markets in Financial Instruments Directive came into effect last year. It requires European asset managers to separate the cost of research from trading commissions paid to brokers, a process known as unbundling.

The rules were designed to prevent brokers giving investment managers an inducement to trade and also to provide transparency over the use of clients' money.

Virtually all European asset managers have opted to cover the cost of their own external research. The rules do not apply in other jurisdictions, so most international companies have limited the policy to Europe.

This could be about to change, as shown by the recent decision of Capital Group, the $1.87tn US manager, to absorb the cost of third-party investment research across its global business.

Although Capital is one of only a handful of asset managers to declare they will sign up to Mifid II worldwide, it is among the largest managers to do so. The move will pile pressure on rivals to follow suit.

Capital cites the shifting regulatory environment and changing client demands as the reason for global adoption of Mifid II unbundling.

Mike Gitlin, a member of Capital's management committee, says the move is "is in line with the direction in which the industry may be headed".

This prediction is borne out in a survey by trading venue Liquidnet last month, which showed that 53 per cent of asset managers had implemented EU unbundling standards as a global policy, while a further 20 per cent planned to do so within five years.

Pressure has built on fund groups since Mifid II was rolled out. More non-EU investors have become aware that they are treated differently to their European counterparts.

Amy McGarrity, chief investment officer of the $46bn Public Employees' Retirement Association of Colorado (Pera), says managers that pay out of their own pockets for research in Europe but still pass on costs in the US put American investors at a disadvantage.

More non-EU investors are aware that they are treated differently from European counterparts — Pictac/Dreamstime

The concern is that US clients "may be subsidising European clients", says Ms McGarrity.

Pera is one of a small group of US institutional investors that have put pressure on asset managers to pick up the cost of research on behalf of global clients.

Ms McGarrity says ending the practice of bundling research payments into client commissions "is a win-win for asset managers and asset owners" as it results in a better allocation of research spending.

"We feel that many equity managers . . . may overpay for sellside research because they [treat] bundled research dollars as 'funny money'," she says.

"When managers start paying for [research] out of pocket, we see a sharp decline in their expenditure."

Rebecca Healey, head of market structure and strategy for Europe, the Middle East and Africa at Liquidnet, says investment managers that have implemented unbundling in Europe realise the value of being able to break down what they spend on research.

"Going back one year, asset managers didn't know what [their] portfolio managers were consuming," she says.

Unbundling is changing asset managers' attitude to the value of research and "forcing them to ask very difficult questions", she says.

According to Ms Healey, investment groups are starting to see unbundling less as a regulatory requirement and more as a differentiator that can lower costs.

This is especially important in light of the cut-throat competition in the asset management industry and the current level of investor scrutiny.

Mr Gitlin says Capital had been monitoring its research spending and "has gathered valuable insights into how our investment professionals use and value third-party research".

Sanford Bragg, principal at Integrity Research Associates, says rivalry will lead the largest asset managers to absorb research costs; their vast asset bases make them more likely than smaller groups to bear a hit.

Integrity Research estimates Capital's research budget at $100m, based on the assumption that research costs between one to two basis points of equity assets under management. Capital does not disclose its research spend.

The estimated portion of US bundled commissions spent on research is about $4bn, according to a survey of investment managers' commissions by Greenwich Associates.

Mr Bragg notes that while this figure seems high it is just a "fraction" of US fund managers' total AUM.

However, some non-EU groups are concerned that performance will be hit by the likely reduction in research spending prompted by them covering the cost themselves.

"US active asset managers are under much more pressure than European asset managers, in that passive assets are a much greater percentage in the US," says Mr Bragg, who notes that groups have already lowered investment spend.

Some asset managers are holding off for now, unwilling to bear the extra cost to do something with few clear benefits.

The lack of a regulatory imperative for unbundling outside of the EU is another reason for fund groups to drag their feet.

Indeed, US regulations make unbundling difficult, as local brokers cannot accept separate research payments unless they register as an investment adviser.

Asset managers have found ways to navigate these restrictions, such as by continuing to pay bundled commissions but reimbursing research costs to clients.

Lobby groups such as the Council of Institutional Investors, which represents 120 US asset owners that manage a total of $3tn of assets, are urging US regulators to make it easier for fund groups to make "hard dollar" payments for research.

Even if this were to be granted, a full prohibition of the use of client commissions to pay for research seems unlikely, says Mr Bragg. Such a change would require an act of Congress.

Observers say, however, that the trend towards global unbundling will be driven by commercial rather than regulatory forces.

Ms Healey says global managers do not want to go back to the bundled model now that they have experienced the benefits of having greater control of research spending.

"It's a pandora's box . . . the lid has been opened," she says.

Meanwhile, managers that have yet to be convinced of this will be forced into action by their rivals.

Benjamin Quinlan, founder of Quinlan & Associates, the Hong Kong consultancy, says: "As soon as some of your competitors start eating the cost of research, it's hard for you to justify why you're not doing it."