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Research solutions in a post-Mifid world

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By Mehdi Sunderji

When the European Union enacted the lengthy and complex law known as Mifid II in January this year, the extent of the new regulation's global reach was unclear.

Nearly a year later, one of many effects advisers and other financial professionals have had to adjust to is the accelerated upheaval of the investment research market.

Under Mifid II, customers are required to see all the charges and costs from a financial institution before they make an investment with them.

So broker projections have been adjusted to include the impact of these charges on their ultimate returns.

While it adds to their workload, it's done in the service of increased transparency. Advisers will have to work harder at getting, calculating and sharing information about research costs, following the lead of the asset managers with whom they place their clients' money.

It may mean more short-term work, but could have the effect of creating more good news for their clients, as managers will be able to search more widely for the best available research.

Let's step back a moment and look at what's changed, and what may result.

The investment research business has been battered by consolidation, budget cutback and the looming role of artificial intelligence and automation. Coverage of small stock overseas markets has already been reduced by many major investment houses.

But new rules that address how research is paid for and consumed – and insulate asse managers from financial inducements that might tempt them not to act in a client's best interest – means those same managers may soon find the opportunity to themselves of wider research options, leading to better-informed investment decisions.

Advisers, even those directly exempt from Mifid regulations, understand the importance of work from independent and locally-sourced investment research, presented by analysts who know their markets.

Their conclusions are made without financial incentives affecting their opinions. These research providers work across a range of markets globally, from the most developed pillars of the global economy, to the emerging and frontier markets that may supply its next breakout success stories.

In this period of adjustment, as research analysts leave their jobs at major institutions due to budget constraints, and only the largest investment clients get the full range of their findings, changes to research pricing and compensation are reducing access to the best available information.

As large institutions dominate the market, asset managers increasingly see research from a lot of providers where there are conflicts of interest, which may lower the quality and level of detail they deserve.

But advisers can influence the post-Mifid investment landscape, whether or not they are subject to its provisions, simply by encouraging – or insisting – that the managers with whom they place client assets take the opportunity to embrace the disruption in the flow of investment research and consider solutions that may flourish in the new regulatory regime.

There's a clear need for high quality research that reflects local market expertise, and research providers that take advantage of new avenues for distribution will give th product wider access and play an even more vital role in creating a level playing fi

Investors want to maximise their benefits from the research – which they ultimate to pay for – and to do so, their asset managers must maximise their exposure to new opportunities, not struggle to find information that gives them new ideas.

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