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# FCA finds MiFID II research unbundling rules working well for investors

Press Releases | Published: 19/09/2019 | Last updated: 19/09/2019

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The Financial Conduct Authority (FCA) has today published multi-firm review findings indicating the Markets in Financial Instruments Directive's (MiFID II) research unbundling rules have improved asset managers' accountability over costs, saving millions for investors.

A key principle of the MiFID II unbundling reforms is to ensure that portfolio managers act as good agents in the best interests of their clients and that their investment decisions are not unduly influenced by third parties.

From 3 January 2018, asset managers were required to pay for research separately from execution services, and either charge clients transparently or pay for research themselves. Prior to MiFID II, research costs were often 'bundled' into opaque transaction fees borne by investors' funds, with many firms not adequately controlling how much of their clients' money was being used to pay for research.

The [FCA's review](#) found that, following MiFID II, most asset managers have chosen to pay for research from their own revenues, instead of using their clients' funds. Firms have also improved their accountability and scrutiny of both research and execution costs, including where firms have chosen to charge research costs to clients. This has resulted in investors in UK-managed equity portfolios saving around £70m in the first six months of 2018 across a sample of firms.

The review and analysis also found that:

- since the introduction of the reforms, budgets set by firms to spend on research have fallen on average by 20%-30%
- despite these budget reductions, most asset managers said they are still getting the research they need
- research coverage of small and medium enterprises (SMEs) listed in the UK has not seen a material reduction to date, and
- research pricing is still evolving, with wide price ranges being offered by brokers and independent providers

Detailed findings in relation to asset managers' approaches to valuing research, and the FCA's expectations as to how certain activities, such as trade association events, research marketing and consensus forecasts, interact with the new rules can be found within the multi-firm review report.

The FCA will continue to monitor both competition impacts and research coverage of SMEs following the MiFID II reforms by analysing market data and other reviews, such as the European Commission's forthcoming study.

The FCA also intends to carry out further work in this area in 12 to 24 months' time to assess firms' ongoing compliance with our rules.

## Notes to editors

1. [Implementing MiFID II – multi-firm review of research unbundling reforms.](#)
2. The FCA carried out its multi-firm supervisory review from the second half of 2018 into early 2019. It involved a survey of 40 asset managers, and subsequent visits to a sample of asset managers and brokers, and meetings with independent research providers and corporate issuers. The figure of £70m of savings is based on survey data from 40 firms, comparing the amount spent on research using client funds in the first half of 2018, versus the same period in 2017.
3. Andrew Bailey, Chief Executive of the FCA, gave a speech [on the MiFID II unbundling reforms at the European Independent Research Providers Association on 25 February 2019](#). At the time, the FCA estimated savings of £180m a year for investors with UK-managed equity portfolio from these reforms, amounting to nearly £1bn over 5 years. The FCA considers this is likely to be a conservative estimate based on actual savings observed among firms involved in the supervisory work.
4. The FCA consulted on and finalised its implementation of MiFID II research unbundling rules in [CP16/29](#) and [PS17/14](#) respectively.
5. Find out more information [about the FCA](#).

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