

MEMO# 28448

October 14, 2014

Comment Letter on UK FCA Dealing Commission Discussion Paper

[28448]

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TO: EQUITY MARKETS ADVISORY COMMITTEE No. 17-14
ICI GLOBAL MEMBERS No. 42-14
ICI GLOBAL STEERING COMMITTEE No. 13-14
INTERNATIONAL MEMBERS No. 34-14
INTERNATIONAL OPERATIONS ADVISORY COMMITTEE No. 15-14
SEC RULES COMMITTEE No. 37-14 RE: COMMENT LETTER ON UK FCA DEALING COMMISSION DISCUSSION PAPER

In July 2014 the Financial Conduct Authority (FCA) published a discussion paper on the use of dealing commission regime (Discussion Paper). [\[1\]](#) Based upon a thematic supervisory review and a high level cost benefit and competition analysis, the FCA concludes in the Discussion Paper that unbundling research from dealing commissions is the most effective option to address the conflicts of interest created by the use of transaction costs to fund external research. The FCA also hopes this approach is adopted on an EU-wide basis through the revised Markets in Financial Instruments Directive (MiFID II).

We submitted the attached comment letter on October 9, 2014. Many of the points that we raise in our letter are substantially the same as those raised in our response to Question 79 of the European Securities and Markets Authority (ESMA) MiFID Consultation. [\[2\]](#) Below is a brief summary of the letter.

Thorough Cost Benefit and Impact Analysis is Needed Prior to Fundamental Change to the Existing Research Regime

Considering the potentially significant impacts of unbundling research from dealing commission, and widely differing views on anticipated outcomes, we urged the FCA to undertake or commission a thorough analysis of the market impact of unbundling, with public input, to fully understand the effect on investment firms and their clients, as well as on the market and firms providing research. We encouraged the FCA to liaise with ESMA to engage in such analysis on a broader level and noted that IOSCO is taking up further work

in this area. We stressed that it would be important for the FCA to take account of that global perspective in coming to a view. We further stated that such an analysis also should take account of relevant conflicts of interest requirements and how such requirements could affect research and dealing commission arrangements.

Significant Negative Consequences Would Result from Unbundling

The FCA asks two questions in the Discussion Paper: (1) do you have any comments on our analysis on the potential impact of unbundling payments for research from execution arrangements based on MiFID II proposals (Option 1, implemented across the EEA), and (2) do you have any analysis that would help inform our view of possible benefits or costs of extending requirements in MiFID II to cover all research goods and services (Option 2, implemented only in the UK and assuming ESMA proposal is adopted for the EEA). We stated in the letter that, in our view, the implementation of either Option 1 or Option 2 would have significant negative consequences in the following areas:

- Harm to small and medium-sized enterprises themselves;
- Impact on the international competitiveness of EU firms, and potential harm to their clients, including regulated funds and their investors;
- Detrimental impact on specialist and independent research houses that provide valuable (but relatively expensive) research into emerging market companies, small and medium-sized enterprises, or otherwise expensive-to-research issuers if the existing arrangements are disturbed; and
- Elimination of some or all of the benefits of the existing regime, such as broad coverage and availability due to economics of scale, to the detriment of investment firms and their clients.

In the letter, we explained that the bundled brokerage model can continue to provide an effective and efficient way of providing access to execution and research services at a competitive rate if it is combined with appropriate oversight and controls. We then outlined a number of suggested controls and oversight measures.

Eva M. Mykolenko
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[Attachment](#)

endnotes

[1] See DP 14/3 Discussion on the use of dealing commission regime: Feedback on our thematic supervisory review and policy debate on the market for research (July 2014), available at <http://www.fca.org.uk/news/dp14-03-the-use-of-dealing-commission-regime> .

[2] The ICI Global response to the European Securities and Markets Authority (ESMA) on its consultation for the implementation of the revised Markets in Financial Instruments Directive (MiFID II) and Regulation (MiFIR) is available at <http://www.iciglobal.org/pdf/28294.pdf>.

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