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BlackRock holding off on Mifid II decision

By Anna Devine 15 May 2017

BlackRock says it has still not decided how it will implement new rules unbundling the costs of research from trade execution, highlighting the uncertainty of the impact of Mifid II on asset managers.

The US fund giant is waiting for a policy statement from the UK regulator, which is set to be published towards the end of June, before deciding what comes next.

Under Mifid II asset managers must decide whether to continue to pass on the cost of external research to their clients or absorb it.

Several asset managers, including Amundi, Jupiter Asset Management and Aberdeen, have already indicated what they intend to do when Mifid II comes into effect from January 2018.

BlackRock, however, says it "will await final details on how the [Financial Conduct Authority] will implement Mifid II in the UK before finalising our approach".

"Research is a critical element of our investment process and we strive to access the broadest base of knowledge in the most cost-effective way for the benefit of our clients," says a spokesperson for BlackRock.

Other asset managers, including JPMorgan Asset Management and Standard Life Investments, say their research policy remains under review.

Speaking at the Platforum European Fund Distribution Forum last week, Darren Sait, executive director regulatory and business change at JPMorgan Asset Management, says the US firm is "giving a lot of careful thought to" research.

He says: "[Fund houses have] different views on whether the customer will continue to pay or whether the asset manager will pick up the bill.

"There's an extremely senior board meeting at the end of this month and there will be more news after that."

A spokesperson for SLI says: "In response to the proposed regulation contained within Mifid II including the payment for research, we are currently analysing the options available to us as detailed in the delegated acts.

"We are carefully considering the potential impact of implementation. Acting in the best interests of our investors will be the key focus of any subsequent outcomes."

According to experts, some "practical questions" need ironing out before most firms will state their position.

In the UK the industry is waiting to see whether the FCA will allow for a degree of flexibility in handling research payments.

Julie Paterson, head of investment management at KPMG, says: "As with almost everything in Mifid II, firms around Europe are encountering specific practical questions as they seek to put the many aspects of Mifid II into effect.

"That is also true in relation to investment research."

A spokesperson for the UK fund trade body, the Investment Association, says there are a number of "options" on how to implement the rules.

For example while it is possible to pay for research alongside commission payments under Mifid, the UK regulator could propose complete separation of research costs from transaction costs.

Attilio Veneziano, founder of Veneziano & Partners, a law firm, says: "[This] more stringent approach, proposed by the FCA, is clearly conflicting with a more practical and market-oriented take on the issue adopted by other regulators across Europe."

Claire Wallace, a senior manager at PwC, says the FCA could shed further light on whether current commission sharing arrangements can "stay".

However, she adds that the industry does not expect anything "radical" from the FCA when it publishes its next policy statement.

Fund firms will still have to make a hard payment from their profit and loss account or use a research payment account to charge investors, she says.

"Ultimately the FCA is leaving it to firms to decide," says Ms Wallace.

Last month the IA provided technical and legal guidelines to its members on the implementation of Mifid II investment research rules.

The FCA is also said to be supportive of a number of Q&As, published by the European Securities and Markets Authority, designed to aid consistent Mifid II implementation by European Union regulators.

Simon Young, co-founder of Heartwood Partners, an investor relations advisory firm, says it would "make sense" for BlackRock to absorb the cost of research from a competitive advantage perspective if in doing so it "pressurises other smaller players to do the same".

Mr Young says: "If it became the industry norm to absorb the cost of research through the P&L it would put more pressure on smaller asset managers with comparatively smaller revenues and higher relative cost bases.

"If these smaller players are hit by an increase in fixed costs, [such as] research, then it may force some smaller asset managers to close or merge, which is entirely likely in [our] view."

Henderson Global Investors was the first asset manager to say it would continue to charge investors for external research, following announcements from Jupiter, M&G Investments and Woodford Investment Management that they would absorb the cost themselves.

Andrew Formica, Henderson's chief executive officer, said he did not see a hard payment for research costs as "necessary" and that other firms, particularly large US houses, thought the same.

Invesco's chief financial officer, Loren Starr, said last month: "Our preferred approach with respect to Mifid II will be to use commission sharing accounts, or CSAs, to fund the research payment accounts contemplated by Mifid to the extent permissible under the final rules."

Mr Starr added that there were "legal and regulatory inconsistencies, which regulators must address", as well as "potential competitive developments" that could affect the degree to which Invesco's approach could be fully implemented.

Schroders and Man Group have also said they plan to continue passing the cost of external research onto investors.

Schroders CEO Peter Harrison said the firm had been “quite […] aggressive” in making sure that it gets “good value for research”.

Additional reporting by Baptiste Aboulian and Ed Moisson.