

“Independent Research: because they’re worth it?”

A new CSFI report, by Vince Heaney.
Commissioned by Euro IRP, which represents independent research providers.
Available through the CSFI website (www.csfi.org.uk) £25.
Embargoed until Monday, 19 November, 2012 at 00:01hrs.

Press Release

With the financial services industry contracting and tighter regulation here to stay, independent research providers need to demonstrate value creation and shift from being “nice to have” to “need to have”.

A new report published today by the Centre for the Study of Financial Innovation (CSFI) - *Independent Research: because they’re worth it?* – found that independents have established themselves as a key part of the UK research landscape; 47 per cent of the institutions taking part currently pay for independent research and the majority of those expect at least to maintain their expenditure in 2012-13. But in a fiercely competitive environment, where fund managers are striving to minimise costs, independents must adapt.

A key development is that the market is increasingly measuring outcomes, which means the traditional qualitative assessment of research is being supplemented by quantitative measures – answering the question ‘did that idea pay off?’

The CSFI report is the follow up to 2011’s *Has independent research come of age?* Earlier this month, the Financial Services Authority (FSA) reacted to the first report by suggesting that corporate access be scrapped as an activity covered by dealing commissions, a development which could substantially level the playing field for independent providers.

The new report, which surveyed over 150 buy-side users of financial markets research, suggests that it will never be possible to remove all subjectivity from the assessment of the value added by independent research. There will continue to be a healthy market for research that is not linked to specific trading recommendations and, despite the introduction of Commission Sharing Arrangements, the dominant payment model for independent research remains fixed fees or subscriptions. Almost a fifth of the buy-side users surveyed are spending, on average, more than \$75,000 per firm per annum.

Alongside this traditional version of independent research, for some firms, qualitative assessment will increasingly be accompanied by quantitative measures of value added. Nearly half of those surveyed believe a common metric for valuing all research should be developed. While the bulk of the fundamentally-based fund management industry still operates on subjective and informal assessments of the value added by research, in future, increased rigour is likely to play a growing part in the way fund managers, the sell-side and research providers manage their relationships. The independent research sector needs to embrace this new reality in financial markets and adapt accordingly.

Vince Heaney, author of the CSFI report, said:

“The qualities that buyers value – genuine independence, a degree of exclusivity and a fresh approach compared with the sell-side competition – are what help differentiate independent research and provide the key to building a long-term value proposition. With a secular contraction in financial services under way, it is incumbent on independent providers to demonstrate value on both a quantitative and qualitative basis to continue to take market share from the sell-side.”

Peter Allen, co-chairman of the European Association of Independent Research Providers (Euro IRP)*, said:

“Vince’s report highlights the progress independent research has made despite significant market headwinds and identifies the opportunities and challenges that lie ahead. We welcome the FSA’s clear guidance against the use of commissions to pay for the classic corporate access ‘concierge service’ provided by investment banks. But we cannot rest on our laurels. This comprehensive survey of our clients, the end users of independent research, reveals both an increasing reliance on our fresh perspectives and an increasing rigour in how they will allocate research investment into 2013.”

*Euro IRP commissioned the report from the CSFI, which then worked independently on it with Vince Heaney. The conclusions are Mr Heaney’s.

Notes to editors:

Vince Heaney is a freelance financial writer and former deputy editor of the Financial Times’s Lex column. Before becoming a journalist in 2000, Vince spent nine years as a proprietary trader in the banking and hedge fund industries and eight years as an agricultural commodities trader. He holds a degree in economics from Cambridge University.

The CSFI is a not-for-profit think-tank, set up in 1993, which looks at emerging threats and opportunities in the financial services sector. Chaired by Sir Brian Pearse, it is supported by around 80 public and private-sector organisations.

Euro IRP was set up in 2005 to represent the interests of the independent research industry in Europe. With some fifty member firms, its goals include raising awareness of the sector and improving the regulatory and fiscal environment in which it operates.

Attachments:

Pdf of the report

Note on corporate access angle

For further information, contact:

Vince Heaney: 0208 789 9209

Or, at the CSFI, Andrew Hilton or Jane Fuller: 020 7493 0173

CSFI

5 Derby Street

London

W1J 7AB

020 7493 0173 or 020 7491 8666

info@csfi.org.uk