

# CSFI

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## ***“Has Independent Research Come of Age?”***

A new CSFI report, by Vince Heaney  
Commissioned by EuroIRP, which represents independent research providers  
Available through the CSFI website ([www.csfi.org](http://www.csfi.org)) £25  
Released on Wednesday, June 1, 2011

### **Press Release**

#### **Call to exclude corporate access from commission payments**

Dealing commissions should not be used to pay for fund managers to have access to the clients of investment banks, according to a report on the independent research sector, which competes for a share of those commissions.

Since corporate access lacks “original content”, it falls outside the definition of research in regulation designed to unbundle payments for research from trading fees, according to Vince Heaney, author of the report published by the Centre for the Study of Financial Innovation. He found that that the Financial Services Authority was aware that corporate access might not be a legitimate use of dealing commissions. Heaney’s report recommends that the issue be reviewed by its successor body, the Financial Conduct Authority.

**Peter Allen, co-chairman of EuroIRP, which represents independent research providers, said it was likely to push for corporate access to be excluded from the list of activities that dealing commission could cover. EuroIRP commissioned the report, entitled *Has Independent Research Come of Age?*, as an independent examination of a sector that has grown to an estimated £250m in annual revenues, with the help of regulatory change.**

“Unbundling” rules were enacted by the FSA in 2005 in the wake of the Myners Report on the responsibilities of institutional investors. That dealt with splitting the dealing commissions paid by fund managers into streams to cover research and execution. Change was also prompted by the dotcom-era “tainted research” scandal exposing conflicts of interest at investment banks.

Corporate access, which is highly valued by fund managers, has grown in the past few years as a source of deductions made by investment banks from dealing commissions, in addition to amounts covering their “sell-side” research. Extel estimates that corporate access now accounts for about 25 per cent of commission dollars paid for research and advisory services.

Heaney's report also recommends that the sector, which is made up of niche providers, should obtain economies of scale by grouping together – with independent brokers – under an umbrella organisation that would offer trade execution, market the firms and share compliance costs. “It need not compromise either the quality of the research product or a realistic definition of independence that includes execution-only broking but excludes proprietary trading, asset management and investment banking services.”

A further recommendation for the sector is that it should look at developing ways to measure the value-added by research to investment decisions. This would counter the impression that research is simply a cost, and encourage fund managers to pay for a service that is often regarded as provided “free” by the sell-side.

## Notes

*Vince Heaney is a freelance financial writer and former deputy editor of the Financial Times' 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 70 public and private-sector organisations.*

*EuroIRP 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.*

### *Attachment*

Pdf of the report

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