

## **“Brussels pressed to take lead on company research”**

**By Sundeep Tucker**

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Europe's largest institutional investors want the European Commission to promote independent research in order to maintain the integrity of European stock markets, according to research published yesterday.

Europe should follow the lead of the US, where independent research is flourishing as a result of enforcement action taken last year by the Securities and Exchange Commission to crack down on analyst conflicts of interest, the research paper said.

The paper was prepared by a working group led by George Moller, chief executive of Robeco, the Dutch asset management giant, and is based on a poll of 31 Europe-based hedge and pension funds, insurers and asset management firms that manage combined assets of Euros 2,000bn (Dollars 2,600bn, Pounds 1,380bn).

The poll found a high level of frustration over the lack of independently produced company research.

Most company research used by European investors is produced by analysts who work for the largest investment banks. However, the survey found that fund managers increasingly viewed such research as "tainted" because other parts of a bank often had a business relationship with the company being researched.

The poll found that 84 per cent of fund managers believed independent reports would be valuable, especially during situations such as initial public offerings. Nearly three-quarters of respondents also felt there is inadequate disclosure of trading conflicts.

Large investment banks also have the funds to cross-subsidise their company research - it is often sent free - making it difficult for start-up independent providers to flourish.

The working group - whose findings were sent yesterday to Charlie McCreevy, the EU internal markets commissioner - is calling for the Commission to set up a forum with enough necessary political muscle to improve the situation.

A spokesman for the European Commission said it was an "important topic" and that Brussels would be studying any report sent to it carefully."

The group, which is known as the Independent Research Think Tank and which includes Allianz Dresdner Asset Management and British Steel Pension Fund, believes that, unless the Commission takes steps to help "kickstart" conditions in which independent research providers can thrive, fledgling US providers will dominate the growing market for so-called "conflict-free" company analysis.

As part of a Dollars 1.4bn research "settlement", 10 Wall Street firms, including Goldman Sachs and Merrill Lynch, agreed to spend a combined Dollars 432m on independent research over the next few years. The Wall Street firms also committed themselves to using at least three independent research providers until 2009.

Mr Moller said: "Independent research is an important element in the maintenance of integrity in the marketplace, as it offers investors a neutral analysis of a company's prospects."

He added: "The US research settlement was reached following a number of scandals on Wall Street. Europe should not wait for a calamity before it acts.

"We need centralised co-ordination and political will to kickstart the conditions in which independent research can be viable." Additional reporting by Tobias Buck in Brussels

George Moller, chief executive of Robeco, has called for the European Union to kick-start the independent research sector in Europe amid concerns that the US is moving ahead on this front.

He said investors had demonstrated unequivocally their view that independent research has value to add, and that a majority were not convinced that disclosure by investment banks was adequate to enable investors to adjust for any potential bias.

"This is the first time top institutions have stood up and said this is important," said Mr Moller.

The views, expressed in a report by the Independent Research Think Tank, chaired by Mr Moller, came from 31 investment groups looking after combined assets of nearly Euros 2,000bn.

But despite the enthusiasm for independent research, there remains a question mark over how much investors are willing to pay for it. The report found most institutions allocated little, if any, of their commission budget to such research, partly because of the pressure to cut transaction costs.

This has held up the development of independent research firms in Europe, which have difficulties reaching critical mass. The problem was compounded by the cross subsidisation of research by large investment banks, which were often prepared to offer investors research at below cost or even free, the report said.

Mr Moller said independent research firms needed to reach a certain size to be credible, which in turn required financial strength or a source of income. Robeco, and its parent Rabobank, have jointly funded independent research firm Iris for more than 12 years.

The Think Tank's report has been sent to Charlie McCreevy, the EU's internal markets commissioner.

"We hope Brussels will take this seriously and look at what has been developed in the US," said Mr Moller.

Independent research provision in the US has been boosted by the Dollars 1.4bn settlement forced on 10 Wall Street firms by the Securities and Exchange Commission following a probe into analyst conflicts of interest. The firms have agreed to spend Dollars 432m on independent research and have committed to using at least three independent research firms until 2009.

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