EU has no plans for new steps on research conflicts

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By Jane Merriman

LONDON, Oct 20 (Reuters) - The European Commission has no plans to take a more aggressive stance on conflicts of interest in investment research, with existing EU measures adequate for now, EU Internal Market and Services Commissioner Charlie McCreevy said on Thursday.

"We will not be wielding the regulatory sword, at least not yet," he said at the launch of the European Association of Independent Research Providers.

George Moller, chief executive of Dutch fund manager Robeco (RBEN.AS: Quote, Profile, Research), who was also speaking at the launch of the Association, called for a more level playing field in research on initial public offerings.

Moller pointed to Refco Inc (RFXCQ.PK: Quote, Profile, Research), the U.S. futures broker which has filed for bankruptcy just two months after raising nearly $600 million in its initial public offering.

"Refco was the shortest IPO in human history," he said, adding that current system for providing research on companies going public via an IPO did not give investors the full picture.

But the EU is not going to intervene in this area.

McCreevy said the counter argument was that if independent research firms were allowed more background information on an IPO they could be in danger of becoming captive to whoever provided it.

"My own view is that the market will generally regulate it," he said.

McCreevy said the EU's Market Abuse Directive and the Markets in Financial Instruments Directive -- which is not due to come into force until April 2007 -- should address the issue of bias in stock research.

DOTCOM SCANDALS

Financial regulators and legislators have tried to clamp down on research conflicts after scandals on Wall Street over tainted stock recommendations emerged after the dotcom stock market bubble of the late 1990s.

U.S. regulators agreed a $1.4 billion settlement with major investment banks in April 2003, which included setting aside about $450 million to fund independent research providers.

Regulators in Europe have followed suit in introducing measures to stamp out biased research, but have not been as prescriptive as their U.S. counterparts.

The regulatory crackdown on research conflicts at the big investment banks, plus new disclosure requirements in the UK for fund managers, have spurred an increase in the number of independent research providers, often small boutique firms specialising in certain sectors.

McCreevy said the EU's Market Abuse regime might push up demand for independent research.

"I know some of you think we should go further to promote independent research," he told the Association.

But McCreevy said he had no appetite for the kind of intervention seen in the United States, particularly as the EU did not see any market failures at present.

He said the Commission's aim was to avoid excessive regulation, which could stifle innovation and drive the market elsewhere.

"The EU's capital markets are strong, our IPO market is bigger than in the U.S. and our M&A market is bigger," he said.

McCreevy was asked for his views on potential conflicts of interest in debt rating agencies.

He said the Commission was not preparing any new initiatives in this area, but he was conscious of the issues.

"I have put them on watch and they continue to be on watch," he said.