

Call to ban 'corporate access'

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Independent research houses are calling for asset managers to be barred from rewarding investment banks for providing corporate access via their commission payments.

The European Association of Independent Research Providers is to lobby regulators to push for corporate access to be scrapped from the list of activities that dealing commissions are able to cover, in order to tackle what it perceives to be an "uneven playing field".

Most asset managers make payments to investment banks to cover research, trade execution and access to their corporate clients, with a slice of this often earmarked to be passed on to independent research houses.

However, some in the independent sector say the inclusion of corporate access – which specialist research groups cannot provide – creates an "uneven playing field".

A new report* commissioned by EuroIRP and published by the Centre for the Study of Financial Innovation argues that since corporate access lacks "original content", it falls outside the definition of research in regulations introduced in 2005 to unbundle payments for research from trading fees.

"The rules are not being policed properly at the present time. We're going to talk to the [UK] Financial Services Authority about what the legislation says it should be. We're not asking for something new. This might be a classic situation where the banks are stealing more ground," said Peter Allen, co-chairman of EuroIRP.

In the wake of the initial public offering of Glencore, the largest commodities trader, independent houses also plan to demand that the FSA examine the need for pure research providers to be involved in evaluating IPOs. Glencore, which floated its shares two weeks ago at 530p, is now trading below the offer price.

"Institutional investors are reportedly seething over Glencore, on the back of supposedly independent analysts from the big banks competing to hype the float," said Mr Allen. "Investors deserve objective research from conflict-free sources."

The comments come ahead of this week's annual Thomson Reuters Extel Awards – dubbed the City Oscars – at which 53 of the 342 research houses that will be recognised will be independent firms, up from 27 three years ago. The independents' share of the overall vote has also inched up to 3.3 per cent, from 3 per cent last year.

However, corporate access ranks among their chief concerns of the 5,900 buy-side professionals surveyed, with 44.7 per cent deeming it "very important" when deciding who to turn to for sell-side research and advisory services, according to Steve Kelly, managing director of Extel.

Independent houses are gaining traction in certain areas of the lucrative market for investment analysis. But, Mr Kelly said: "In some areas, they're really competing but their capability to continue to grow must be limited."

Thomson Reuters Extel estimated that corporate access accounted for about 25 per cent of the commission dollars paid for research and advisory services and that the total commission payments flowing to independent houses is just \$150m-200m of the estimated \$9bn in overall equity commissions.

According to the CSFI study, the market for Europe's independent research sector is worth about £250m a year.

* Has independent research come of age? Vince Heaney, CSFI

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