FIA EPTA
EUROPEAN PRINCIPAL TRADERS ASSOCIATION

Via e-mail
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The FIA European Principal Traders Association (FIA EPTA) represents 29 independent European Principal Trading Firms that deal on own account to provide liquidity and immediate risk-transfer in exchange-traded and centrally-cleared markets for a wide range of instruments, including shares, options, futures, ETFs, bonds and OTC derivatives. As market makers and liquidity providers our members contribute to efficient, resilient, and high-quality secondary markets that serve the investment and risk management needs of end-investors and corporates throughout the EU.

FIA EPTA welcomes the opportunity to provide feedback on the proposed MiFID II Quick-fix rules in relation to research on companies seeking alternative financing.

Overall, we believe that the unbundling rules laid out in MiFID II removed an important source for conflicts of interest and has reinforced the independence of research. We note that the market has fully implemented and adapted to research unbundling with clients now accustomed to receiving disaggregated cost information that differentiates between costs attributable to research from those related to execution.

Prior to the introduction of unbundling rules, pricing between research and execution services was often unclear and, in some cases, inflated. MiFID II has resolved this cross-subsidizing and increased pricing transparency. Research and value-added services are now priced independently so each service is rewarded and priced based on quality and cost. We consider that this helps achieve a more level playing field for order execution.

Unbundling enables end-investors to have a better view of execution cost and to assess added value of high-touch versus low-touch execution for them. Following the implementation of the MiFID II unbundling rules, end-investors have increasingly opted for low-touch execution via the public market, i.e., on-exchange -- including via RFQ platforms -- or through an SI where they can trade directly with liquidity providers in a more transparent, efficient and low cost environment. This has benefited institutional and ultimate retail investors alike. We are concerned that re-bundling would lead to a roll-back of these benefits, which would be at odds with MiFID II's objective to incentivise pre-trade transparent price formation in a regulated execution environment.

With this in mind, we have concerns regarding the proposal to re-bundle research and execution costs. In particular, allowing for re-bundling risks undermining other core MiFID II objectives, namely the obligation to execute transactions on the terms most favourable to the client or best execution. Re-bundling in the case of transactions for SME shares and fixed income products would prevent clients from measuring best execution and the quality of the service they receive in transactions involving these instruments. FIA EPTA members reiterate, therefore, that offering research in a bundled manner jointly with execution pricing constitutes an undue inducement that should continue to be banned under MiFID.

An additional concern is the creation of divergent requirements applicable to equity and fixed income products which appears arbitrary. We note there is no apparent justification for disapplying unbundling requirements for fixed income products. Accordingly, we favour retaining consistent requirements for equity and fixed income markets that maintains the high level of transparency that investors have grown accustomed to since the application of MiFID II.

It is our view that European capital markets would face an undue risk by disapplying the unbundling requirements and could see the industry going in the wrong direction towards less transparency, additional costs and increased operational complexity. This potential step back puts global firms at odds with requirements in other regions of the world such as the UK (where the positive contributions of unbundling to market quality are clearly recognised) or the US where firms are moving towards more unbundled agreements on the back of the positive effects the unbundling rules have had in Europe.

Finally, we also note also that extensive recent analysis by ESMA did not find material evidence of harmful effects stemming from the MiFID II unbundling rules. ESMA found that any impacts on quality and volume of research were dwarfed by longstanding trends that are unrelated to the implantation of MiFID II. In light of these findings, we would strongly urge the Commission, therefore, to reconsider its proposal.

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