

## New Research

4 February 2019

# MiFID II one year on: it's getting worse

One year since the implementation of MiFID II, a new survey of fund managers and mid and small-sized quoted companies reveals that the new regulation has had a detrimental impact on demand and liquidity for small and mid-cap stocks, as the availability and quality of analyst research continues to decline.

According to the survey commissioned by broker Peel Hunt and The Quoted Companies Alliance, nearly two-thirds of investors (62%) said that since MiFID II was introduced, less research is being produced on mid and small-cap companies, with a third expecting further reductions in both the volume and quality of research in the future. Seven in ten fund managers (70%) said that their access to research providers has decreased as a direct result of MiFID II, with over half (56%) confirming that they are worse off as a result.

Of the UK quoted companies surveyed in the report, 25% said that MiFID II has had a negative impact on their business, with 41% of companies and 63% of investors saying the regulation has had a negative impact on the liquidity of UK mid and small-cap stocks over the past 12 months.

72% of UK fund managers confirmed that they currently spend at least 60% of their research budget on the top 10 research providers. Meanwhile, more than half (58%) rely on fewer than five research providers to meet their needs, indicating a widening gap between the best and worst-regarded research providers in the market.

The vast majority of investors (86%) and companies (72%) expect MiFID II to lead to further consolidation or closure of broking houses over the next 12 months, while one in five corporates said that they are considering changing brokers as a direct consequence of how MiFID II has changed the relationship between brokers and investors.

As a result, it appears that corporates are taking back more control of their investor engagement, by improving their corporate websites, increasing their PR efforts, working with independent investor relations advisors and increasing retail investor engagement, to improve their own visibility among investor audiences.

### **Steven Fine, CEO of Peel Hunt, said:**

*“After MiFID II’s debut year, we’re already seeing a marked dispersion in the way the buy-side pays for sell-side services, with virtually no conformity across the institutional franchise. The role of sales is changing, technology is usurping traditional methods, internal procurement teams are ensuring fund managers clearly define where they see value and ruthlessly enforcing the price they will pay. We are seeing a growing focus by the buy-side on quality research with an increasing number of investors prioritising their research spend on only the top providers with the most insightful analysis.*”

*“The unintended consequences of MiFID II that we have seen so far are just the beginning. Specialists will become generalists. Generalists will cover too many stocks and their product knowledge will dilute. Quality will decline, gaps will appear in the market and many smaller companies will de-rate. Holding periods will get longer, liquidity will dry up and ‘take-privates’ will increase. Ultimately, it looks like the situation has to get worse before it can get better.”*

**Tim Ward, Chief Executive of the Quoted Companies Alliance, said:**

*“Both the broking community and investment houses are going through a period of substantial change. MiFID II is accelerating that change. We are seeing a decline in the availability of research with a consequent perceived impact on liquidity. Small-caps have always experienced a hard life in the secondary market, but mid-caps are now learning to experience the same.”*

*“However, there is potentially some good news too. The focus by the broking and investment community on MiFID II may be causing companies to take the initiative to work with their advisors to be more active in their engagement with investors, both current and potential. This may, counterintuitively, lead to a better understanding between companies and investors, leading to more information in the marketplace and better liquidity in the medium-term.”*

- Ends -

**For more information please contact:**

The Quoted Companies Alliance (QCA)

Tim Ward, Chief Executive, +44 (0)20 7600 3745, [tim.ward@theqca.com](mailto:tim.ward@theqca.com)

Anthony Robinson, Head of Policy & Communications, +44 (0) 20 7397 8148,

[anthony.robinson@theqca.com](mailto:anthony.robinson@theqca.com)

Peel Hunt

Alistair de Kare-Silver / Robert Collett-Creedy, MHP Communications, +44 20 3128 8742,

[peelhunt@mhpc.com](mailto:peelhunt@mhpc.com)

**Notes to editors:**

**About Peel Hunt**

Peel Hunt is an independent corporate broking/advisory house that has highly rated, sector-aligned Research, Sales and Corporate teams, with a current retained corporate client list of over 130 listed companies and a trading platform that makes markets in c.3,500 equity and fixed income products.

Peel Hunt ranked 1st in the 2018 Thomson Reuters Extel Survey of UK Small & Mid Cap Brokerage Firms with the largest UK institutions, Wealth Managers and Continental European Institutions, was voted the #1 UK Mid & Small Cap broker by Corporates and the top research house in its category for the third year since 2015, while its sector teams achieved more Top 3 ranking than any other broker.

[www.peelhunt.com](http://www.peelhunt.com)

**About the Quoted Companies Alliance**

The Quoted Companies Alliance is the independent membership organisation that champions the interests of small to mid-size quoted companies. We campaign, we inform and we interact to help our members keep their businesses ahead. Through our activities, we ensure that our influence always creates impact for our members.

For more information please visit [www.theqca.com](http://www.theqca.com).

**Methodology:**

YouGov conducted quantitative surveys with both the investment community & companies which enables a clear picture of sentiment on the views of MiFID II. Both surveys were completed on YouGov's online platform. All data was collected confidentially.