

SEC Grants Relief on MiFID II

NIRI asks the SEC to host a roundtable on the future of equity research.

BY TED ALLEN

In late October, the U.S. Securities and Exchange Commission (SEC) gave sell-side firms a 30-month reprieve from complying with investment advice rules that would conflict with the European Union's new Markets in Financial Instruments Directive (MiFID II).

This regulatory relief, requested by groups representing broker-dealers and mutual funds, should help U.S. companies and their IR teams by reducing the likelihood that sell-side firms will abruptly cut back their analyst coverage of small- and mid-cap issuers when the EU's MiFID II rules take effect on January 3, 2018. "These steps should preserve investor access to research in the near term, during which the Commission can assess the need for any further action," SEC Chairman Jay Clayton said in a press release.

Given the global nature of the capital markets, many U.S.-based broker-dealers provide equity research to clients in Europe. The brokerage industry asked the SEC for regulatory relief because they feared that they could not comply with the new MiFID II requirement to unbundle research and trading payments by their European clients without also violating U.S. rules. Under the Investment Advisers Act and SEC rules, broker-dealers can't provide research or investment advice directly to investors for hard dollars unless they are registered investment advisers (and meet higher fiduciary duty standards).

"Subjecting broker-dealers to the Advisers Act when providing research services could disproportionately impact smaller issuers to the extent research coverage is reduced," the Securities Industry and Financial Markets Association, which represents broker-dealers, warned in a letter to the SEC.

The potential loss of research coverage is a significant concern for IR professionals at small and mid-cap issuers. A variety of factors, such as a shift to passive investing strategies and cuts in trading commissions, have contributed to a reduction in the number of sell-side research analysts who cover companies. Within the past 20 months, several brokerage firms, including BB&T, Avondale Partners, and Nomura, have closed their research divisions. According to a Reuters analysis, the number of companies in the small-cap Russell 2000 index that lack any formal Wall Street coverage has risen 30 percent over the past three years. This trend likely would have accelerated if the SEC had not granted the reprieve sought by broker-dealers and mutual funds. In June 2017, a McKinsey & Co. report estimated that MiFID II would prompt the 10 largest sell-side firms to lay off hundreds of analysts and reduce their spending on equity research by \$1.2 billion.

NIRI has submitted a comment letter that thanks the SEC for the MiFID II relief and encourages the agency to develop recommendations to promote more equity research coverage of small- and mid-cap issuers in both the U.S. and Europe. NIRI is asking the SEC to convene a roundtable to hear views from companies, investors, sell-side firms, and other research providers on the future of equity research. [IR](#)

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