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The European Securities and Markets Authority
201-203 Rue de Bercy
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Submitted online: www.esma.europa.eu

28 January 2025

Dear Sir/Madam,

RE: Draft technical Advice to the European Commission on the amendments to the research provisions in the MiFID II Delegated Directive in the context of the Listing Act

The Alternative Investment Management Association (AIMA)[1] welcomes the opportunity to respond to the European Securities and Markets Authority (ESMA) consultation paper on Draft technical Advice to the European Commission on the amendments to the research provisions in the MiFID II Delegated Directive in the context of the Listing Act (the 'consultation').[2]

AIMA supports recent changes to rules on payment for investment research which entered into force via the Listing Act Directive amending provisions in MiFID II (the "Amending Directive") in December 2024. We believe that a framework that distinguishes between unbundling requirements on the basis of an issuer's market capitalisation, as introduced as part of the Capital Markets Recovery Package in 2021, is costly and cumbersome. We welcome the introduction of a new payment option that enables investment firms who wish to buy investment research to use joint ("bundled") payments for third-party research and execution services irrespective of the

1 The Alternative Investment Management Association (AIMA) is the global representative of the alternative investment industry, with around 2,100 corporate members in over 60 countries. AIMA's fund manager members collectively manage more than US$4 trillion in hedge fund and private credit assets. AIMA draws upon the expertise and diversity of its membership to provide leadership in industry initiatives such as advocacy, policy and regulatory engagement, educational programmes and sound practice guides. AIMA works to raise media and public awareness of the value of the industry. AIMA set up the Alternative Credit Council (ACC) to help firms focused in the private credit and direct lending space. The ACC currently represents over 250 members that manage over US$2 trillion of private credit assets globally. AIMA is committed to developing skills and education standards and is a co-founder of the Chartered Alternative Investment Analyst designation (CAIA) – the first and only specialised educational standard for alternative investment specialists. AIMA is governed by its Council (Board of Directors). For further information, please visit AIMA's website, www.aima.org.

2 Available at: www.esma.europa.eu/sites/default/files/2024-10/ESMA35-335435667-5979_Consultation_Paper_on_Technical_Advice_on_MiFID_II_DD_research.pdf

market capitalisation of the issuers covered by the research. It would remove barriers that prevent buy-side firms from paying for investment research in jurisdictions where payment on a bundled basis is standard practice and increase the competitiveness of EU capital markets.

AIMA agrees with taking a high-level approach to changes to the MiFID II Delegated Directive which better align the Directive with the three payment options offered in the Amending Directive. We believe that a more detailed or less detailed approach would interfere with the objectives for the changes. However, we disagree with ESMA's proposal to require firms, as part of their annual assessment, to include a comparison with potential alternative research providers. We believe that such comparison is unnecessary and would impose burdens on investment firms while not improving the value of research for investors, undermining the flexibility afforded under the Amending Directive.

We have provided feedback on the consultation in an annex to this letter.

We would be happy to discuss this submission with you further.

If you have any questions, please contact Adam Jacobs-Dean (Global Head of Markets, Governance and Innovation, ajacobs-dean@aima.org) and Aniqah Rao (Associate Director – Markets, Governance and Innovation, arao@aima.org).

Yours sincerely,

Adam Jacobs-Dean
Global Head of Markets, Governance and Innovation
AIMA

ANNEX

1. **Do you agree with the proposed approach? Or would you prefer a more or less detailed approach? Please state the reasons for your answer**

   AIMA broadly agrees with ESMA's proposed approach to changes to the MiFID II Delegated Directive. As stated in our cover letter, we support the introduction of high-level changes which better align the MiFID II Delegated Directive with the three payment options offered in the Amending Directive. However, we disagree with ESMA's proposal requiring firms to, as part of their annual assessment, include a comparison with potential alternative research providers.

   AIMA believes that proposing high-level changes to the MiFID II Delegated Directive rules on payment for investment research, rather than a more detailed or less detailed approach, would maintain the Amending Directive's regulatory objectives while better responding to the diverse goals and operations of investment firms. A high-level regulatory framework would allow firms greater flexibility to assess and pay for investment research in ways that align with their unique business models, considering the firm's investment process, products, services and clients, while upholding the core objectives of MiFID II - transparency, fairness and investor protection. This would lead to more efficient, effective and investor-focused research markets. Detailed rules, however, would impose unnecessary administrative costs and complexity on firms, particularly on smaller investment firms with limited resources. AIMA supports a high-level framework that allows firms to allocate resources efficiently and prioritise research that support the best interests of their clients. We do not believe the requirement to compare potential alternative research providers aligns with a "high-level" approach.

2. **Do you agree with the introduction of new paragraph 1b in Article 13 of Commission Delegated Directive (EU) 2017/593? Please explain why.**

   AIMA does not agree with the introduction of a requirement, under the new paragraph 1b in Article 13 of Commission Delegated Directive (EU) 2017/593, on firms to "include, where feasible, a comparison with potential alternative research providers".

   Please see AIMA's response to Question 4 of the consultation.

3. **If you do not agree with the introduction of new paragraph 1b in Article 13 of Commission Delegated Directive (EU) 2017/593, please provide alternative suggestions and/or explain how investment firms operating a research payment account currently assess the quality of research purchased (Article 13, point 1(b)(iv) Delegated Directive).**

4. **Do you agree that, when conducting the annual assessment provided in new Article 24(9a)(c) of MiFID II, an investment firm could be required to include a comparison with potential alternative research providers? Please state the reasons for your answer. Please also provide feedback on the availability of free trials for research services and why they may or may not be appropriate for investment firms to fulfil their obligations under Article 24(9a)(c). If free trials are not appropriate, which other methods could be used for comparison?**

AIMA does not agree that, when conducting the annual assessment provided in the new Article 24(9a)(c) of MiFID II, an investment firm could be required to include a comparison with potential alternative research providers.

The success of the changes introduced via the Amending Directive - payment optionality for investment research - could be assessed through the ability for firms to consider different practical payment options, conduct their own cost benefit analysis, select a suitable payment option and procure research from their chosen providers without undue complexities, costs and burdens. We do not believe the requirement to compare potential alternative research providers supports this success and aligns with ESMA's proposed "high-level" approach. We believe that the proposal would increase reporting burdens on firms, against the European Commission's goal to rationalise reporting requirements in financial services and reduce their burden by 25%[3], while undermining the objective of providing valuable and actionable investment research to clients.

Firms currently conduct analysis of the quality, usability and value of investment research, through for example quarterly spending reviews, audits, internal feedback mechanisms and performance-based evaluations. The introduction of a distinct requirement to compare potential alternative research providers annually would impose an operational burden on firms while providing little benefit. Firms would be required to devote time and resources to evaluating data, including implementing new systems or hiring additional personnel, to track the performance of various providers and compile reports. While ESMA's proposal may appear beneficial from a transparency standpoint, the assessment would be of limited use as the value of research cannot be directly compared across teams and firms. The research landscape is diverse and complex, with different providers offering varied types of insights across different sectors, regions and asset classes. Assessing the value of research is inherently difficult as it often depends on qualitative factors, such as the skill and expertise of analysts, the timeliness of information and how well the research aligns with the firm's investment objectives. Investment teams take their own approach to assessing the value of investment research, considering, for example, the ability to inform and guide investment decisions in ways that directly impact portfolio performance, risk management and strategy. This complexity makes it difficult to incorporate offerings into a simple comparison that firms and investors can interpret in a standardised way. Further to this, different investors prioritise different types of research based on their investment focus. Research that is relevant to one type of investor may not hold the same value for another – introducing a form of standard comparison may lead to irrelevant or misleading assessments of research providers' value. The comparison might also inadvertently disadvantage smaller and specialised research providers that offer high-quality research in specific areas, making it harder for them to enter the market or provide niche insights. It may diminish the overall quality of research coverage as research may become less aligned with firms' specific investment needs, increasing the fragmentation of research.

[3] See https://commission.europa.eu/system/files/2023-10/Factsheet_CWP_Burdens_10.pdf.