The evolving global impact of MiFID II

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On November 4, 2019, the U.S. Securities and Exchange Commission announced an extension of their no-action letter regarding the European Union's investment research rules. This extension helps both SEC regulated brokers and their European counterparts to the ultimate benefit of EU investors.

In Europe, significant industry progress has been made in managing potential conflicts of interest in the use of dealing commission, and widespread change has been implemented as a part of MiFID II. Since January 2018, European firms have been required to pay separately for research, either out of their own resources or, when using client money, from a carefully managed Research Payment Account. Because EU firms need to regularly assess the quality of research purchased and how this spend is allocated to clients, buy-sides organizations are looking for consistency in pricing models from all their brokers and independent research providers, and the end-investor wants pricing transparency.

Under the current rules, US brokers are restricted from acting as research analysts, but the SEC's extension provides a temporary reprieve. Until July 2023, they can continue to sell research into Europe and charge separately for it without needing to register as a US investment adviser, which comes with added costs and regulatory obligations. In the meantime, the SEC will continue to monitor the evolving impact of MiFID II.

In the global landscape, cooperation to promote high standards of regulation and efficient markets is key. Although global regulatory coordination has matured significantly since the financial crisis, there are still bumps in the road that need to be patched, and challenges for the industry to find workable cross-border solutions continue to grow.