

MiFID Coordination  
Markets Policy and International Division  
Financial Conduct Authority  
25 The North Colonnade  
Canary Wharf  
London  
E15 5HS

[cp16-29@fca.org.uk](mailto:cp16-29@fca.org.uk)

14 December 2016

Dear Sirs,

**CP16/29 Markets in Financial Instruments Directive II Implementation – Consultation Paper III**

***Introduction***

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance is a founder member of European **Issuers**, which represents over 9,000 quoted companies in fourteen European countries.

The Quoted Companies Alliance Secondary Markets Expert Group has examined your proposals and advised on this response. A list of members of the Expert Group is at Appendix A.

***Response***

We welcome the opportunity to respond to this consultation on the implementation of the Markets in Financial Instruments Directive II (MiFID II).

As a general comment, we note that investment research is valued by companies as a service that enhances the quality of the portfolio management by increasing the asset managers' ability to access varied research and different perspectives. Research coverage increases the visibility of small and mid-size quoted companies, thus enhancing liquidity and enabling growth.

We note that less research and fewer brokers involved in the small and mid-size quoted company market had led to lower liquidity, greater share price volatility and higher bid offer spreads. This had resulted in higher costs associated with raising finance and reduced institutional access, which could culminate in companies questioning the value of being listed on a public equity market.

Recent research indicates that most companies with a market cap of under £50m are only covered by their own broker and, in some cases, only by research that they pay for. Similarly, some £500m market cap companies struggle to get more than a handful of analysts to cover them.

The Quoted Companies Alliance is the independent membership organisation that champions the interests of small to mid-size quoted companies.

Regarding the proposals relating to inducements and research, we note that the FCA intends to transpose the requirement in Article 13 (1) of the MiFID II delegated directive in a new COBS 2.3B section, as well as the provisions of Article 13 (2-8) from the delegated directive, which details the requirements linked to the use of a research payment account (RPA).

With respect to funding an RPA by collecting charges alongside transaction costs, we believe that the proposals, as set out in Chapter 3.24 of the Consultation Paper, stating that any mechanism linked to transactions must ensure that research charges deducted through a broker alongside transaction fees or costs are ceded (or 'swept') to an RPA on a daily basis, would be very difficult for firms to administer successfully and effectively.

Indeed, we believe that requiring firms to cede research charges into a separate RPA on a daily basis would not only be operationally challenging, but also impose considerable administrative burdens. Therefore, we ask the FCA to consider that any mechanism linked to transactions would only require that research charges deducted through a broker alongside transaction fees or costs are ceded to an RPA on a quarterly or, alternatively, a monthly basis.

If you would like to discuss our response in more detail, we would be happy to attend a meeting.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'T. Ward', with a stylized flourish at the end.

Tim Ward  
Chief Executive

**Quoted Companies Alliance Secondary Markets Expert Group**

<b>Simon Rafferty (Chairman)</b>	<b>Winterflood Securities Ltd</b>
Jon Gerty (Deputy Chairman)	Shore Capital Group Ltd
David Cooper	Cenkos Securities PLC
William Garner	Charles Russell Speechlys LLP
Mark Tubby	finnCap
Keith Hiscock	Hardman & Co
Clare Forster	Henderson Global Investors
Shreena Travis	
Fraser Elms	Herald Investment Management Ltd
Katie Potts	
William Lynne	Hybridan LLP
Claire Noyce	
Peter Swabey	ICSA
Jeremy Phillips	Nabarro LLP
John Howes	Northland Capital Partners Limited
Ann Whitfield	Panmure Gordon & Co PLC
Sarah Bray	Peel Hunt LLP
Sunil Dhall	
Andrew Palmer	
James Stapleton	Winterflood Securities Ltd