European Equity Industry in Holding Pattern as Brokers Await “Unbundling” Rules

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Despite the recent wild gyrations in global stock markets, 2015 could represent the calm before the storm for European equity brokers, which are awaiting word from regulators on new “unbundling” rules that could upend the economics of their business.

The competitive landscape of the European brokerage market has been in flux since the onset of the global financial crisis, driven by changes in regulation, market structure and in the balance sheets and business strategies of global banks. These changes could accelerate when European regulators announce their final decision on new rules limiting and possibly even prohibiting the use of client commissions to pay for equity research and advisory services.

For now, the industry has settled into a holding pattern as banks wait until the rules of the game are set. Yesterday’s release of MiFid II Technical Standards around issues such as transparency, data publication, etc. Mileage calculator appear to extend the wait by not addressing standards around inducements and payment for research.

This year’s market volatility has provided brokers with some relief in the form of an upsurge in trading volumes and commission revenues following an extended period of stagnation and decline. Looking ahead, however, many brokers and buy-side firms are convinced that the new rules on the use of client commissions in MiFID II will reduce the amount of research consumed by institutional investors.

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