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From Bloomberg: Europe's upcoming ban on free research will cost hundreds of analysts their jobs with banks set to cut about $1.2 billion in investment in the area, according to a report by McKinsey and Co. Consultancy estimating $4 billion that the top 10 sell-side banks currently spend on research each year are likely to fall by 30 percent as customers become more picky about what they pay for McKinsey partner Roger Rudisuli said in an interview. The number of cash investment banks has fallen by 12 per cent to 3,900 since 2011, compared with 40 per cent in sales and trading, leaving the region facing big cuts to catch up, he said. From McKinsey, with a form to request access to the report: The traditional equity research business of asset managers has been under pressure in recent years. However, equity research still offers attractive business opportunities for banks and broker-dealers who can adapt to deliver types of research to buy side values and successfully transform their operating models. Providing research ideas to long-term managers and hedge funds as a companion to data execution services has been at the heart of banks' equity operations for decades. The inevitable regulation of MiFID II requires that research be different from trading, and that each of them be paid separately. Some observers suggest that these combined forces will demolish the business at a disadvantage for business and bring an end to brokerage research. McKinsey believes there will be an end to just the fairness of research as we know it. In five years, sell-side equity research will probably still play a crucial role in the fundamental investment processes of the buy side, but most firms' research functions will be smaller and more focused, adjusted strategic understanding of the buy-to-let need of alpha production. However, the final size of each bank's research revenue pool will be determined by its ability to effectively deliver quality, differentiated research, set realistic prices and control distribution on a completely different operating model. MiFID II, a set of new rules that will affect both asset managers and sales-side research firms, was introduced in the EU earlier this year. As a result, investment management companies will, for the first time, be required to pay for and disclose research and other sales-related services. Traditionally, sales research has been funded by managers through commissions for soft dollar trading, which means that were absorbed by the cost of trading. As a result, there was no transparency of the actual costs of research or other services provided by the sales side, or any measure of the value provided by the buy side of customers. Currently, regulators do not require U.S. firms to comply with MiFID. However, many global firms have U.S. and U.S. operations. United States. who expect that regulation will eventually be adopted domestically position themselves for the post-MiFID era. Because MiFID will require equity firms to disclose exactly how much they pay for research and trading, there will be full transparency about the price of research. The studies were evaluated by a wide range of global firms sold. A recent bank survey by McKinsey found that MiFID could lead to a sharp decline in demand for equity research, as well as a 30% drop in equity research revenues over the next three years. The world's largest banks could lose 15% of their trading revenue in Europe as a result of MiFID, according to research firm Coalition Development.Equity markets have changed dramatically over the past decade, and a number of factors have affected both the sell side and the buy side. What is connected with the sale, because of economic pressure continues consolidation, which led to a significant reduction in the number of analysts pressed on the side. At the same time, the level of experience of sales analysts has fallen sharply, and, with most analysts covering about 25 companies, most sales side research has become a maintenance that summarizes corporate events or profit results and does not provide institutional investors with value-added action advice. This model raises the question: Does the average investor on the buying side need numerous research reports that provide the same type of standard information? Does this add value? At the same time, firms buying the party are finding it challenging to compete with the growing prevalence of ETFs and the shift to passive investing, as well as facing a massive wave of consolidation. Actively managed firms, buy side need new tools to help them stay competitive and generate alpha for their customers. MiFID can exacerbate the trend towards consolidation, especially for smaller firms without scale, given the fee pressures they face and the additional costs of selling side research. In the post-MiFID era, small firms selling stocks will compete with larger firms that are able to cover research costs, which could lead to a scenario in which companies with large capitalizations will remain well followed and small and medium-sized stocks, as well as shares in more esoteric or unpopular industries, lose coverage. Some believe that firms already focused on serving small investors and boutique firms that focus on specific verticals and offer exceptional insight will continue to exist after MiFID. Sales-based research firms will live and by the value of their research, as defined by their institutional investor clients, who rely on them to make the best investment decisions. Suppliers that are not at the top of the industry in terms of caliber and latitude, or who do not provide targeted or high differentiation differentiation expected to see a significant reduction in their business. Specialized boutique research firms will do well because they will absorb market share, particularly as the buy party becomes increasingly focused on the value they get for what they spend. In the long run, the whole pie will shrink, but the middle will be hollowed out as institutional investors ask themselves if they really need equity research from three mid-tier firms if they're already getting it from two bulge bracket firms. Second- and third-tier firms that cannot subsidize their research will eventually ced their doors, and we may even reach a point where small-income companies have to pay for research coverage. Active management is not safe in the United States. But its chances of a longer lifespan are better in Western Europe, according to a new report by McKinsey and European Asset Management. In terms of asset combination, between 2013 and 2018, Western Europe was not always in the same market as the rest of the world (and, in particular, the United States). Active strategies continue to play an appropriate role in capturing net flows, especially in fixed income and multi-assets, according to the report, which was released on Wednesday. Although the transition to passive is not as extreme as in the UNITED States, asset managers in Europe cannot ignore this trend. The pressure of fees is still acute and costs are high, explained Christian Zahn, a partner in Frankfurt and one of the authors of the report. Active governance is being propped up in some countries, such as Germany's captive banking networks, Mr. Sahn said in an interview with Institutional Investor. Banks and their own advisers dominate distribution in the country. It's even easier to push actively. II Deep Dive: Imut and Asset Management' Investors exchange active funds for passive at different rates from region to region. According to McKinsey, between 2013 and 2018, investors in Western Europe invested 265 billion euros in active equity strategies and 180 billion euros in passive shares. Investors in the rest of the world have withdrawn more than 1.2 trillion euros from active equity strategies and invested 1.7 trillion euros in passive funds. In the actively managed multi-asset portfolios in Western Europe, net flows amounted to 690 billion euros, with a small amount for passive multi-asset assets. In general, uncertainty in world markets and macroeconomic factors, such as 7.8 trillion euros in European bonds with negative yields, are checking the industry and investors' faith, the consultant believes. Assets, revenues and profits of European managers reached highs in 2017, but last year were hit by complex markets. Then the markets swung again. Market since then, it has recovered with a vengeance as the European AUM reached a record $22 trillion, although the pools of revenue and profits for the year did not fail reach the mark in 2017, the report's authors wrote. The industry has lived off incredible market performance, but if you take the productivity of capital markets and look only at new money, you'll see that costs have grown much faster than incomes. This is the key conclusion, he said. Once the capital markets tank a little more - as you saw in the fourth quarter of last year - then it will be a huge problem for the players. McKinsey reported that assets under management have increased by about 10 percent since 2019, while the average manager has increased by 3 percent. But there was no profit. McKinsey expects margins to be down about 2 percentage points due to price pressures and rising overhead costs. The authors of the report stressed that MiFID II, a broad regulation of financial services, has a profound impact on the industry. Distributors are winnowing down their lists of approved funds and improving performance standards, making it difficult for asset managers to make sales. Large managers also reduced the cost of research carried out by brokers by 20-30%, replacing them with studies of small specialized boutiques. MiFID II has made investors more sensitive to fees, a trend that fuels the lower cost, exchange-traded funds industry. Asset management is under pressure, but McKinsey's zahn argued that managers also have the ability to disrupt their industry in the middle of a transition period. Think about what else your end customer might want. For example, some distribution partners need to invest in digital technology, so you can provide technology for your distribution network? We see that asset managers are taking more transformative approaches, he said. One is to think about 80 percent of financial assets that can be invested but not in the industry such as deposits and illiquid assets. What solutions could you offer to bring these assets in?

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