

IEAF|FEF  
INSTITUTO ESPAÑOL DE  
ANALISTAS FINANCIEROS  
FUNDACIÓN DE  
ESTUDIOS FINANCIEROS



# FINANCIAL ANALYSIS: STRUCTURAL CHANGES AND REGULATION



## *Financial Analysis and Regulation*

- Financial Analysis: The great forgotten of MiFID II
- References in regulations limited to the concept of "unbundling"
- In general, the European Directives (financial and market area) have not dealt with the subject sufficiently (MAD, Market Abuse)
- Feeling that the Regulator has focused more on financial advice (and what that implies: independence, retrocessions, professional certifications)

## *Importance of Financial Analysis*

- Can there be financial advice without a quality analysis?
- What are the advisors based on to support their recommendations?
- THIS IS A KEY BUSINESS THAT SEEMS THAT DOES NOT WORRY A LOT
- Once properly certified as a professional, it seems that the process behind the advice practiced is not so important. SERIOUS ERROR!



## *Sources of Analysis of the advisors*

- 1) Use of material produced by the sell side
- 2) Internal analysis of own consumption
- 3) Automated investment processes: "Roboadvisors"
- 4) Quantitative processes ("screening" of values)
- 5) Press or specialized publications ("gurus")
- 6) Only asset allocation (ETF) offered by different platforms



## *Pros & Cons: Sell Side Research*

- Operational complication of the "unbundling". Separation of analysis costs with respect to execution. Need to create a special account that collects the costs of the analysis. Is it assumed? Is it moved to the client?
- The brokers with prestige and demand of their analysis will increase the product
- Especially if the cost includes the possibility of speaking with the analyst or a direct contact service with the companies

## *Pros & Cons: Analysis “In House”*

- Cost: Recruitment of analysts
- Prestigious element for clients
- Is it enough? How much do I have to spend to cover my analysis needs?
- It will tend to systems of quantitative analysis the greater the scope of investment in markets and asset classes

## *Pros & Cons: Quantitative processes*

- “Garbage in- Garbage out”
- It will depend on the quality of the data incorporated into the models
- It requires much criteria ("natural intelligence") when designing the corresponding selection filters
- Discipline in the application of the models (if not, simply a marketing weapon against the client based on what the technological innovation sells)



## *Pros & Cons: Specialized publications*

- Not recommended
- Normally, it implies multiple (and heterogeneous) sources of data or criteria, without a necessary discipline
- In consequence: antithesis of a regulated and disciplined decision-making process
- It tends to be based on the wisdom of gurus: but there are few Peter Lynch, Mark Mobious, Warren Buffet ...





## *Pros & Cons: Only AA services*

- Theory of long-term returns: 80% Asset Allocation, 10% Stock Picking and 10% Market timing
- Simple, simplified but ... clearly insufficient
- It will tend to depend on the products that are actually offered on the platforms
- It is an analysis of funds; not a complete investment analysis

## *The future of Independent Analysis*

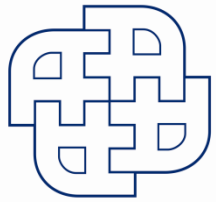
- The financial analyst as a businessman
- Offering a product not conditioned to other activities (corporate, capital markets, trading ...)
- Even execution: The "unbundling" does not completely solve possible conflicts of interest in investment services companies with diversified activities in markets
- What is the price? / Will they be able to compete?
- At first (although with doubts) a way out for analysts who leave organizations in restructuring

## *Professional perspectives of financial analysts*

- **IEAF Survey:**
- Major concern about the effects of "unbundling" (reduction of coverage of "unprofitable" companies / reduction of jobs)
- Concern about the automation processes (in advice, in asset management and in the execution of markets). It is indicated that it is required some kind of control
- Professional intrusiveness in the sector!
- Compulsory professional certification to work as a financial analyst

## *The possibility of self-regulation*

- Professional associations of analysts as guarantors of the proper functioning of the profession against an ad hoc regulation of the activity and the profession of financial analyst
- No one better than the professionals themselves: know their needs, identify weaknesses and defend their work against inappropriate practices
- Own rules of conduct with disciplinary / sanctioning regimes. Favor integrity
- ACIIA, CFAI, EFFAS. Maintenance of high standards
- Fundamental: support and confidence of regulators



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BEST PRACTICES  
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**MAD II and MAR**

**Market Abuse  
 and  
 Market  
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