



Future of Advice podcast

From unbundling to rebundling Is the research funding market coming back together

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Host: Welcome back to the **Future of Advice podcast** by Deloitte Luxembourg. I'm your host, and I'm really glad to be diving into another topic today with my colleague, our guest from right here at Deloitte. Great to have you back.

Guest: It's wonderful to be back. And I have to say, this is a topic I've been really looking forward to. Usually, when we talk about **financial regulation**, the mood is—well, let's just say we're usually bracing for impact.

Host: That is a very diplomatic way of putting it. Usually it's about tightening the screws—more compliance, more rules. But today feels different. We're looking at what seems to be a **regulatory U-turn**.

Guest: Exactly. It's a pivot, a really significant one. We're talking about a shift from very strict unbundling of costs back to a model that looks much more like rebundling.

Host: Right. And that sounds like jargon, but it has huge real-world consequences for how **equity research** gets funded.

Guest: It absolutely does. And it's not just about some line item on a budget. This is about the spotlight that helps investors actually see companies—especially smaller companies.

Host: It feels like the regulators had a “wait a minute” moment, like they accidentally broke the light switch and are now trying to fix it.

Guest: I think that's a fair assessment. We're looking at a major corrective shift. The source material we have on the research funding market shows a very clear picture. A regulation from 2018, MiFID II, had massive unintended consequences that really hurt the visibility of smaller companies.

Host: And now both the EU and the UK are racing to fix the same problem—but with different tools.

Guest: That's more like it. Two different strategies to solve the same problem they created.

Host: Okay. So to understand the fix, we have to understand what broke. Take us back. January 3rd, 2018—MiFID II goes live. I remember the industry-wide panic. What was the original goal? What were they trying to do?

Guest: The intention was good. You have to remember this was still in the long shadow of the financial crisis. So MiFID II—the second Markets in Financial Instruments Directive—came in with very noble goals. It was all

about investor protection, market integrity, and transparency across all the EU member states. And regulators saw the relationship between asset managers and brokers as being a bit too murky.

Host: Exactly. Too opaque. The issue was this idea of the bundled payment.

Guest: Right. For anyone listening who isn't in the weeds on this, can you just walk us through how it worked in the old days?

Host: Sure. In the old days, an asset manager paid a broker a commission to execute a trade—let's say buying shares in a company. That commission wasn't just for the trade itself. It was a bundle. It implicitly paid for everything else.

Guest: Everything else being?

Host: Research reports, calls with analysts, meetings with company management—all of it.

Guest: So it was like a set menu. You paid one price for the meal and you got the appetizer and the dessert whether you wanted them or not.

Host: That's a perfect analogy. And regulators were worried about inducements. They feared managers were trading with certain brokers not because they were the best at trading, but because they gave the best perks—the best research. So MiFID II came in and said you have to unbundle.

Guest: Yes—split the bill. You had to pay for the trade, and then if you wanted the research, you had to write a separate check for that.

Host: A completely separate check. Asset managers were required to separate payments for research costs from trade execution fees.

Guest: And the rules on where that money came from were really strict, weren't they?

Host: Extremely strict. You either had to pay for it directly from your own profit and loss account—so out of your firm's pocket—or from something called a Research Payment Account, or RPA.

Guest: And the RPA was a ton of administrative work, I remember.

Host: A huge burden. It was funded by clients, but you had to track every single cent.

Guest: So the goal was transparency. But did it actually work? What was the fallout?

Host: It definitely created transparency—no question. You knew exactly what you were paying for.

Guest: I can hear a “but” coming.

Host: A very big “but.” It also created a vacuum. This is where we get to those massive unintended consequences. When asset managers suddenly had to absorb these costs themselves or justify a whole new bill to their clients, they did what any business would do.

Guest: They cut costs.

Host: Immediately. Research spending dropped significantly. And when you have a smaller budget, you prioritize the big names.

Guest: Of course. You keep paying for research on the huge global companies everyone trades. But coverage for smaller companies?

Host: It was slashed. We saw a really sharp decline in SME coverage.

Guest: And that matters because if no one is writing about you, you're basically invisible to investors.

Host: You're invisible. If you're invisible, your stock isn't traded. If your stock isn't traded, your liquidity dries up. It becomes a ghost town.

Guest: Exactly. And it wasn't just that. We saw market fragmentation. Smaller specialist brokers—who were great at finding these hidden gems—got squeezed out. They couldn't survive in a world where every single research report had a price tag on it.

Host: And the big firms probably just moved their research in-house to save money.

Guest: Many did. Or they simply reduced their output. The net result was a weaker capital market, especially for SMEs that need investment the most.

Host: That really is the big “oops” moment. A rule meant to clean up the market accidentally hurt the most vulnerable players in it.

Guest: And that brings us to today. Regulators in both the EU and the UK looked at the data—the lack of IPOs, the drop in liquidity—and knew they had to pivot.

Host: Okay, so let's start with the EU's response. It's called the Listing Act. What does it actually do?

Guest: The Listing Act is a package of measures. It was formally adopted on October 8th, 2024, and became effective on December 4th. The stated goal is to reduce the administrative burden and make public markets more attractive again.

Host: And there's one specific number in the act that's the real game changer.

Guest: There is. It's all about the threshold for unbundling. Under the old MiFID II rules, there was an exemption, but it was very low—set at a market cap of €1 billion.

Host: So if a company was worth less than €1 billion, you could still bundle payments?

Guest: In theory, yes. But €1 billion is relatively small in the grand scheme of things. It didn't really capture the mid-sized companies that were suffering.

Host: So what did the Listing Act do to that number?

Guest: They raised it dramatically—from €1 billion to €10 billion.

Host: Wow. That's a massive jump.

Guest: It is. By raising that ceiling to €10 billion, the EU is basically saying that for a large portion of the market—mid-caps and small caps—asset managers can go back to joint payments.

Host: So they're allowing rebundling for a much wider range of companies.

Guest: Exactly.

Host: Let's play that out. If I'm an asset manager looking at a German engineering firm worth, say, €8 billion, under the old rules I had that RPA headache. Now?

Guest: Now, under the Listing Act, you can bundle the cost of the research into the execution fee. The hope is that it incentivizes brokers to start covering these companies again because it's easier to get paid for the work.

Host: If it's easier to get paid via execution fees, more research gets produced. More research means more visibility.

Guest: It puts the "open for business" sign back up. That's the idea—restoring competitiveness for SMEs.

Host: Okay. So while the EU is moving the goalposts with this €10 billion threshold, what about the UK? Post-Brexit, they're keen to forge their own path.

Guest: They absolutely are. The Financial Conduct Authority, or FCA, now has the freedom to chart its own course. And they've taken a path that really prioritizes flexibility.

Host: So not a specific market cap number. What's their strategy?

Guest: The UK has gone a step further. As of 2024, the FCA has reintroduced bundled payments for research and execution more broadly.

Host: For everyone? They're not just raising the cap—they're effectively removing it?

Guest: In essence, yes. They're saying the mechanism of bundled payments is back on the table.

Host: So does that mean we're snapping back to the pre-2018 "wild west"—just paying one big commission and hoping for the best?

Guest: That's the natural fear. But no—and this is crucial—the mechanism of bundling is coming back, but the discipline is staying. The FCA has introduced a strict set of guardrails.

Host: Guardrails—I like that. It keeps you on the road but lets you drive. What do they look like?

Guest: There are four main pillars. First, internal governance. Even if you bundle the payment, your firm must have clear internal policies that separate the costs of research and execution.

Host: So one payment in, but two separate line items internally.

Guest: Precisely. The second is budgeting and value. Firms need to set annual budgets for third-party research.

Host: No blank checks.

Guest: Exactly. And this part is key: they have to regularly review the research they're buying to make sure it actually supports their investment decisions.

Host: That makes sense. You have to prove it adds value.

Guest: Correct. The third is transparent allocation. You need clear procedures for how you allocate these costs to clients—no hiding it in the fine print.

Host: And the fourth?

Guest: Strict definitions. The FCA is very specific about what counts as research.

Host: What's excluded?

Guest: Generic trade commentary, bespoke advice on a single transaction, or corporate access. They don't want firms disguising deal fees as research to get around the rules.

Host: So for the UK, the takeaway is: you can bundle again, but you have to show your work.

Guest: That's a great way to put it. They want accessible research, but costs must remain disciplined and transparent. It's a fascinating contrast. The EU lifts the cap to €10 billion. The UK allows bundling more broadly but imposes strict guardrails.

Host: They're heading in the same direction, but not quite in sync.

Guest: Exactly. And the timeline shows that mismatch. The UK rules have been live since August 2024—they're already in effect.

Host: And in the EU?

Guest: The Listing Act became effective in December 2024, but it gives member states 18 months to transpose it into national law.

Host: So we won't see the full effect across Europe until mid-2026.

Guest: Correct.

Host: That's a big gap—almost two years where the UK is on one system and the EU is still catching up. That must be a headache for firms operating in both.

Guest: It creates operational complexity, for sure. But despite the different methods and timing, we're seeing gradual convergence. Both sides are admitting that strict unbundling in 2018 went too far—at least for SMEs.

Host: They agree on the diagnosis, even if the prescription differs.

Guest: Precisely. And in the long run, for global firms, that convergence is a relief. There's another piece we shouldn't forget: the US connection.

Host: Ah yes—the US. How do they fit into this puzzle?

Guest: They're a big part of it. Under SEC rules, US brokers often couldn't legally accept unbundled payments in the way MiFID II required. It created a regulatory clash.

Host: So European firms couldn't easily pay US brokers for research?

Guest: Exactly. US brokers would have had to register as investment advisers to accept separate payments, which they didn't want to do. It created gridlock.

Host: So this shift back toward bundling?

Guest: It reopens access to US research providers. It aligns European and UK markets more closely with the US model, which has traditionally been bundled.

Host: So this isn't just about European SMEs. It's about reconnecting the global plumbing for research.

Guest: It is. It allows for a more global flow of information, which should benefit everyone.

Host: Is the market actually responding? Is there data suggesting firms will change their behavior?

Guest: Yes—and it's striking. An industry survey of UK asset managers highlights the shift. They were asked about expectations for funding research through execution fees—so, returning to bundling.

Host: What did they say before the rule change?

Guest: Before the announcement, only 7% of managers expected clients to cover research budgets that way.

Host: So basically nobody.

Guest: Pretty much. But after the rule change, that number jumped to 87%.

Host: From 7% to 87%?

Guest: Yes. And 87% expect at least half of their research budgets to be covered this way within two years. It's a dramatic shift and shows the pent-up demand for flexibility.

Host: That's a landslide. It suggests the 2018 rules were holding back a natural market dynamic. So here's the big question: Will it work? Will this flexibility fix the ghost-town problem for small company stocks?

Guest: That's the million-euro question. It's still too early to declare victory. We're in the early days. But the trajectory looks positive. All signs point toward research funding, market coverage, and SME liquidity being on a path to restoration.

Host: It feels like the machine is being oiled again.

Guest: It does. But success depends on industry adoption. It's one thing for regulators to open the door—it's another for firms to build the systems to walk through it properly, especially with the UK guardrails.

Host: It's not just flipping a switch. You need governance, budgeting reviews—everything.

Guest: Exactly. Cross-border coordination will be key. If firms can seamlessly pay for research in London, Frankfurt, and New York, the system works better.

Host: And more research means smaller companies get noticed.

Guest: They get noticed, they get funded, and they grow—which is the whole point. It's about capital markets serving the real economy.

Host: It's a fascinating story of regulation overcorrecting and then finding a more sensible middle ground.

Guest: "Smart bundling" is a good way to describe it. It's a rare moment where regulators loosen the reins—not because they want less oversight, but because they recognize the old rule was causing harm.

Host: A real case study in adaptive regulation.

Guest: It is. And it raises a provocative question for the future. We're seeing convergence now as the UK and EU try to fix the same problem. But will these corrective shifts lead to a truly aligned global standard? Or, as the UK continues to flex its post-Brexit muscles, will we see divergence again down the road?

Host: Is this a handshake—or just a polite wave before drifting apart?

Guest: Time will tell.

Host: Indeed. But for now, for SMEs, the future looks a little brighter—and certainly more visible. And that’s a great place to leave it. Thank you for listening. Until next time.