

CAPCO

JOURNAL

The Capco Institute Journal of Financial Transformation

Value dynamics

Disruptive forces reshaping
financial services

Secular shifts

“Fix one problem, create another?”
MiFID II and the hidden costs
of regulating markets

Kenneth Lee
Mark Aleksanyan
Subhash Abhayawansa

#61 SEPTEMBER 2025

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The Capco Institute Journal of Financial Transformation

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Table of contents

Technological transformations

12. Riding the digital tides: Analyzing the digital yuan's present and possible future
China's digital yuan is a powerful but cautiously evolving tool aimed at modernizing payments and enhancing state control.

Rhys Bidder, King's Business School
– Qatar Centre for Global Banking and Finance | Lerong Lu, King's College London – Dickson Poon School of Law

28. Rebuilding capital markets on-chain: Tokenization, treasuries and the next financial layer
Tokenization is reshaping finance but its potential depends on aligning legal and institutional factors.

Sofia Villacreses Cardenas,
Consultant, Capco

42. Artificial Intelligence in the equity research industry
AI is slowly reshaping equity research but adoption remains uneven due to cultural, technical, and organizational barriers.

Margaret H. Christ, Professor, University of Georgia | Minjeong (MJ) Kim, Assistant Professor, University of Wisconsin | Michael A. Yip, Assistant Professor, University of Georgia

52. Sending out an SMS: How text alerts are transforming consumer finance
Behavioral nudges show strong potential to curb unnecessary overdraft fees for U.K. bank retail clients without restricting credit access.

Michael D. Grubb, Associate Professor of Economics, Boston College | Darragh Kelly, Data Scientist, Google | Jeroen Nieboer, Experiment and Machine Learning Platform Manager, Deliveroo | Matthew Osborne, Associate Professor of Marketing, University of Toronto | Jonathan Shaw, Technical Specialist, U.K. Financial Conduct Authority and Research Associate, Institute for Fiscal Studies

60. Digital transformation in Brazilian companies: Recommendations to accelerate digital maturity

Brazilian companies increasingly recognize the value of digital transformation, yet barriers still exist.

Hugo Ferreira Braga Tadeu, Director and Professor, Fundação Dom Cabral, Belo Horizonte, Brazil | Jersone Tasso Moreira Silva, Associate Professor, Fundação Dom Cabral, Belo Horizonte, Brazil | Denise Pinheiro, Guest Professor, Fundação Dom Cabral, Belo Horizonte, Brazil | Bruna Dias Diniz Silva, Researcher, Fundação Dom Cabral, Belo Horizonte, Brazil | Kauã Kenner, Researcher, Fundação Dom Cabral, Belo Horizonte, Brazil

74. Beyond the hype: In what sense are algorithmic technologies transforming regulation?

Claims of transformation through regtech and GenAI often mask the reproduction of established hierarchies and regulatory habits.

Malcolm Campbell-Verduyn, Faculty of Arts, Center for International Relations Research (CIRR), University of Groningen, Groningen, Netherlands | Marc Lenglet, Strategy and Entrepreneurship Department, NEOMA Business School, Mont-Saint-Aignan, France

Secular shifts

- 84.** Private equity: Default source of capital for business and preferred asset class for investors?
The rise of private equity signals a shift in capital formation, with implications for both companies and investors.
Anthony Gahan, Executive Fellow, King's Business School & Co-Founder, Wyvern Partners
- 94.** The evolving secondary market: An integral part of the private markets ecosystem
Once a niche liquidity outlet, secondary markets for private assets are opening up via new funding mechanisms.
Nick Paulussen, Executive Director, Capco
- 106.** “Fix one problem, create another?”
MiFID II and the hidden costs of regulating markets
MiFID II's reforms to improve transparency in capital markets unintentionally weaken sell-side research and corporate broking.
Kenneth Lee, Professor, Loughborough Business School, Loughborough University, U.K. | Mark Aleksanyan, Professor, Adam Smith Business School, University of Glasgow, Glasgow, U.K. | Subhash Abhayawansa, Professor, Swinburne Business School, Swinburne University of Technology, Hawthorn, Australia
- 116.** Nature as an asset class: Unlocking financial value in a changing world
Natural ecosystems are gaining financial relevance as tools for resilience, revenue, and long-term economic stability.
Eoin Murray, CIO Rebalance Earth

Structural challenges

- 126. Healthy purposeful culture in finance: Instrumentalization and key drivers**
How do financial firms define “culture” and what challenges exist for putting a healthy culture into practice?
Dr Anat Keller, Reader in Law, Dickson Poon School of Law, King’s College London, U.K. | Dr Andreas Kokkinis, Associate Professor of Law, University of Birmingham, U.K.
- 132. Chasing alpha: Can better psychological safety within investment teams lead to more robust cultures, faster innovation and better investment returns?**
How can investment firms foster psychological safety to improve culture, innovation, and performance?
Aofinn Devitt, PhD candidate, King’s College London and CIO, Moneta Wealth Management
- 140. Habits and routines in financial markets**
How can financial leaders disrupt entrenched habits and routines to unlock value?
Yuval Millo, University of Warwick, U.K. | Crawford Spence, King’s College London, U.K. | James Valentine, Analyst Solutions, U.S.
- 150. Future proofing adoption strategies with behavioral science**
Behavioral science offers financial firms a powerful framework to overcome biases in the adoption of new services.
Martha Lucía Férez Blando, Managing Principal, Capco
- 160. Shared value in cocoa farming: Value for whom? And who gets the lion’s share?**
The disconnect between production and financial speculation in West African cocoa farming.
John Dumay, Professor of Accounting, Macquarie University, Australia
- 172. Europe at a crossroads: East-West financial networks in a context of geopolitical polarization**
How are European-American-Chinese financial networks being disrupted by growing geopolitical tensions?
Adam Leaver, Professor of Accounting & Society, Accounting & Financial Management Group, Sheffield University Management School, University of Sheffield, Professor of Accounting, Copenhagen Business School, Denmark. Director of the Centre for Research on Accounting & Finance in Context (CRAFiC), Director of the Audit Reform Lab, Sheffield University Management School | Daniel Tischer, Senior Lecturer in Accounting, University of Sheffield
- 186. Gender differences in financial advice: Lessons from a secret shopper study**
Financial advice is often gendered depending on the client due to unconscious bias.
Utpal Bhattacharya, Hong Kong University of Science and Technology | Amit Kumar, Singapore Management University | Sujata Visaria, Bayes Business School, City St. George’s, University of London | Jing Zhao, Hong Kong Polytechnic University

2025, Edition 61

JOURNAL

Value dynamics

Welcome to the 61st edition of the Journal of Financial Transformation.

I am delighted to announce our new partnership with King's College London, a world-renowned leader in education and research, marking a new chapter in the Journal's long and distinguished history.

In this edition focusing on Value Dynamics, we explore a critical – and ever more pressing – challenge: how institutions across financial services create, distribute and sustain value.

As Professor Crawford Spence, our editor from King's College highlights in his own introduction, the forces shaping value dynamics across financial services are myriad, encompassing technological transformations, secular shifts, political and social structures.

As a firm that has been at the cutting edge of innovation for over 25 years, these value drivers intersect directly with the work Capco does every day, helping our clients around the globe transform their businesses for sustained growth.

The integration of innovative new technologies including generative and agentic AI models, the digitalization of currencies and payments infrastructures, the reimagining of customer experiences, the relentless evolution of market ecosystems, the vital role of culture as a value driver: these imperatives are where we see – first-hand – clear opportunities for our clients' future growth, competitive differentiation and success.

We are excited to share the perspectives and insights of many distinguished contributors drawn from across academia and the financial services industry, in addition to showcasing the practical experiences from Capco's industry, consulting, and technology SMEs.

It is an immense source of pride that Capco continues to champion a creative and entrepreneurial culture, one that draws on the deep domain and capability expertise of thousands of talented individuals around the world.

We do not take our hard-earned status as a trusted advisor lightly, nor our responsibility to make a genuine difference for our clients and customers every single day – placing excellence and integrity at the forefront of everything we do.

I hope the articles in this edition help guide your own organization's journey as you navigate the many complexities and opportunities ahead.

As ever, my greatest thanks and appreciation to our contributors, readers, clients, and teams.



A handwritten signature in black ink that reads "Annie Rowland". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

Annie Rowland, Capco CEO

2025, Edition 61

Editor's note



**KING'S
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This 61st edition of the Journal of Financial Transformation is the first with a new editorial team in place, and is the product of a formalized collaboration between Capco and King's College London. This collaboration – a leading financial services consultancy and a prestigious academic institution – embodies the Journal's ethos: a balance between academic rigor and practical accessibility.

Traditional academic journals often deal with more prosaic conceptual matters. Even when they focus on more practical concerns, the timelines and mechanics of double-blind peer review processes can mean that the insights that they offer risk being out of date by the time they are published. Conversely, traditional op-ed articles in the financial press are all too often heavy on opinion and pre-conceived ideas and can lack the heft that comes with thoroughly researched pieces of work.

The Journal we've published strikes a vital balance between these two approaches.

This edition has an overarching focus of Value Dynamics. Specifically, the various articles look at how value is created, distributed and sustained across financial services. In turn, the submissions are grouped into three broad themes.

Technological transformations are explored in terms of how these can bolster or hinder value dynamics if not managed effectively. A number of secular shifts are also discussed – these being long-term changes that are impacting value dynamics in the sector. Finally, structural challenges are highlighted that emphasize the importance of sticky, tricky social and behavioral issues that surround the execution of financial services.

Overall, these themes highlight challenges and opportunities in the sector and encourage us to think differently.

It has been a pleasure working on this issue with such a fantastic and diverse array of different contributors.

A handwritten signature in black ink, appearing to read "C. W. Spence".

Professor Crawford Spence

King's College London

“Fix one problem, create another?”

MiFID II and the hidden costs of regulating markets

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Abstract

Introducing substantial regulation into complex systems, such as contemporary capital markets, creates a series of challenges for both regulators and market actors. In this article, we explore the impact of a major piece of European legislation called MiFID II¹ on long-established practices and relationships. Our findings highlight that, despite well-intentioned efforts to address identified risks, regulatory interventions can sometimes weaken the very systems they aim to improve. Moreover, these unintended consequences are often difficult to foresee. To illustrate this dynamic, we draw on our recent study of investor relations and corporate brokers, providing a real-world example of how attempting to resolve one issue can, inadvertently, exacerbate another.

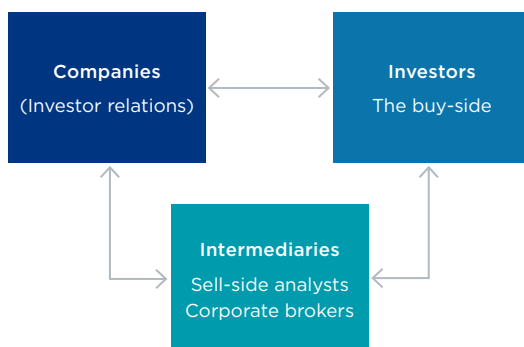
1. Introduction

Global capital markets represent increasingly complex and interwoven ecosystems. Embedded within these systems are a myriad of intermediaries that act and interact in highly specialist and unique ways drawing from long-established “rules of the game.” Given this labyrinthine entanglement, steps by regulators to intervene need to be carefully thought through and, so far as possible, preemptively tested and experimented with. This article draws from an academic study we undertook on a major pan-European law (MiFID II) and how the attempt by regulators to deal with one issue arguably resulted in new problems and concerns.

Our story begins with a group of capital market actors, sell-side analysts, and attempts by regulators to change how they get paid for their services. We show how well-meaning intentions on behalf of regulators to tighten regulation have weakened this group of professionals and the work they undertake. We then explore how the ripple effects of these changes have knock-on effects that have extended well beyond the scope of regulators’ original frame of reference, affecting other capital market actors – such as investor relations officers (IROs) and corporate brokers – who were likely ignored by regulators.

¹ MiFID II stands for “Markets in Financial Instruments Directive”

Figure 1: The flow of information and communication among key actors in capital markets



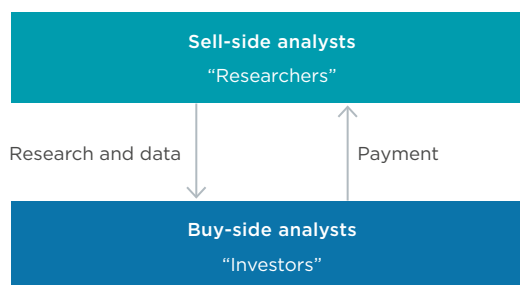
2. Key capital market actors

Three key groups drive the flow of information in equity capital markets: sell-side analysts, institutional investors, and IROs. Historically, communication followed a clear sequence. Sell-side analysts, with support from IROs, collected and analyzed information, delivering equity research reports that included performance assessments, earnings forecasts, and investment recommendations. Institutional investors relied on these reports, raising queries that led to a continuous cycle of information exchange. Additionally, sell-side analysts and corporate brokers often acted as intermediaries, fostering relationships between investors and company management. In this process, IROs served as the company’s primary engagement point between a company and the actors within capital markets. In Figure 1, we depict the information flow as bidirectional in all cases, however, historically, the direction of one of these information flows would typically dominate. For example, historically, investors would speak to the sell-side more often than directly to companies.

3. How the sell-side gets paid

To understand our story, we need to delve a little deeper into the sell-side. In the main, sell-side analysts are industry experts that work for investment banks. Although research can focus on a range of asset classes beyond equities, including fixed income securities, commodities and currencies, for the purpose of our study, and this article, we shall focus on equity capital markets and, consequentially, analysts working on equity research. As shown in Figure 2, the sell-side’s clients are investors, often referred to as the “buy-side.” The research analysts write reports alongside making projections of earnings and preparing detailed valuation models. This suite of services is provided to the buy-side to enable them to make informed investment decisions. In essence, to some degree the investment community has “outsourced” much of the analytical work to the sell-side².

Figure 2: Sell-side versus buy-side



One of the most unusual aspects of the world of sell-side research relates to how investors pay for this work. Prior to the introduction of MiFID II, the sell-side was paid using a “bundled” model. This meant that payments for research and other services, such as trading, provided to investors were paid for together. In other words, asset

² It is worth noting that many buy-side firms, especially the larger global investment houses, have internal research and analytical resources. However, the sell-side can still bring fresh insights and information to these firms as they tend to be much more specialized in their sector than buy-side analysts. Additionally, as they speak to a wide range of buy-side firms, sell-side analysts develop a sense of market expectations and opinions that can help the buy-side.

managers received *inter alia* research reports, analyst calls, and access to valuation models from brokers without paying directly. Investors would sometimes voluntarily set out what specific services they were paying for, but even then, the amount of such payments varied widely from firm to firm, and there was no invoicing or similar processing from the sell-side. Instead, these costs were covered through higher trading commissions to research providers – a practice known as “soft commissions.”

This resulted in little or no discipline in, say, what needed to be paid by investors to get access to research reports or a one-on-one meeting with an analyst. Regulators were concerned that sell-side services could end up being provided to the buy-side for little or no payment, and this could be construed as an inducement or bribe of some sort. This system created financial ties between asset managers and sell-side firms, raising concerns that bundling payments might influence trading decisions rather than prioritizing best execution for clients. For example, as investor X needed to pay for research services from investment bank Y, they would trade with them to provide commission flows, but this may not be consistent with best execution. There were also concerns that payments were being made for research services that were not needed or consumed by buy-side firms, yet these costs were being charged to the investing clients. If this were to be the case, then the ultimate investor (pension funds, retail investors, etc) might be disadvantaged.

4. The regulatory “fix”

MiFID II is a comprehensive suite of European regulation, but for our purposes, we shall focus only on the section concerning the payment for research services by the buy-side. Effective from January 2018, MiFID II introduced a requirement for sell-side firms – those providing a mix of research, trading, and investment services – to

clearly separate and charge for research costs. Under these rules, asset managers must either cover the cost of sell-side research themselves (from their own profits) or pass it on to clients (via a dedicated client-funded research account), but only if they can demonstrate a direct benefit to clients. This “unbundling” of research payments disrupted the long-standing relationships and incentive structures across the investment ecosystem as described above. It altered the way research is produced, distributed, and consumed, with potential ripple effects on corporate reporting, disclosure practices, engagement between key market participants, and the demand for sell-side research [see for example, Abhayawansa et al. (2024)]. In practice, most asset managers have chosen to cover these costs themselves (rather than passing them on to clients), forcing the buy-side firms to be more selective about the research they purchase (is it really needed?), and raising questions about the long-term viability and quality of independent investment research. In the end, research budgets have been slashed by as much as 30-40% [FCA (2019)].

5. The impact of MiFID II

In this section, we shall differentiate between the impact on the sell-side, which was more predictable *ex-ante*, and then present evidence of the impact on the more opaque world of investor relations and corporate broking.

5.1 The impact on the sell-side

The implementation of MiFID II, particularly its unbundling of research and trading costs, sparked concerns about a potential reduction in research coverage, especially for small- and mid-sized firms. Coverage of these less-traded, smaller firms tends to generate lower revenues, hence, the expectation that the sell-side would de-emphasize them in favor of targeting higher-revenue opportunities in larger stocks. What picture has emerged of the

impact of the regulation? A range of studies paint a somewhat confusing and mixed picture with some findings supporting the initial concerns, while others suggest the impact has been more nuanced.

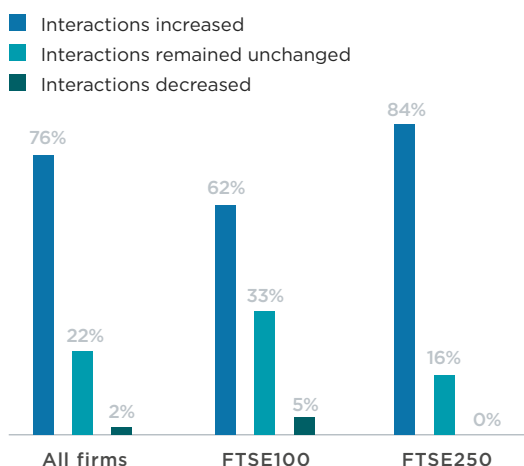
Research by Fang et al. (2020) points to a post-MiFID II decline in analyst coverage across European firms, particularly smaller ones. Their analysis indicates a noticeable rise in companies without any coverage, which contrasts with North American trends, hence, could be attributed to a “MiFID II” effect. Similarly, a survey from the CFA Institute (2019) highlights that both buy-side and sell-side analysts have reported a reduction in coverage of smaller firms. This is largely attributed to analysts adjusting their strategies, focusing on firms with more substantial trading volumes or more strategic importance due to tighter research budgets.

However, it is important to note that other studies come to a different conclusion. For example, Lang et al. (2024) and others suggest that the reduction in coverage has primarily affected larger, well-

established firms with no significant reduction in research for smaller firms. They suggest that demand for sell-side research on well-covered large companies has declined as investors reduce their list of research providers. This points to a shift in how analysts allocate resources, with large firms seeing less attention as they are already well-covered, making it increasingly difficult to find a unique research “edge.”

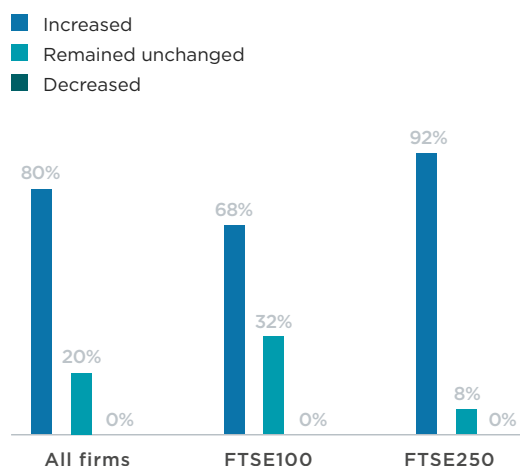
In terms of research quality, the effects of MiFID II are similarly mixed. Some research, such as that by Fang et al. (2020), shows improvements in analysts’ forecast accuracy post-MiFID II, while others, including a CFA Institute (2019) survey, suggest a decline or stagnation in quality. Despite these varied findings, there is a trend indicating that analysts who remain active in the market tend to produce higher-quality research, as those less able to compete exit the field. This shift may lead to a concentration of higher-quality analysis for the firms that analysts continue to cover, particularly those that remain strategically important.

Figure 3: Changes in the amount of post-MiFID II one-on-one interactions with investors



Note: Based on 49 valid responses for ALL FIRMS, with 21 responses from IROs of FTSE100, 25 from FTSE250, and 3 from IROs that did not indicate their firms’ index.

Figure 4: Changes in the volume of incoming requests from investors



Note: Based on 50 valid responses for ALL FIRMS, with 22 responses from IROs of FTSE100, 25 from FTSE250, and 3 from IROs that did not indicate their firms’ index.

5.2 Impact on other capital market actors

Our own research [Abhayawansa et al. (2024); Aleksanyan et al. (2025)] draws from a survey of, and interviews with, IROs to gain their insights into how MiFID II has impacted their interactions and practices. Our research reveals that the regulation has significantly amplified the role of IROs in engaging directly with investors. This shift is evident in both the increased volume and frequency of direct, two-way communication with investors, as well as a heightened recognition of the importance of IRO-investor interactions. The evidence of this change is clear in the survey data set out in Figures 3 and 4. We can observe that the vast majority of our surveyed IROs representing both the large-cap (FTSE100) and mid-cap (FTSE250) firms experienced a post-MiFID increase in investor requests for information and one-on-one interactions.

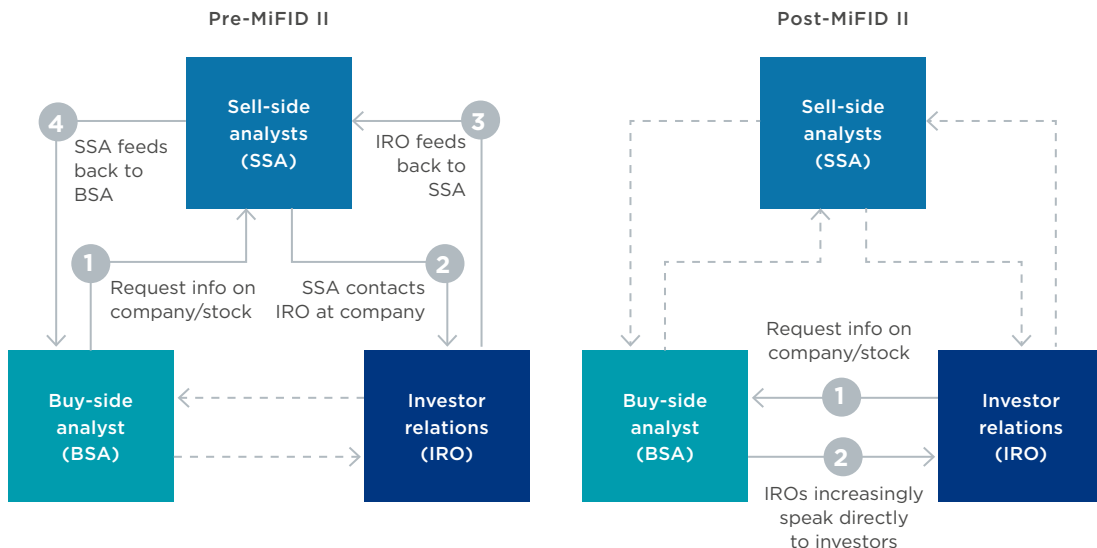
What is behind this increase in direct investor-IRO engagement? Our evidence suggest that the genesis of this change is the disintermediation of

sell-side analysts, largely fueled by the growing perception of analysts’ diminishing expertise, juniorization of staff and deteriorating research quality. The new economic reality for the sell-side model – driven in part by MiFID II and the research budget reductions of the buy-side – appears to be a major culprit for many of these developments. Faced with this new paradigm, IROs have stepped in to fill the gaps as investors increasingly seek to avoid expensive analyst interactions for many of their routine information requirements. Such a change has reinforced the IROs pivotal role in facilitating investor communication and enhancing their perceived value to both investors and corporate management. The change is visualized in Figure 5 below.

6. MiFID II and the corporate brokership model in the U.K.

Next, building on the context and research set out above, we delve deeper into how MiFID II has changed one of the unique and central features of U.K. capital markets – the role of corporate broking.

Figure 5: The disintermediation of the sell-side. Dotted lines represent less frequent interactions



6.1 The corporate broking model

In the U.K., listed companies rely on corporate brokers, who act as the conduit between the company and the market. Each listed company appoints one or more investment banks to act as “corporate broker.”³ Amongst their core functions are information intermediation and relationship broking – i.e., connecting companies (IROs) with institutional investors. Corporate brokers are usually conceived as the “eyes and ears of the board,” constantly relaying views of shareholders to the board and “giving the company a good feel for what investors more generally are looking for at any particular stage in the cycle” [Kelly (2010), p. 37]. In addition to market feedback, corporate brokers would also be involved with companies in crafting corporate communications for the market, arranging investor roadshows, and offering advice on potential future transactions (e.g., M&A, rights issues, etc.). Corporate brokers are embedded

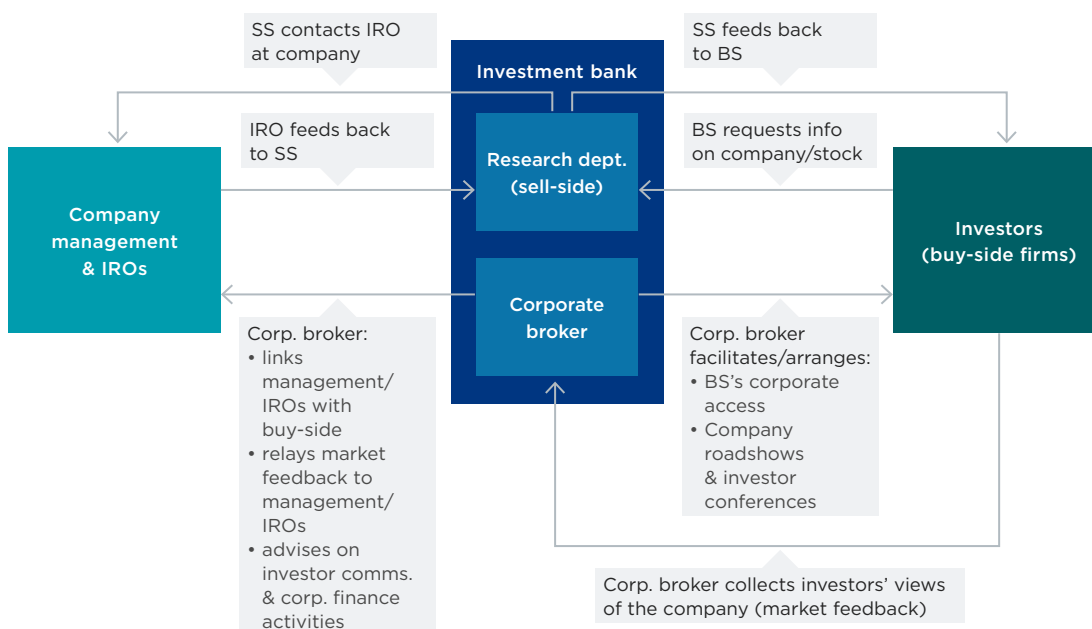
deeply in the fabric of markets, yet their practices remain relatively opaque to outsiders. Consequently, any impact from regulation on their work is likely to be less well understood and harder to predict. Figure 6 visualizes most prevalent pre-MiFID II dependencies and links between corporate brokers, investors, companies and analysts.

To examine the impact of MiFID II on corporate brokers’ practices and their interactions with IROs, we conducted a series of research interviews⁴, from which three broad themes emerged.

Theme 1: Reduced ability of corporate brokers to link corporates/IROs with desired target investors

Before the introduction of MiFID II, corporate brokers could – and typically would – promote companies to any prospective investor (buy-

Figure 6: The links and dependencies between corporate brokers, companies, buy side investors (BS) and sell-side analysts (SS).



³ We appreciate that the term “broker” can be rather confusing as it is used in so many different contexts. Here we are referring to a specialist “corporate broking” role on the private side of (mainly) investment banks, a role uniquely found in the U.K. and Ireland.

⁴ See table of interviewees in Appendix 1

side firm). This was because in a pre-MiFID II world there was much less contractual formality between buy- and sell-side firms and so in a sense all investors were clients of all investment banks. However, MiFID II transformed the landscape for corporate brokers by limiting their dealings to investors with whom they hold formal contractual agreements. As part of the transition to charging for research services, as required by MiFID II, investment banks had to formalize their arrangements with buy-side firms regarding the nature and level of charges with new contracts. But not every buy-side firm will “sign-up” with every investment bank whose research they had access to before MiFID II, as they seek to reduce costs by limiting the number of research providers. And if there was no contractual agreement with a particular buy-side firm in the post-MiFID II period, then there would be little to no interaction with them. Consequently, the days of corporate brokers freely promoting companies to a broad range of prospective investors and aiding IROs in engaging with non-client investors are gone. Indeed, the results of our survey of U.K. IROs – shown in Figure 7 below – indicate that a large minority of IROs overall, and a majority of IROs

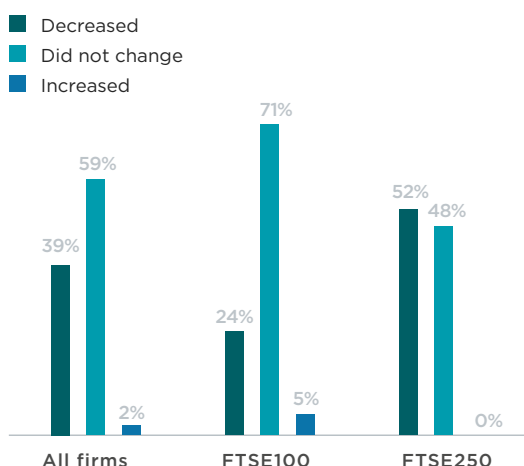
of FTSE 250 companies, observed a post-MiFID II decline in corporate brokers’ ability to connect IROs with target investors.

The ensuing quotes from our research interviews of IROs not only exemplify this transformation but also allude to the diminished significance of corporate brokers’ services to IROs and the level of trust IROs place in their intermediary capabilities.

“Whereas before [MiFID II] you could probably go to [corporate broker A] or [corporate broker B], for example, and you could probably get access to 95% of the market, it doesn’t feel like you can now” (IRO12).

“Corporate brokers are limited by their client list and although we deal with people like [corporate broker A] who have large client lists, this is not as broad as it could be or used to be, and their ability to engage with people, you know, they just don’t actually know who to call within an institution. So, we spend more time giving them names than we used to ... but there’s a constant thing about whether the bank [corporate broker] ever called the client that you wanted them to, did they speak to the wrong person and got ‘no’ or didn’t try hard enough” (IRO5).

Figure 7: Change in corporate brokers’ ability to help IROs with investor targeting after MiFID II?

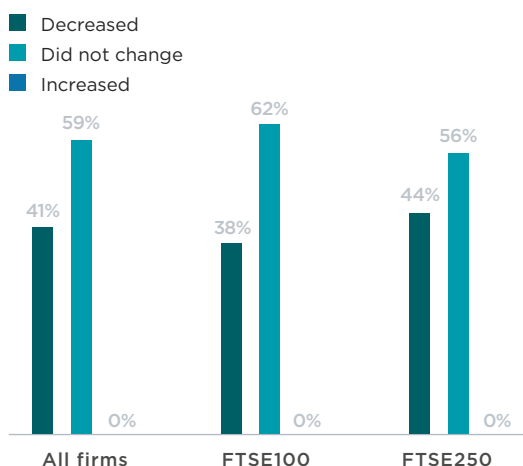


Note: Based on 46 valid responses for ALL FIRMS, with 21 responses from IROs of FTSE100 and 25 from FTSE250 firms.

Theme 2: Curtailed ability to deliver company roadshows and conferences

Another component of corporate broker services that has been curtailed is organizing investor roadshows and conferences. Traditionally, these events have served as crucial platforms for IROs to establish and nurture relationships with current and potential investors. They provide access to diverse investors and efficient means of engaging with them, enhance company visibility, help build trust and credibility through face-to-face interaction, and enable market intelligence gathering. Indeed, a large minority of the U.K. IROs that we surveyed pointed out a reduction

Figure 8: Change in corporate brokers’ usefulness in organizing company roadshows and investor conferences after MiFID II



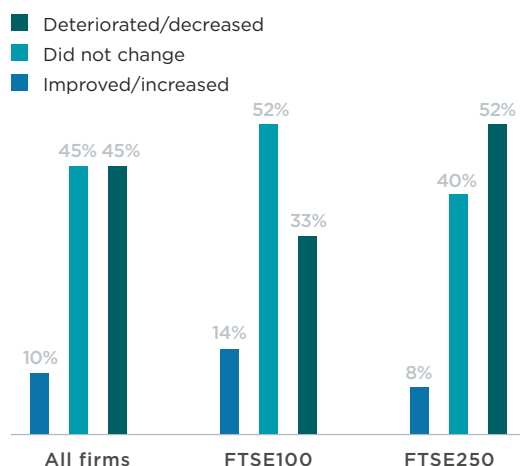
Note: Based on 46 valid responses for ALL FIRMS, with 21 responses from IROs of FTSE100 and 25 from FTSE250 firms.

in corporate brokers’ usefulness in organizing company roadshows and investor conferences (see Figure 8).

More broadly, our survey findings emphasize a perceived diminution in corporate brokers’ value proposition as their service potential declines. For instance, Figure 9 shows that a significant proportion of IROs (particularly from mid-cap companies) experienced a post-MiFID II reduction in quality of service and value that their corporate brokers offer.

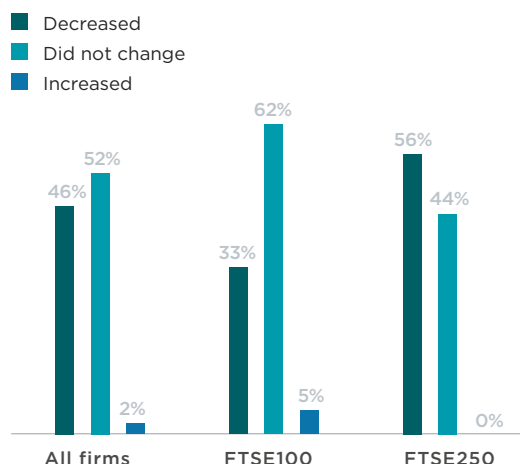
Corporate brokers no longer are perceived to have the breadth of relationships they once had, signifying a diminution of their ability to connect companies with the widest range of investors. Indeed, the reduction in corporate brokers’ service levels is recognized by certain IROs as the foremost challenge imposed by MiFID II on their practice. Constrained by their client lists, corporate brokers are now less capable of gathering comprehensive investor feedback and capital market intelligence. IROs now feel “less

Figure 9: Change in perceived quality of corporate broker service and value created for companies



Note: Based on 49 valid responses for ALL FIRMS, with 21 responses from IROs of FTSE100, 25 from FTSE250, and 3 from IROs that did not indicate their firms’ index.

Figure 10: Change in corporate brokers’ ability to collect (and provide IROs with) feedback from investors after MiFID II



Note: Based on 46 valid responses for ALL FIRMS, with 21 responses from IROs of FTSE100 and 25 from FTSE250 firms.

confident to be able to go to the broker and say: Tell me what the market will think” (IRO 6) – a view shared by nearly half of the surveyed U.K. IROs (see Figure 9).

These limitations have further encouraged IROs to engage with investors directly, as implied in the following quote.

“If I take the corporate brokers, I don’t think they necessarily have the depth of insight or the kind of anecdotal feedback from investors that maybe they had pre-MiFID ... I tend to get more honest and detailed feedback when I ask an investor directly, be that at the end of a meeting as you walk back to the lift” (IRO12).

Theme 3: Expanded opportunity for IROs

While the need for direct engagement comes out of necessity, it appears that some IROs are embracing the opportunity to leverage their social capital – ability to cultivate relationships with investors – as highlighted in the following quote, among many others:

“... Despite all the challenges I’ve pointed to, the ability to speak to people directly because they don’t want to go through a [corporate] broker, for me that’s personally a positive. Other people may feel less comfortable with that because maybe they prefer the established third-party route through corporate access etc. etc.” (IRO12).

By internalizing some of the corporate brokers’ functions, such as elements of investor targeting and relationship building, and by using direct engagement with investors to collect and synthesize market intelligence, IROs have increased their relative power and importance in the field. However, the IR function cannot subsume all technical and relationship building roles that corporate brokers accumulated over decades of being an indispensable fixture in the field of investment advice in the U.K. Millo et al. (2023) argue that investment advice involves diverse actors collaborating to enhance decision-making. They point towards Brown et al. (2015) who showed that sell-side analysts and buy-side

actors collaborate, enriching each other’s outputs. Accordingly, it can be argued that, despite the promotion of IROs as actors and IR as a function in the field, the reduced interaction between corporate brokers, sell-side analysts and investors (together with diminution of technical and social capital amongst the sell-side and corporate brokers) is a net loss to the field.

7. Conclusions

Throughout this article, we have employed various examples to illustrate a central theme: in complex systems, addressing one issue can inadvertently disrupt or weaken another aspect of the market. Our research, and studies by other scholars, suggests that MiFID II diminished the role of sell-side analysts by undermining the economic model of equity research that has persisted, broadly uninterrupted, for decades. Was this model perfect? Clearly not and the regulators across Europe acted in good faith to improve the system and protect investors. However, predicting and anticipating how others will react, as well as the ultimate consequences of disrupting long-established ways of working, can be challenging. MiFID II appears to have greatly weakened the sell-side, juniorized research, left smaller companies with less coverage and encouraged companies to make less use of analyst services even where needed. Additionally, the long-established and valued role of corporate brokers in the U.K. and Ireland has been disturbed. IROs perceive that these specialists’ ability to fulfill key responsibilities, such as providing market feedback and organizing roadshows, remain diminished. Although these developments would clearly appear negative, they have bolstered IROs’ influence in the field of investment advice. If investment in investor relations grows to meet this vacuum, and the steps to professionalize their work continues, then perhaps the unintended consequences will not be uniformly negative.

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Appendix I: Interviewee details for Abhayawansa et al., 2024

Interviewee	IR role/position	Industry	Years of IR experience
IR1	Head of IR	Transport	14
IR2	Head of IR and Communication	Financial services and investment	15
IR3	Head of IR	Technology	13
IR4	Director of IR	Support services	20
IR5 *	Head of IR	Basic materials	10
IR6	Director of IR	Retail	12
IR7	Director of IR	Retail	7
IR8	Director of IR	Technology	8
IR9	Chief IR Officer and Communications Officer	Media	8
IR10	Head of IR Consultancy	Various	11
IR11	Head of IR	Luxury	3
IR12	Director of IR	Beverages	9
IR13	Head of IR	Healthcare	10

* Two interviews were conducted with this interviewee.

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