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Independent analyst "pain in the neck" for large banks.

Particularly at large banks internal interest conflicts still exist which could stand in the way of an objective recommendation. "At big institutions the demand for independent research is clearly growing", says Ronald Wuijster, head research of Iris. The research subsidiary of Rabobank and Robeco acted as host for 15 independent European research companies that met for the first time yesterday in order to take a stance against biased share recommendations.

Left and right small independent analyst companies are being set up that are independent from a bank and do not get paid by the companies they follow either. (Mainly in the US and the UK.) The biggest hurdle they must overcome is the fact that big investors like hedge-, pension- and investment funds are receiving research for "free" from their bank or broker. This is a part of a package whereby they pay commission for their many transactions. "Banks subsidise research with other activities", explains Wuijster.

With so many activities under one roof, things can go wrong. For example if banks deal for their own account on the stock exchange, the analyst may be pressured into giving certain recommendations to investors. "This is also the case with IPOs". A bank that is part of a consortium takes on the issue risk from the company. The interests are big", says Wuijster.

But members of the syndicate are not allowed to give recommendations on that particular share? "No, but the old recommendation from the bank is still circling around the market. And after the introduction what recommendation will the bank come up with? If there are still interests, this won't be a sell recommendation."

In that light the independents are especially annoyed that the bank syndicates keep them outside the IPOs. Wuijster: "They limit the access to the company. Only in the last phase, at the roadshow, non-syndicate members get an insight in the company. This does not provide enough time to do good research."

When asked how Iris guarantees its own independence – the bureau is a joint venture of Rabo and Robeco and mainly serves these two clients – the head of research refers to the way they get paid. "Every year Iris receives a percentage of the managed assets of Rabobank, regardless whether or not we are positive about the Rabo products. We are an independent company, not a corporate finance department looking over our shoulder."

The initiators of independent research companies are often disappointed employees of large banks. Simon Roberts of New Street sums up an impressive list of ex-employers of his 11 employees. "The fact that you spent more time on other departments than on your own clients causes a lot of frustration."

In Great Britain, the rebels in the research world will get support in the shape of a new law in 2006. Banks and brokers are obliged to split their commission into order execution and research. The investors can then see that research does cost money and could switch to an independent analyst. The bank would only get paid for the execution of an order.