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Double agents in asset management

Posted by **Izabella Kaminska** on Nov 01 09:45.

It may not be the workings of an Anna Chapman-style Russian sleeper cell.

But it *is* a case involving suspected double-agents. In the asset management industry.

As FTfm reports on Monday in their lead article:

> *Bank-owned asset managers systematically use investors' money to prop up the share price of their parent company in the wake of significant falls in the stock price of the bank, an academic study has found …*
>
> *"There is a huge agency problem in the asset management industry.* ***There are double agents who work for the asset management firm but they also work for investors.*** *Regulators should be worried about this. It is very robust evidence," said José Marin, professor of finance at Madrid's IMDEA Social Science Institute and co-author of the paper*.*

Now, we should point out that the academic research itself surveys the operations of the Spanish asset management industry in particular — where 50 per cent of the market is controlled by bank-owned funds.

The study — covering a 20-year span and sampling eight banks — identified 31 episodes in which non-affiliated bank funds became net sellers of bank stocks after shares fell significantly in both absolute and real terms. In the same period, affiliated funds significantly increased their holdings of a parent's bank stock.

The quantitative methodology used to generate the above conclusions is recounted in detail in the paper. As the study itself sums up though:

> *These patterns of trading are not consistent with alternative hypothesis such as trading to rebalance the fund portfolio into banking stocks, contrarian trading or trading in anticipation of the price drop. Further, the evidence suggests that these patterns of trading are not driven by private information consideration. They are consistent, however, with trading to support the prices of the parent bank stock.*

This, meanwhile, is a breakdown of the funds and affiliated institutions surveyed by the study:

	Period in the sample	*Funds*	*Fund families*	*AUM*
Banco Santander	1995Q1-2009Q3	149	5	4.9250
Banco Central Hispano*	1995Q1-1999Q1	31	2	5.0430
Banco Bilbao Vizcaya Argentaria	1995Q1-2009Q3	87	3	2.1441
Argentaria**	1995Q1-1999Q4	22	2	5.4102
Bankinter	1995Q1-2009Q3	26	1	0.7173
Banco Popular	1995Q1-2009Q3	19	2	0.6183
Banco Pastor	1995Q1-2009Q3	8	1	0.3527
Banco Sabadell***	2003Q3-2009Q3	76	3	0.6336
TOTAL		418	19	17.5223

Which somewhat concentrates the survey on two Spanish financial institutions in particular.

Furthermore, as the study points out, there is also some intrigue beyond pure price support activity by affiliated funds.

There is, after all, the question of why such activity may or has been tolerated by regulators at all? According to the paper, for example, there is some evidence to suggest regulation in this area has been lax in Spain, at least when compared to the United States — a factor which may or may not have provided an incentive for double agents to operate.

As the study noted:

> *As we can observe, the differences on cases initiated, cases closed and enforcement is very large. Perhaps a great part of these differences are explained by the relative size of the financial sectors of both countries. But the differences in enforcement related to asset management cannot be explained on this basis.* ***Table 1 makes clear that, unless Spanish investors and nancial institutions are extremely law obedient, crime investigation and prosecution in Spain is much weaker than in the US.***

In terms of rationalising the whole thing, meanwhile, authors Benjamin Golez and Jose M. Marin, provide a rather compelling hypothesis. In their opinion, it makes sense that the activity should intensify during stressful times for the institutions.

As they explain:

> *Central Banks interventions in currency markets do not occur in a continuous fashion, but rather when the currency is under attack. In a similar fashion, according to our price support hypothesis, funds affiliated to banks increase their holdings of the parent bank stock when* ***the parent bank's stock is "under attack", in order to limit the downside potential of the stock price.***

Not that there have been many such, err, instances of late.

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Comments

Yona

Very true but sadly that is the norm in Europe,Uk there where pushing out when trying to take a loan or mortgage out they where pushing Loan protection Insurance even on credit cards