



ASSOCIATION
FRANÇAISE
DES MARCHÉS
FINANCIERS

SPONSORED RESEARCH CHARTER OF GOOD PRACTICES

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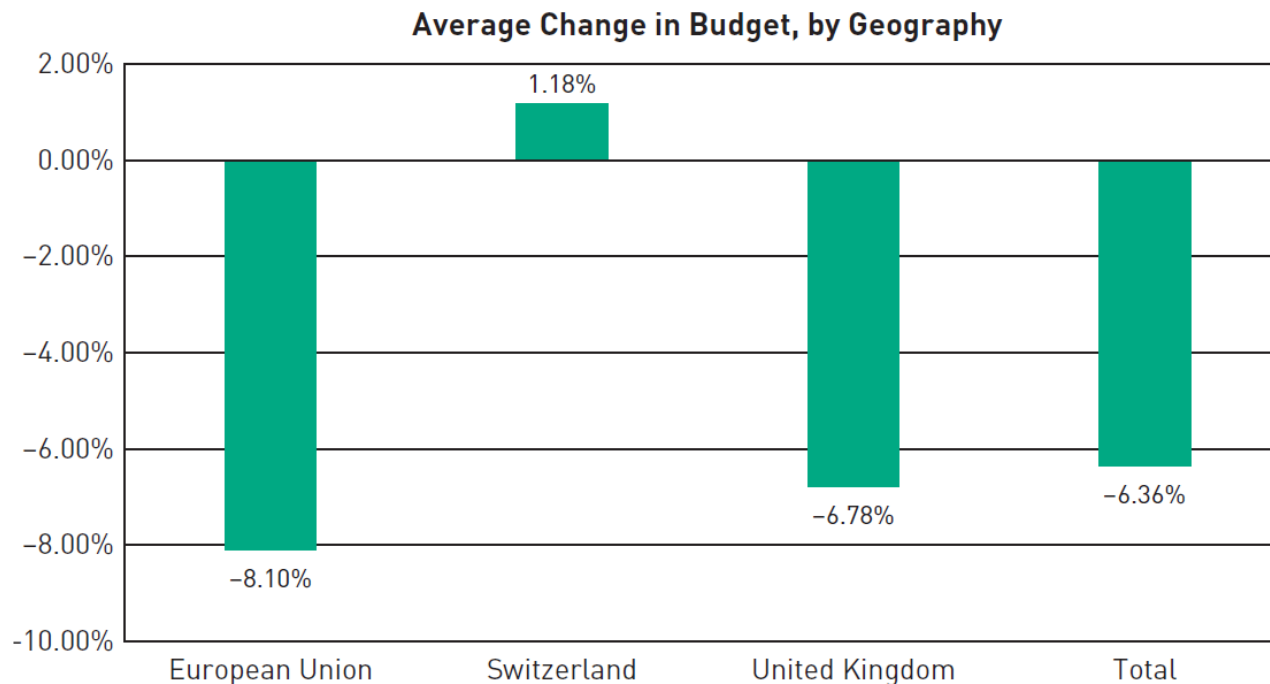
Background to the creation of the Sponsored Research Charter

THE IMPACT OF MIFID II ON FINANCIAL ANALYSIS

The strict interpretation of inducements by the [delegated directive \(EU\) 2017/593](#) has profoundly changed the ecosystem of financial analysis in Europe (1/2)

- Almost systemic unbundling and payment for research by management companies
- Reduction in research budgets and in the number of firms involved

Question: How has your firm's research budget changed since the introduction of MiFID II?



CFA Institute – MiFID II : one year on

THE IMPACT OF MIFID II ON FINANCIAL ANALYSIS

The strict interpretation of inducements by the delegated directive (EU) 2017/593 has profoundly changed the ecosystem of financial analysis in Europe (2/2)

- Reduction in research coverage.
- Perceived reduction in research quality (but contested by ESMA via its “EPS annual surprise” in its [“MiFID II research unbundling: assessing the impact on SMEs”](#) working paper).

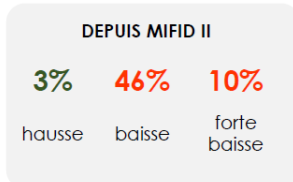
l'avis des **émetteurs** sur la **qualité** de l'analyse financière

l'avis des **investisseurs** sur la **qualité** de l'analyse financière

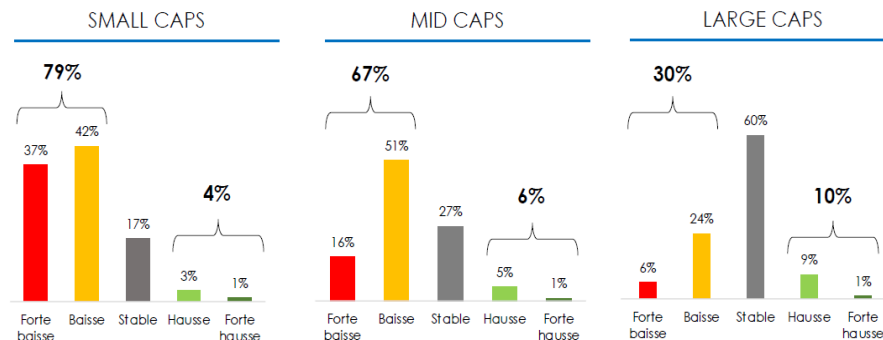
L'application de MiFID II au 3 janvier 2018 a-t-elle eu **une conséquence sur la qualité du suivi de votre société** par les analystes et dans quelle mesure ?

41%
NON

59%
OUI



Comment a globalement évolué la qualité de la recherche depuis l'entrée en vigueur de MiFID II ?



MiFID Vision – Juin 2021 – L'analyse financière vue par les acteurs de la Place de Paris

THE DEVELOPMENT OF SPONSORED RESEARCH IN A CHANGING REGULATORY CONTEXT

- Sponsored research is defined as analysis that is fully or partially funded by the issuer.
- Threats to the coverage of Small & Mid Caps have contributed to the development of sponsored research on the Paris market over the last 3 years.
 - At the end of Q1 2022, there were nearly 350 sponsored research contracts involving an AMAFI member.
- Within the MiFID II framework, there is a risk to see sponsored research qualified as “marketing communication”, which would deny its value added and severely limit its appeal to issuers and investors.
- However, recently, European authorities have shown an interest in the controlled development of sponsored research.
 - European Commission’s [consultation](#) of February 2022 on the Listing Act.

BENEFITS BROUGHT BY SPONSORED RESEARCH THAT THE CHARTER AIMS TO PRESERVE

At local level, sponsored research contributes to:

- the visibility of Small & Mid Caps listed in Paris, with a benefit on their cost of access to capital (cf. study by Observatoire du Financement des Entreprises par le Marché, February 2018);
- the efficiency of the market as a valuation tool for companies, by limiting information asymmetries between investors;
- the attractiveness of the Paris market as a listing place for Small & Mid Caps;
- the financial balance of investment service providers active in the financial analysis of Small & Mid Caps, and thus to the general vitality of the research ecosystem on Small & Mid Caps.

BENEFITS BROUGHT BY SPONSORED RESEARCH THAT THE CHARTER AIMS TO PRESERVE

- Against this backdrop, industry associations have worked with the support of the French national competent authority (the AMF) to draw up a Charter of Good Practices aimed at defining a framework for sustaining and developing sponsored research which is:
 - viable for providers,
 - attractive for issuers, and
 - reliable for investors.
- The Charter was signed by AFG (French Financial Management Association), SFAF (French Society of Financial Analysts) and AMAFI on 11 May 2022.



AMF COMMUNICATION

AMF Press Release from June the 1st recommending the use of the Sponsored Research Charter :

Recherche sponsorisée : l'AMF recommande l'utilisation de la charte des bonnes pratiques élaborée par la Place

Alors que la place financière de Paris s'est dotée d'une charte sur la recherche payée en tout ou en partie par les sociétés cotées, l'Autorité des marchés financiers salue ces travaux et encourage les émetteurs et les bureaux de recherche à s'y référer pour assurer le développement d'une recherche de qualité nécessaire au financement des entreprises.

Link : [Recherche sponsorisée : l'AMF recommande l'utilisation de la charte des bonnes pratiques élaborée par la Place | AMF \(amf-france.org\)](#)

Extract from Benoît de Juvigny's speech, AMF General Secretary, at the 6th AFME annual conference on October the 14th :

“Finally, let me end these introductory remarks with a few words on financial research. MIFID2 strongly impacted the financial research environment in Europe. One of its effects was to accentuate the emergence of what we call ‘sponsored financial research’. Some market participants may view this type of research as less relevant due to its inherent conflict of interests, but we have seen that the alternative that SMEs face in practice is either sponsored research or nothing!

In this respect, there has been a notable achievement in France with the adoption of the Best Practice Charter for sponsored research which was published last summer by French trade associations. The goal of the charter is to establish a framework applicable in France to research that is entirely or partially paid for by issuers.”

Link : [Discours de Benoît de Juvigny, Secrétaire général de l'AMF - 6ème conférence annuelle de l'AFME - 13 Octobre 2022, Amsterdam \(en anglais uniquement\) | AMF \(amf-france.org\)](#)

2

**Content of the Charter
(issuers' commitments,
sponsored research
providers' commitments...)**

SPONSORED RESEARCH PROVIDERS' COMMITMENTS

In addition to applying the many regulatory provisions that already apply to the production of research, sponsored research providers' make several commitments (1/2):

- Equivalence in means, content and quality between independent and sponsored research (1st Commitment);
- 2 possible ways of disseminating the research (2nd Commitment):
 - Accessible to all investors when sponsored research has been fully paid (100%) by the issuer;
 - Reserved for investors who contribute to the payment of the research when the issuer only partially covers the cost of research coverage.
- Disclosure that it is sponsored research on the front/cover page of the research paper at a minimum (3rd Commitment);
- Disclosures of potential conflict of interest specific to sponsored research, additional to the ones prescribed by current regulatory provisions (4th Commitment),

SPONSORED RESEARCH PROVIDERS' COMMITMENTS

In addition to the many regulatory provisions that already apply to the production of research, sponsored research providers' make several commitments on (2/2):

- The update of the research paper and the follow-up of its recommendations (5th Commitment);
- Transparency when communicating with media and social media (6th Commitment);
- The provision of information to feed a national register of sponsored research (7th Commitment);
- The duration of the contract, which must be for an initial period of at least 24 months, tacitly renewable for at least 12 months, framed by early termination clauses (8th Commitment).

ISSUERS' COMMITMENTS

- No influence on the sponsored research provider (9th Commitment);
- Information of the market of the new coverage, on the date of publication of the initiation note (10th Commitment);
- Reference to the existence of sponsored research on the issuer's website (11th Commitment);
- Payment of at least 50% of the annual remuneration at the time of signature and then at each anniversary date (12th Commitment).

COMMITMENTS OF SIGNATORY ASSOCIATIONS

- Regular review of the Charter (at least every 2 years) in order to adapt and improve its functioning in the French context but also at an EU level.
- Maintenance of a sponsored research register:
 - Made entirely available to the AMF;
 - To enable statistical monitoring of sponsored research on the Paris market;
 - With a public segment for research fully compensated by the issuer.

3

Where do we stand ?

WHERE DO WE STAND?

- Functioning of the Charter
 - The Charter is now operational. The migration of contracts just started. To date, there are about 40 contracts under the Charter regime (old contracts of more than 2 years, old contracts of less than 2 years and new contracts) ;
 - The switchover of contracts signed before May 2022 is a work in progress within some of our members.
- Contribution to European discussions
 - Promotion of the Charter to other trade associations in Europe. In particular AMAFI is in close discussions with its equivalent Italian trade association.