



ASSOCIATION
FRANÇAISE
DES MARCHÉS
FINANCIERS



SOCIÉTÉ FRANÇAISE
DES ANALYSTES
FINANCIERS

SPONSORED RESEARCH CHARTER & LISTING ACT

PRESENTATION & STATE OF PLAY

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**STATE OF PLAY ON
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**THE LISTING ACT AND
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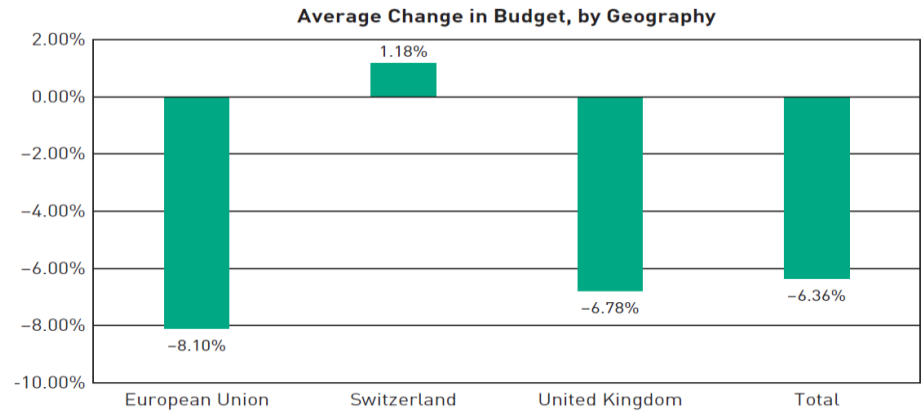
**BACKGROUND AND
CONTENT OF THE
CHARTER**

BACKGROUND AND CONTENT OF THE CHARTER

MIF II (Directive déléguée (UE) 2027/593) : strict interpretation of inducements which profoundly changed the ecosystem of financial analysis in Europe:

- Almost systematic 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?



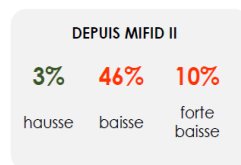
CFA Institute – MiFID II : one year on

l'avis des **émetteurs** 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

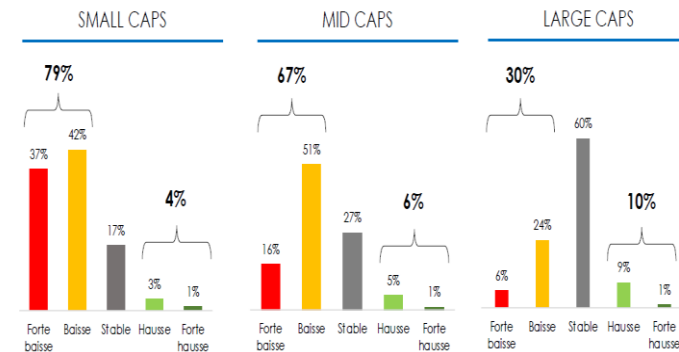
59%
OUI



- Reduction in research coverage and in the quality of the research, notably for SMEs
- This led to the development of sponsored research (SR)
- With a risk to see SR qualified as « marketing communication »

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

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

BACKGROUND AND CONTENT OF THE CHARTER

Q1 2022

Around 350 SR contracts involving an AMAFI member

With the support of the AMF, AFG AMAFI & SFAF worked on a Charter of Good Practices which is :

- viable for providers
- Attractive for issuers
- Reliable for investors
- Secure for all

11 May 2022

Publication of the Charter

Signatory associations' commitments :

- Review of the Charter at least every 2 years ;
- Maintenance of a register entirely available to the AMF with a public segment for research fully compensated by the issuer (available on the associations' website).

Sponsored research providers' commitments:

- Equivalence of SR and independent research;
- Disclosure that it is SR on the front/cover page of the SR paper;
- 2 ways of disseminating the SR:
 - Publicly available: research fully paid by the issuer ;
 - Reserved for investors who contributed to the payment;
- Disclosures on potential conflicts of interest ;
- Provision of information to feed the national register held by the signatory associations ;
- Initial period of at least 24 months, tacitly renewable for at least a year.

Issuers' commitments :

- Payment of at least 50% at the time of signature of the contract ;
- No influence on the sponsored research provider ;
- Information to the market on the new coverage, on the date of publication of the initiation note ;
- Reference to the existence of SR on the issuer's website.

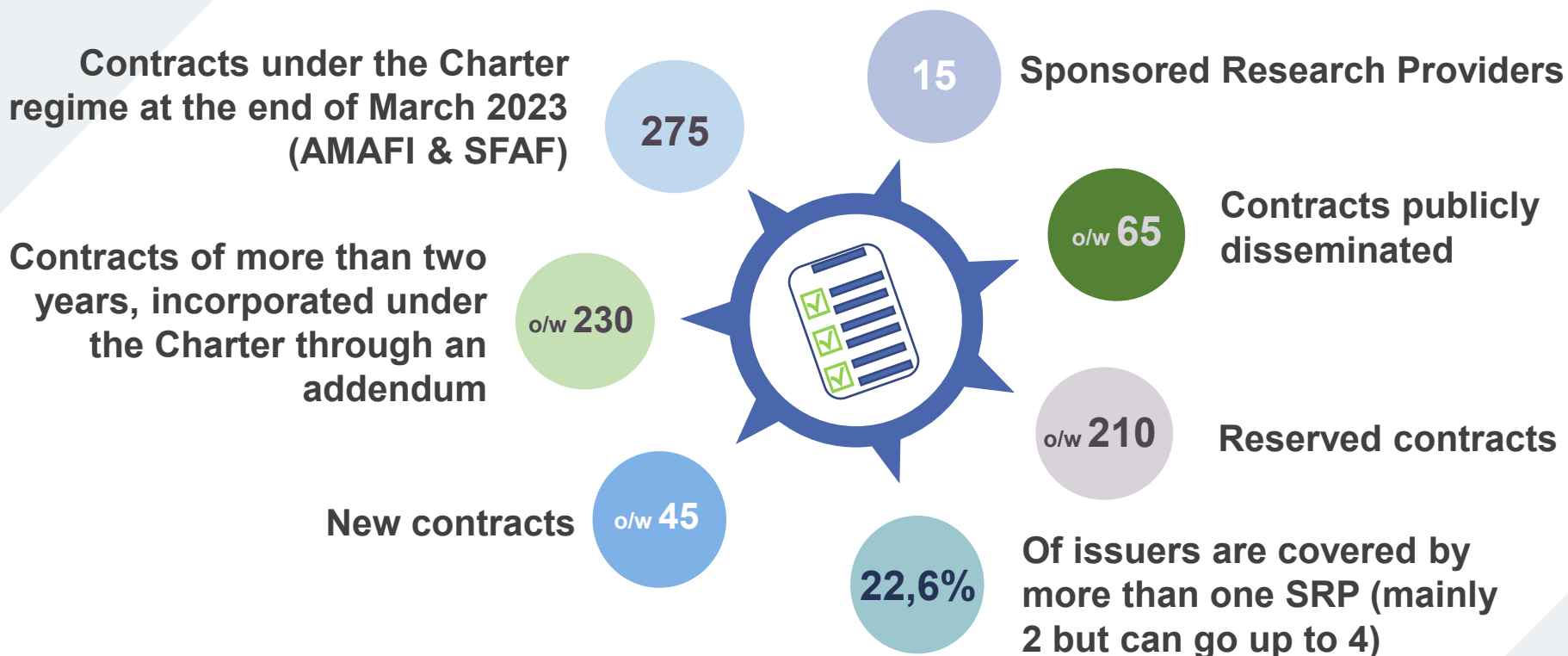


CONTENT

2

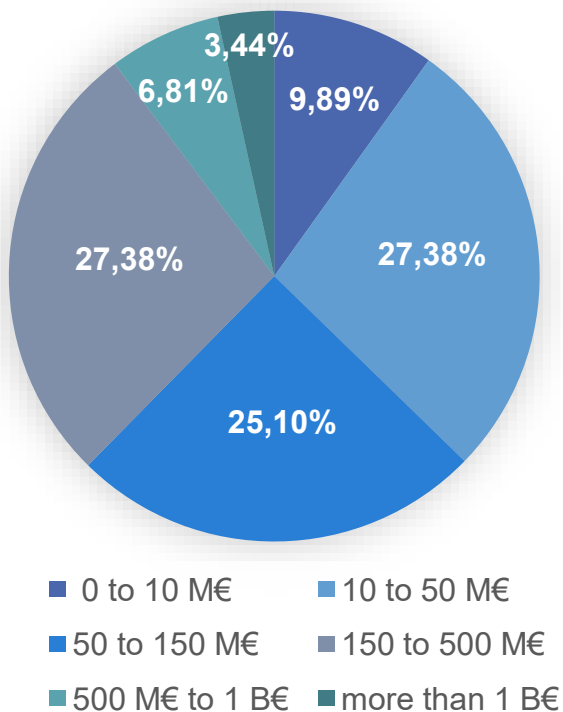
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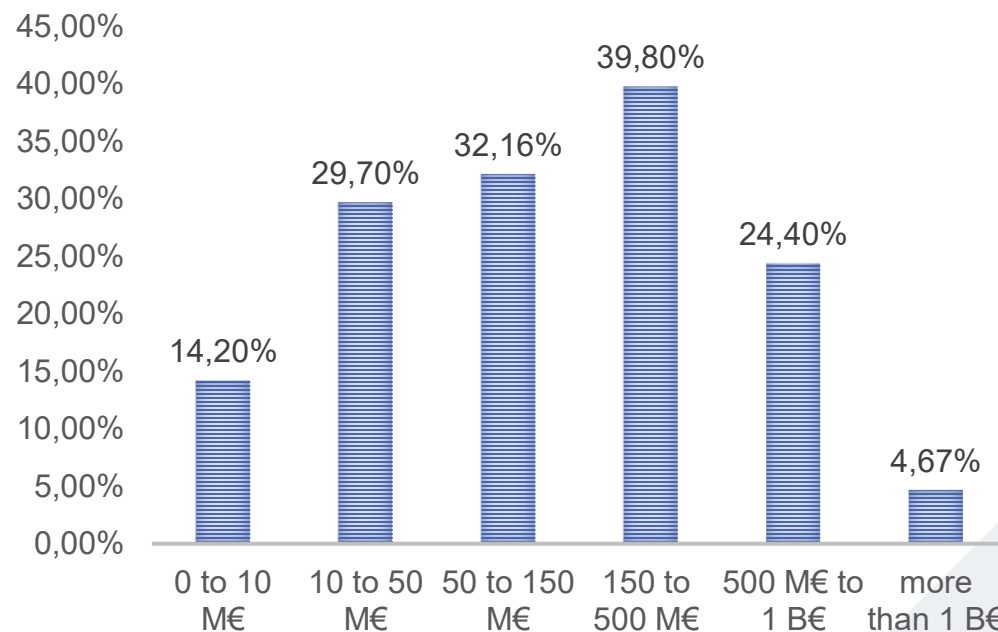


A FEW STATISTICS

Percentage of sponsored research contracts received by AMAFI and SFAF according to issuers' market capitalisation



Taking into account the fact that some issuers are covered by more than 1 sponsored research provider, the bellow graph represents the percentage of issuers on Euronext Paris (+ Growth and Access) that are covered by at least one sponsored research contrat, based on their market capitalisation.



Close to **one third** of issuers with a market cap **between 10 Million € to 1 Billion €** are covered by a Charter-compliant sponsored research contract

CONTENT

3

THE LISTING ACT AND RELATED CHALLENGES

LISTING ACT CHALLENGES: RESEARCH



In the context of the CMU (Action 2 of the European Commission's [action plan](#) from September 2020), the EC published on 7 December 2022 its proposal on the « Listing Act » with a [proposal for a Directive](#) amending [MiFID II](#).

RESEARCH

The threshold under which ***unbundling rules*** (requiring brokers to separate payments for research and execution under the best execution obligation) **does not apply**, is **raised from 1 to 10 billion euros**.

SPONSORED RESEARCH

Sponsored research (partially or fully paid by the issuer) is **considered as investment research provided that it complies with a code of conduct** developed or endorsed by a market operator or by a competent authority and that meets the following conditions :

- It must set out minimum standards of independence and objectivity
- It must be published on the market operator or the competent authority's website and reviewed/re-endorsed every 2 years
- Sponsored research shall indicate on its front page in a clear and prominent way that it has been prepared in accordance with a code of conduct.



Research that is not produced in accordance to a code of conduct will be labelled as « marketing communication » : « *Any other research material paid fully or in part by the issuer but not produced in compliance with a code of conduct as referred to in paragraph 3b shall be labelled as marketing communication* » (Proposal to add a paragraph 3d in article 24 of MiFID II).

SIGNATORY ASSOCIATIONS' POSITION: REBUNDLING

RESEARCH / REBUNDLING

- Raising the market cap threshold below which rebundling is authorised, from € 1 to 10 billion does not seem to be a sufficient measure to reverse the negative trend in the supply of research on SMEs. Indeed we note that the Quick-fix, which made rebundling possible for market caps of less than € 1 billion (85% of Euronext listed stocks) has had no real effect. Furthermore, this would require management companies to go back to their clients and ask them to pay for a research they haven't been paying since MiFID II. It would also force them and research providers to operate two parallel management and invoicing systems. Setting the threshold at € 10 billion will not fundamentally change the situation.



- We would therefore like to emphasize that this solution should not be considered as the best solution at the expense of the EC proposal on sponsored research ! → Both models must/can coexist.

SIGNATORY ASSOCIATIONS' POSITION: SPONSORED RESEARCH

SPONSORED RESEARCH

- The associations welcome the European Commission's proposal, which is strongly inspired by the French Charter.
- The question arises « politically » as to whether the code of conduct should be drafted by ESMA: unlike the wholesale market, the specificities of local markets for small and mid cap stocks persist. At this stage, it is therefore not certain that ESMA can produce a framework that would be relevant for all EU markets (it took 3 years to set up the French framework).

As such, the signatory associations support a national approach that could be framed by an ESMA opinion or by ESMA guidelines.

This *bottom up* approach is not incompatible with the CMU's objectives insofar as the development of local markets is a prerequisite.

SIGNATORY ASSOCIATIONS' POSITION ON THE DIFFERENT OPTION PROVIDED BY THE SWEDISH PRESIDENCY IN ITS NON PAPER

Favourable
 Moderately in favour
 Against

- EC proposal
- High level principles (independence and objectivity)
- SR providers should be able to choose which code to abide by
- Review period of 5 years instead of 2.

A

- ESMA guidelines on the content of the code
- Endorsed by market operators or NCAs
- At level 1 : SR providers should be able to choose which code to abide by
- Review period of 5 years instead of 2.

B

ESMA to draft a unified code of conduct

C

Add investment research to the list of services that are not subject to article 24 (9) of MiFID II (inducements) → if considered to broad, adjustment should be pertain to sales and trading research for legal and commercial situations inside and outside the US.

D

Expiry of the Non Action letter on 3 July 2023:
Targeted exemption (= bundling) allowing MiFID II entities to pay for research and investment services jointly if the provider is located in a jurisdiction that doesn't allow separate payments.

E

Repeal the research unbundling rules (article 13DA)

F