AUTORITÉ DES MARCHÉS FINANCIERS

26 November 2018

Speech of Robert Ophèle, AMF Chairman - Conference MiFID II: initial lessons learned on implementation and proposals for improvement - Tuesday 27 November 2018

Check against delivery

As we know, France was not in favour of the framework for research funding introduced with MiFID II. While we can understand the aim of eliminating the conflicts of interest that may ensue from providing free research with other broker services, the resulting cross-subsidies fuelled research on mid-caps—a field of research with an inherently fragile business model.

And while invoicing research can only have a positive effect on quality, it could also generate undesired impacts, including a reduction in research on small and mid-caps and the concentration of research on the biggest players through internalisation by large investors, concentration in the independent research sector and "competitive" invoicing of the service by major brokers (who checks that their research is invoiced at a "fair price"?). The development of a research model paid for by issuers – a natural response by issuers looking to monitor their securities – could also lead to the delicate management of conflicts of interest, such as those which have involved ratings agencies and led to special regulatory supervision in the past.

Clearly the rise of passive management and the framework for research funding substantially limit the research offering. Combined with the disproportionate application of the market abuse regulation – let us not forget the debate on liquidity contracts – the situation hardly encourages mid-cap IPOs.

Yet the vitality of our economy hinges on safeguarding and developing a dynamic ecosystem of listed mid-caps, and an efficient market necessarily relies on the comparison of several high-quality independent analyses. This independent research has numerous positive external effects and should be encouraged by public authorities.

Looking beyond these generalities, the assessment needs to be documented and specified if we are to make the right proposals on regulatory changes. The Paris financial centre has rallied around this issue, and I would like to thank the SFAF for its initiative with the MiFID Vision project. Today's conference provides us with the initial findings. I say "initial" because, quite clearly, the adaptations arising from the regulation have yet to be completed and, in all likelihood, we will be unable to measure its full effect before 2019.
But it is clear that the implementation of the mechanism is largely under way.

The observations of the CLIFF are enlightening.

- For capitalisations of between €150 million and €1 billion, the number of analysts fell on average from five to three in the six-month period from October 2017 to May 2018.
- And 40% of issuers with a capitalisation of under €1 billion now have to fund independent research themselves to benefit from minimum coverage.
- One-third of the stocks in Euronext Compartment B – and over 70% in Euronext Growth – are monitored by one analyst at most.

So what is to be done? The European Commission is aware of the issues and in late June launched a call for bids to select a service provider to carry out a study of the impact of MiFID II on small- and mid-cap research. The conclusions of this study are not expected before autumn 2019. And even if the small- and mid-cap regulation currently being reviewed by European co-legislators could foster a more proportionate approach to a research framework, the potential regulatory changes would be introduced in 2020 at the earliest.

As you know, the AMF is committed to interpreting regulatory provisions on research in the most constructive manner possible. It has done so notably through its guide on research funding, which is updated regularly in response to questions asked. At the start of the year, the AMF clarified the conditions whereby research produced as part of a primary market issue may constitute a minor, non-monetary benefit. We can undoubtedly take things further, but our room for manoeuvre is clearly limited.

I would thus call on the Paris financial centre to pursue its efforts in this area, to specify on an operational basis how the principle of proportionality could be implemented (and here, for example, I am thinking of the mechanism of research payment accounts) and to propose systems that could contribute to the development of financial research through pooling mechanisms.
Today's conference is important, and we need to continue along this path to develop new, concrete proposals for a further MiFID Vision conference in June.

With the business model of financial research hesitating between an issuer-funded model and an investor-funded model, it is vital that we draw on all of our collective intelligence to find ways of developing what could be an advantage for the Paris financial centre: a diversified research capacity accessible to all investors.

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