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The AMF adopts its action plan to promote investment research

The AMF is planning to clarify its policy and support certain adjustments at the European level as part of the targeted review of MiFID II. These concern the regulation of issuer-paid analysis, pricing, proportionality, third-party research and ESG research.

Research coverage of listed companies represents a key for price formation and market liquidity. The AMF Board therefore asked Jacqueline Eli-Namer, AMF Board member, and Thierry Giami, president of the French Society of Financial Analysts (SFAF), to analyse the impact of MiFID II on investment research and to explore possible areas of improvement. After a phase of analysis and many meetings with representatives from all the sectors concerned, as well as public authorities, they presented their recommendations to the AMF Board on 7 January this year. Their report is available on the AMF website.

An action plan based on six themes

On the strength of these recommendations and taking into account the scope for changes to the European regulatory framework opened up by the discussions that will be launched around a targeted review of MiFID II, the AMF has drawn up an action plan. This plan is based on six key priorities.

Support the development of issuer-paid research

The Giami-Eli Namer report underlines the rapid expansion of research financed by listed companies, often referred to as sponsored research. The AMF has taken note of this trend and considers that research must clearly mention the ties between the issuer and the analyst. It encourages all stakeholders to work on a charter that presents good practice based on existing regulatory obligations, in particular with respect to ethics and independence. The AMF will adapt its "Guide on new rules for the funding of research within MiFID 2" accordingly.

Ensure the proper functioning of the research market

The report also underlines the rapid and substantial drop in the prices charged for research. It is essential to make sure that competition is established on a sound basis and to avoid all forms of dumping. Hence it should be pointed out that research offered at a very low price may be likened to an inducement, the receipt of which is currently strictly regulated by MiFID II.⁽¹⁾ URL = [https://amf-france.org/en_US/Actualites/Communiqués-de-presse/AMF/annee-2020?xtcr=1&isSearch=true&docId=workspace%3A%2F%2FspacesStore%2F6da6667a-b67f-4711-99f7-b23e69ad577d&lastSearchPage=https%3A%2F%2Famf-france.org%2FmagnoliaPublic%2Famf%2Fresultat-de-recherche%3FTEXT%3DL%25E2%2580%2599AMF%2Barr%25C3%25AAte%2Bson%2Bplan%2Bd%25E2%2580%2599action%2Ben%2Bfaveur%2Bde%2Bla%2Brecherche%2Ben%2Binvestissement%26LANGUAGE%3Dfr%26isSearch%3Dtrue%26simpleSearch%3Dtrue%26valid_recherche%3DValider&xtmc=L-AMF-arrete-son-plan-d-action-en-faveur-de-la-recherche-en-investissement&docVersion=1.0&langSwitch=true#note1]

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The AMF will reiterate this interpretation in its guide as well as inviting clarification of this point in European discussions, ideally in an ESMA Q&A.

In addition, the AMF will propose the introduction of a concept of "reasonable commercial basis" in the European regulation (MiFID) on research, which would be to bring the price of research into line with its cost of production.

Adapt a certain number of provisions to the current Framework

Regulation of the trial period that enables research providers to offer their clients free analyses on a given asset class for three months over a rolling 12-month period may constitute a barrier of entry for some players. The AMF is therefore proposing that this adjustment be made at the level of European policy by authorising research consumers to benefit from separate trial periods depending on the asset class (equities, bonds, etc.) that they offer. Furthermore, the current treatment of corporate access raises questions and needs to be clarified. The link between the definition of corporate access and the concept of a minor non-monetary benefit will therefore be made more explicit in the AMF guide. Depending on the analysis of the research consumer, merely connecting investors and issuers could therefore be considered by default as a minor non-monetary benefit.

Exempt independent research from the inducement regime

The AMF considers that the production of research by investment analysts not associated with an investment service provider as defined by the AMF General Regulation should not be subject to the regime defined in Article 13 of the delegated directive on research-related inducements nor the resulting guidance when their offering does not present a conflict of interests with other activities. Consequently, research consumers subject to MiFID II should be free to receive the analyses produced by these third-party players without having to implement the mechanism provided for in the above-mentioned article. The AMF will address this issue as part of the debate on the review of MiFID II.

Establish proportionality in the inducement regime

The AMF considers that the MiFID II review should be the occasion to introduce a form of proportionality into the regime defined in Article 13 of the delegated directive. This should be done based on a cost-benefit analysis in order to determine the level of proportionality that is most likely to boost the coverage of small and mid-caps and to encourage IPOs. It could concern small and mid-caps, the fragile coverage of which is a matter that needs to be closely monitored, especially in the context of development of the capital markets union.

Prepare the emergence of ESG research

The AMF considers that ESG matters are of major concern and has indicated that in 2020 it will pursue its ambitious roadmap for sustainable finance, guided in particular by the concern to manage change and encourage best practices and innovation in this field. In this context, it is essential to ensure that financial analysts have at least basic knowledge of non-financial matters. This should contribute to a better understanding by analysts of the risks and opportunities of companies, the shift towards a longer-term approach, an improvement in the quality of their investment recommendations and, ultimately, a better integration of non-financial matters into the financial culture. In this regard, the AMF welcomes the report's recommendation to develop training and certification. In this respect, the AMF's examination syllabus to verify the minimum level of regulatory knowledge that is applicable since January 1 2020, reinforces the theme of sustainable finance. The AMF intends to go further in this direction and could include these aspects in its guidance.

A matter to mobilise the financial centre

The involvement of the various market participants is a key factor to succeed with the revival of research. Within the field of its remit, the AMF will contribute to all market initiatives in this area that could improve the quality of research, enhance investor

information and promote IPOs. The proposal that the financial centre should rally round to finance a research cycle for companies that are floated on the stock exchange would appear particularly worthy of consideration.

About the AMF

The AMF is an independent public authority responsible for ensuring that savings invested in financial products are protected and that investors are provided with adequate information. The AMF also supervises the orderly operations of markets. Visit our website <https://www.amf-france.org>

PRESS CONTACT: _____

— AMF Communications
directorate

+33 (0)1 53 45 60 28

Read more

Reviving research in the wake of MiFID II: Observations, issues and recommendations – The AMF publishes the report by Jacqueline Eli-Namer and
↳ Thierry Giami

[1] MiFID II states that, to avoid conflicts of interest, investment services providers who provide the service of investment advice on an independent basis or portfolio management services may no longer receive and retain remuneration from third parties (called inducements). The directive however authorises the receipt of minor non-monetary benefits during the provision of these services. Investment research is considered to be an inducement (Article 13 of the delegated directive of 7 April 2016).

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Head of publications: The Executive Director of AMF Communication Directorate. Contact:
Communication Directorate – Autorité des marchés financiers 17 place de la Bourse – 75082 Paris
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