AUTORITÉ DES MARCHÉS FINANCIERS

Print from the website of the AMF

28 October 2021

# Speech by Robert Ophèle, AMF Chairman - 60th anniversary of SFAF - 21 october 2021

**Check against delivery**

I am delighted to be taking part in the celebration of the 60th anniversary of the French Society of Financial Analysts. The SFAF has played an essential role in developing financial analysis in Paris. This analysis is vital to the proper functioning of our financial markets, and we are counting on it to support the far-reaching changes currently underway. Financial analysis needs to be reinvented to a certain extent, and the SFAF is playing a decisive role in this transformation.

Without independent financial analysis, investors would be reduced to a merely passive or chartist management role. This is clearly not what we want, whether to ensure a relevant price formation mechanism or to allow savings to be channelled effectively into investments that will guarantee our economic growth.

Nonetheless, financial analysis remains under threat, both with regard to its independence and to the increasing importance of analytical areas that are not directly financial.

Independence means above all being able to rely on a solid financial equilibrium. However, as we all know, by requiring that the provision of the research service be specifically isolated and billed separately, MiFID II has contributed to undermining this activity, particularly with regard to the coverage of mid-cap companies, which was undoubtedly funded to some extent by its inclusion in a broader range of services, including brokerage. Jacqueline Eli-

Namer and Thierry Giami submitted a report to the AMF Board on the subject at the beginning of 2020, along with a series of recommendations.

At the beginning of this year, we succeeded in reversing the trend in the European recovery package with the Directive of 16 February 2021, which allows issuers with a market capitalisation of less than €1 billion to "pay jointly for the provision of research and for the provision of execution services" as from 28 February 2022. While this relief should of course be seized upon, the structure of the market has changed since 2017 and the implementation of MiFID II; in particular, what is known as sponsored research has expanded significantly in recent years. If investors reduce their research purchases, issuers who also have an interest in monitoring their securities can legitimately contribute to funding this research. However, this monitoring must be carried out by independent experts and not be treated as an advertorial which has limited credibility. This point was not addressed by the MiFID review earlier this year and it was deferred with a review clause explicitly included in the text. To safeguard this independence, the AMF has asked the financial community to prepare a charter and standard contracts. Independence issues are always dealt with in the same way, by tackling issues of duration and conflicts of interest. It is therefore expected that there will be a minimum term of the research sponsorship contract and that there will be transparency about the possible additional marketing of sponsored research, as well as about the various services that the research provides to the issuer. I understand that the work undertaken by the SFAF, AMAFI, AFG and AF2I is nearing completion and a framework will be proposed before the end of the year. This will undoubtedly give credibility to the sponsored research regime and strengthen the financial market. It will also provide a model for the development of a European regime.

Independence is not negotiable, and while we must strive to guarantee it to those who pay for research, it must also be defended against all pressures and threats. As we have seen, this is not a theoretical assumption. One of the most effective approaches to combating these threats is arguably to make them public, as was the case recently in the CASINO/METRO case and in the Solution30 case. You know that you can count on the AMF to stand by your side in these trying times.

If they are independent and properly remunerated, financial analysts can serenely set about reinventing their profession to meet their clients' new requirements and bring it in line with the new data and tools at their disposal.

Although financial analysis has been considerably fine-tuned and professionalized during the first 50 years of the SFAF's existence, it has ultimately changed very little over this period. What we have been experiencing in recent years is a radical change of perspective with the emergence of ESG considerations on the one hand, and the availability of so-called alternative data or weak signals on the other. I will come back to these two dimensions that fuel the two extremes of the financial analyst's spectrum: medium/long-term forecasts for the former and very short-term forecasts for the latter.

At a recent meeting of our Scientific Advisory Board, Thierry Foucault presented a paper[1] on the increasing use of alternative data and its impact on analyst forecast quality. Today, analysts have access to a wide variety of indicators, from social media traffic to card payment data, satellite or drone images (of car park occupancy, for example), which allow them to anticipate the level of activity of companies and their quarterly results. This explosion of alternative data is changing the expertise that the financial analyst needs, if only to select the relevant indicators for each company and disregard the background noise. The academic work carried out showed a significant improvement in analysts' short-term earnings forecasts but, at the same time, a decline in the quality of medium-term earnings forecasts (two years and beyond). One explanation put forward was that, faced with the proliferation of indicators to be taken into account to improve short-term forecasts, and faced with the overweighting by market players of the quality of these short-term forecasts, financial analysts were less invested in medium-term forecasts, which may therefore be losing quality as a result.

And yet, despite low discount rates, we are all aware that what matters is the medium-term profitability of a company. However, over and above the classic financial trajectories, we now know that profitability will be significantly affected by its ESG trajectory, and in particular by the consequences of global warming on its activity, as well as by its contribution to the fight against global warming. One might even wonder whether, in a kind of Copernican reversal, it will soon be not the non-financial indicators that revolve around the financial data, but the financial data that will support the non-financial data. But let's not jump the gun, there are a multitude of indicators developing in these areas and there is a need to bring in new expertise. Thankfully, new reporting standards are being drawn up. The IFRS Foundation is developing a set of basic standards for sustainability reporting; more substantially, at the European level, the draft CSRD and parallel preparation of level 2 standardisation projects by EFRAG will enrich the information to be collected by the future European ESAP database. At the same time, this new dimension is being factored into training programmes for analysts, and just as the AMF has developed a specific certification module for staff who market ESG products, the SFAF now offers highly specialised training for analysts on these issues. I say this with full knowledge of the facts, since several of our staff at the AMF are going to be taking a first course on ESG.

It is crucial to anticipate these changes in our professions in order to ensure that our financial centre remains competitive. The SFAF is clearly one of the major assets of the market and, my dear Thierry Giami, there is no question of the SFAF retiring at 60. We are counting more than ever on its dynamism to enrich decision-making with its many relevant analyses.

[1] Olivier Dessaint, Thierry Foucault, Laurent Frésard "Does Alternative Data Improve Financial Forecasting. The Horizon Effect" July 2021

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12 July 2021

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