

Autorité des marchés financiers (AMF)
17, place de la Bourse
75082 Paris Cedex 02
France

Sent by email directiondelacommunication@amf-france.org

28 October 2016

Dear Sirs,

Re: Public consultation by the AMF on the new rules for the funding of research by investment firms under MiFID II

I am writing on behalf of Euro IRP, the trade association which represents Europe's independent research providers in response to your request for comments on your current consultation on the funding of research

Euro IRP has taken a keen interest in the development of MIFID II rules on investment research and has worked directly with the European commission, ESMA and the UK regulator in order to help ensure that the rules as implemented work to improve the efficiency and rectitude of the market for research to the ultimate benefit of the beneficial owners of financial assets and of society in general.

Independent Research Providers (IRPs) across Europe pride themselves on offering investment research to our clients that is un-conflicted. By this we mean that our businesses do not offer services other than research which could potentially cause our research to be tainted, services such as investment banking, underwriting or corporate broking, proprietary trading or market making, management consultancy services for clients other than investors, or from companies that were the subject of this research.

We believe that the research market in Europe has for many years been dominated by companies whose research is potentially conflicted and that this has worked to the detriment of asset owners. The conflicts of interest embedded in the business models of many major research providers have been exacerbated by the practice of research payments being bundled together with payments for execution services. This bundling together of two disparate services has led to a false market in research, hiding the true costs of research from asset managers, artificially inflating the payments for research to the leading investment banks and so damaging the interests of asset owners.

Cont'd ... /

We strongly welcome the aims of the provisions of MIFID II in relation to investment research. We see these as, inter alia, a strict unbundling of research and execution payments, clear pricing and valuation of research services consumed by the buy-side, appropriate budget controls over research payments and much improved transparency of payments to research providers.

We believe these aims, if appropriately implemented, will lead to:

- the creation of a much more competitive research market
- high quality research from a wide range of sources being appropriately rewarded
- poor quality research being competed away
- asset managers being able to identify and use quality research more effectively
- asset managers facing fewer conflicted, and thereby potentially misleading, sources of research, and
- asset owners seeing reduced costs and improved returns.

Our view is that the guidance provided by ESMA has resulted in a delegated directive which will lead to significant improvements in the market for research. In large part we agree with the AMF's guidance on how the Delegated Directive should be interpreted. We particularly welcome the fact that research payment accounts (RPAs) can be funded from a charge on client portfolios, provided that strict controls on budgets, valuation and transparency are implemented. This, we believe will retain the beneficial aspects of the current CSA mechanism used by many firms across Europe while ensuring that end clients' interests are appropriately protected.

There are however two areas where we fear that the AMF's guidance could lead to outcomes not intended by the legislators and which would not be consistent with the guidance provided by ESMA.

These two areas are:

- The treatment of minor non-monetary benefits particularly as applied to macro-economic research
- Payment for Corporate Access.

We address both of these areas below.

- 1) AMF Guidance on Minor non-monetary benefits (MNMB), particularly relating to macro-economic research.

The Directive excludes "minor non-monetary benefits" from the inducements regime i.e. they can be received free of charge by the client without being seen as compromising the requirement to act in the clients' best interests.

Cont'd ... /

Euro IRP believes that the MNMB rule was designed specifically to address an issue arising from the rules governing conflicts of interest. In the current guidance the AMF appears to be widening the intent of the MNMB exclusion in order to derive conclusions about a particular element of investment research which is of particular concern to IRPs.

The AMF have explicitly stated that **MNMB cannot be charged** to the buy-side. They then go further and state that the buy-side firm will not be able to charge the cost of MNMB to its clients.

The AMF guidance then states that:

Macroeconomic analysis does not usually cover any particular issuer or security, and more generally covers broad economic aggregates, global balances or one or more geographical regions, for example.

As a consequence the guidance concludes that macro-economic analysis does not meet the definition of research and therefore can be supplied free to the buy-side without generating conflicts of interest and furthermore that such research cannot be paid for via the use of client funds i.e. it cannot be paid through an RPA/CSA but if paid for at all it must be paid out of the buy-side's own resources.

If the MNMB rule is interpreted in such a way it will allow investment banks and brokers to cross-subsidise their provision of macro-economic research to buy-side clients, so damaging the integrity of the market, allowing conflicts of interest to affect the provision of research and reducing the overall efficiency of the market. Just as importantly, this interpretation would prevent IRP providers of macro-economic research from being made through existing channels for their highly valued research and would prevent them from benefiting from the extension of CSA funded RPAs across Europe.

In addition, there is the question of fixed income research. Many buy-side clients use macro-economic research in their fixed-income investing and the current ambiguity over payments for debt research also needs to be addressed.

We would strongly argue that this interpretation leads to consequences unanticipated by the AMF and not intended by either ESMA or the legislators.

Cont'd ... /

2) Corporate Access

Euro IRP takes the view that Corporate Access is primarily a service provided by a bank/broker to its corporate clients with a view to helping them manage communication flow to their investors/potential investors by facilitating a series of meetings with those investors.

The service provided by the bank/broker can be seen providing one of two benefits:

- The bank/broker facilitates meetings for the corporate with a list of investors identified by the corporate (usually by its IR function)
- The bank/broker advises the corporate by providing a list of investors who it believes would be attractive long-term holders of the corporate's stock.

In neither case is it appropriate for the bank/broker to receive significant payments from a buy-side firm in order to persuade it that the buy-side firm should receive preferential access to a meeting with the corporate entity.

When discussing payment for Corporate Access, the argument is made more complicated by the fact that buy-side firms undoubtedly value their meetings with corporate management, indeed these meetings are seen by many firms as a critical part of their investment process.

This has led to a confusion between the value provided by the meeting itself (i.e. the face to face discussion with a CEO/CFO) and the value provided by arranging the logistics of the meeting (the service which the bank/broker could legitimately claim to be providing to the buy-side.) The meeting itself is extremely valuable, the logistics provide relatively little value. Yet the sell-side has traditionally been paid huge amounts of money by the buy-side for the privilege of being on the meeting list.

We would therefore argue that the provision of access to corporate management cannot be viewed as research and so cannot be paid for using client funds via an RPA. If a buy-side firm wishes to purchase corporate access they must do so using their own funds.

We would not disagree that a research provider (bank, broker or IRP) may provide research services to complement any Corporate Access service. In such a case we would argue that the buy-side recipient should be required to separately value the research services embedded or combined with Corporate Access and clearly identify which level of payment is being offered for which service. The research element could be paid via an RPA, the corporate access element would be paid from the buy-side firms own P&L.

Cont'd ... /

Finally, we wish to state that we believe that all collective investment funds should be included in a pan-European approach in line with the current FCA guidance. This would reduce complexity and help produce the level playing field that the regulation intends to achieve.

We will of course be available for any questions arising.

Yours sincerely,



Chris Deavin, Chairman
The European Association of Independent Research Providers Limited