

MiFID Refit – Euronext Position on SME Equity Research

MiFID II Impact

MiFID II / MiFIR introduced new rules on the unbundling of research and execution services to increase the transparency of research prices, prevent conflict of interest and ensure that research costs are incurred in the best interests of the client. However, its entry into force has led to a decrease in overall equity research coverage on all listed companies on our capital markets. While coverage was already in long-term decline, it has been observed that since MiFID II a greater number of companies have fewer analysts covering their stocks, with some having been left with no analyst at all.

Commission Proposals

Euronext welcomes the proposals in the consultation to increase the production of SME research, notably via: (i) authorising the bundling of SME research; (ii) the creation of a program to finance SME research; (iii) subsidised SME research through a partially public funding programme; and (iv), the creation of a public EU-wide SME research database.

I. Authorising the bundling of SME Research

Euronext believes that the Commission's proposal to authorise the bundling of SME research would be the fastest way to increase the production and distribution of independent equity investment report. Revising the scope of MiFID II (Article 13) may have the most positive effect on the coverage and the liquidity of SMEs.

II. EU SME Research Program

Euronext sees benefits in a pan-European program being set up by several market operators (on a voluntary basis), allowing trading venues to address their issuers' research coverage issues and meet investors' demands, both of which differ across national and local ecosystems.

This could be part of the measures dedicated to facilitating SMEs' access to public capital markets. For example, the EU program could be used to cover the costs of research coverage of newly listed SMEs via public financing from the EU (e.g. within the scope of the Commission's InvestEU Programme) and could be used as part of the new 'private-public fund' for SMEs' IPOs.

Euronext believes this program should focus on strengthening listed SMEs' access to non-quantitative and tailored equity research which considers local specificities and market context.

III. EU Funding of SME Research

If research were to be subsidised through a partially public funding program for SMEs and midcaps listed on both regulated markets and MTFs, the costs should be shared by issuers, institutional investors (investment funds, insurance companies, etc.) and public institutions.

If such an EU funded programme were to be set-up, we suggest it should:

- Ensure access to research for all eligible listed SMEs

- Focus on providing non-quantitative research to meet investor demand
- Provide research on eligible SMEs for all EU investors (in a common format, language, etc...)
- Provide research reports that satisfy certain criteria to be developed by national or European associations for financial analysis.

IV. EU SME Research Database

Euronext supports the creation of a public EU-wide SME research database to facilitate access to research material on SMEs, provided that it does not introduce additional cost or administrative burdens for the listed companies covered.

Euronext Proposal

In addition, Euronext believes that the Commission should also consider designing a harmonised framework and best practices guidance at EU level for **sponsored and independent investment research**. This would facilitate the launch of an EU publicly-funded pan-European program to cover the costs of research and incentivize Member States to participate in the funding of equity research for the companies affected by the MiFID II regime.