

Paris on July 6th 2021

PRESS RELEASE

As part of the implementation of MiFID 2, the French Society of Financial Analysts took the initiative in 2018 to organize MiFIDVision with other players in the Paris financial market in order to analyze, understand and anticipate the impacts of this new regulation on financial and non-financial analysis in France.

For the third consecutive year, the SFAF presents a snapshot of the situation regarding the application of MiFID 2, carried out in collaboration with all the associations of the financial market, Af2i, Amafi, AFG, Cliff, Paris-Europlace and Euronext.

Decline in corporate coverage by analysis: a continuing trend

The MiFID 2 reform, which was intended to reduce the cost of financial analysis, has not had the effect of increasing it, on the contrary. Both investors and issuers have noted a decrease in the number of analysts and a decline in the quality of analysis.

So, the number of companies monitored, with a capitalization of less than €150 million, decreased by 14% between 2018 and 2021. This trend is also observed for companies with a higher capitalization. Regarding the largest capitalizations, we note a sharp drop in the number of companies followed by at least 10 analysts, from 59 issuers in 2018 to only 13 in 2021. 31% of companies are not followed in 2021, compared to 28% in 2018.

The number of studies published on French companies by French research firms continues to decline, especially on Eurolist A. The overall number of studies reported on companies on the Euronext Paris market is falling steadily: 1,683 in 2021, compared with 1,732 in 2019 and 1,960 in 2018.

Development of sponsored research and the European dimension

Corporate-sponsored research is also growing. The number of contracts with values is stable, but the capitalization of companies that use it is greater, rising from 150 million euros to more than 300 million euros.

Another significant point is that French research firms are increasing their presence in Europe, following European stocks more closely, and many issuers are contracting sponsored research

with them. In 2021, there are 411 international analysts attached to these French offices, compared to 287 analysts in 2019 and 261 in 2018.

Decline in the quality of research

The SFAF has completed this snapshot with two surveys designed to assess the evolution of research quality, both on the investor side (in partnership with the AF2i and the AFG) and on the issuer side (in partnership with the CLIFF).

The investors surveyed note a marked decline in the quality of research for small and mid caps (79% and 69% respectively), more so than for large caps (30%). Expectations are now high in terms of strengthening sector vision, greater "seniority" of analysts, regularity of publications and ESG.

Among the issuers surveyed, the conclusions are convergent. Fifty-six percent believe that MiFID 2 has had a negative impact on the quality of their company's monitoring. This sentiment is overwhelmingly shared by small and mid caps. The fundamental approach and regularity of trading remain the most important criteria for issuers. However, these have declined significantly since MiFID2 came into force. Issuers also point to the decline in the seniority of analysts.

In addition, the integration of extra-financial information is becoming increasingly important in the evaluation of the quality of the analysis by issuers and is developing for the majority of them.

Proposals to maintain analysis as an asset of the Paris financial center

Because there can be no strong financial market without strong research, the MiFIDVision participants have agreed on proposals designed to enable analysts to continue to do their job, serving issuers and investors. This is all the more important at a time when the Paris financial center is seeking to revive IPOs and the reception of issuers¹.

Hence,

- they decide to continue their work on a charter of best practices for sponsored research, in order to promote the conditions for a clear and transparent financial analysis ;
- they support the European Commission's report² on small and mid-cap stakeholders, which encourages member states to implement financial analysis coverage of all listed companies ;

¹ PARIS Europlace report, June 2021

² Source : *Final report of the Technical Expert Stakeholder Group (TESG) on SMEs May 2021*

- they reaffirm the unique expertise in extra-financial analysis of the Paris financial center and pledge to continue to make it a differentiating asset, both in Europe and internationally ;
- they ask that the specificity of the financial analysis profession be taken into account in future regulatory changes, so that its presence, independence, quality and professionalism are guaranteed.

Press conference on Tuesday, July 6 at 8:30 am at the Cercle de l'Union Interalliée, 33 rue du Faubourg Saint-Honoré, 75008 Paris.

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