la SOCIÉTÉ FRANÇAISE
des ANALYSTES FINANCIERS

Le Président

Ladies and Gentlemen
Members of the ECON Committee
European Parliament

Paris, February 17th, 2015.

The French financial analysts' association – 'Société Française des Analystes Financiers' ('SFAF') – would like to draw your attention to the negative consequences of the latest ESMA proposals on the financing of the economy and the growth of medium-sized companies in particular.

SFAF is made up of investment and financial analysis professionals in Paris; many of our 1,600 individual members study the information and financial details sent out by companies, notably listed mid-cap stocks. This 'equity research' plays a vital role in the sound functioning of markets. The overabundance of information and the domination of very short-term transactions make the markets unstable: the work undertaken by our members provides analysis and a medium-term vision of the performance of companies, which is more necessary than ever.

The ESMA[1] proposals upset the traditional organisation of financial analysis as used by fund management companies. This is not directly paid for by fund management companies as such but is included in the billing of transactions. Since the 2006-2007 reforms, this financial analysis billing is identified as such in the commissions paid by the fund management companies through the mechanism of CSA (commission sharing agreement) which could be further deployed.

The ESMA proposals are based on a praiseworthy intention to provide sounder information to the clients of fund management companies and to ensure costs transparency. The proposed system amounts to either stiffening payment terms for this research via the CSA, notably by placing a ceiling on annual spending, or to transferring the cost of this research in the P&L account of the fund management companies hence diminishing its profitability. **Our association believes that this risks drastically undercutting payment for financial analysis.** This will indeed break the implicit solidarity between players in the value chain (investors, fund managers, research, execution) and introduces a fixed mechanism that it will be tempting to employ as the adjustment variable for the commercial policies of asset funds which have to compete with index funds (ETF) which just replicate the indices for a total cost of under 0.1% per year. The surge in index fund management increases the stiff competition via prices characteristic of the fund management world for some years now.

[1] On 19 December 2014, ESMA published its final report on the European Commission's technical ruling on directive 2014/65/UE dated 15 May 2014 (MiFID II).

24 rue de Penthièvre, 75008 PARIS – tél. : 01 56 43 43 10 – fax : 01 56 43 43 15 – site : www.sfaf.com
La SFAF est une association régie par la loi de 1901

la SOCIÉTÉ FRANÇAISE
des ANALYSTES FINANCIERS

Le Président

Providing analysis on medium-sized companies is already a business that offers few or no profits and is only undertaken because its costs are pooled with the analysis of large companies. **The ESMA proposals would make it more difficult for small- and medium-size companies to gain access to equity and credit markets on sound terms.**

The provision of abundant and diverse research on listed companies is primordial to avoid the creation of information asymmetries damaging for the market at a critical time in the reorganisation of the financing circuits of the economy. It strikes us that this cannot be overlooked by the European Parliament given that Mr Juncker's Capital Market Union project explicitly seeks to place markets at the service of SMEs by helping them to reduce their dependency on bank funding. In his speech of 15 July 2014 in Strasbourg, Jean-Claude Juncker said: '**To improve the financing of our economy, we must develop and integrate capital markets.** This will lower the cost of capital, notably for small- and medium-sized companies, and help reduce our heavy dependence on bank funding'.

The ESMA proposals also risk steeply increasing concentration in the brokerage and fund management sectors. A fund management industry dominated by index investors (or passive management) would lead to a market gradually led by ever fewer players whose decisions will have a disproportionate impact on economic equilibria. This market, still just large in value terms, would then be deprived of a research flow that not only provides data analysis but also confronts points of view and thus takes part in the sound governance of companies.

The SFAF thus seeks to ensure that the measures specific to the financing of research are subjected to far-reaching economic scrutiny in a report before any new regulation is introduced, and that this report specifically seeks to provide answers to requirements for the coverage of medium-sized stocks.

I thank you in advance for giving consideration to the arguments laid out above.

Yours sincerely,

Jean-Baptiste BELLON

24 rue de Penthièvre, 75008 PARIS – tél. : 01 56 43 43 10 – fax : 01 56 43 43 15 – site : www.sfaf.com
La SFAF est une association régie par la loi de 1901