

May 18th, 2020

Public consultation
on the review of the MiFID II / MiFIR regulatory framework
III Research unbundling rules and SME research
- submitted via online questionnaire to the European Commission / ESMA -

Question 58: What is your overall assessment of the effect of unbundling on the quantity, quality and pricing of research?

Answer: We agree with your analysis of a decline in quantity, quality and distribution of SME research to investors. Further on the MiFID II regulation and regulation in total has increased the cost basis for asset managers and has further fostered the process of investing bigger tickets and thus to invest into higher market cap companies. Therefore, we see the urgent need to redefine the definition of SME entities from up to €200m market cap (according to prospectus regulation) to a market cap of up to €1bn or a free float market cap of up to €500m.

Question 59: How would you value the proposals listed below in order to increase the production of SME research?

Answer: please refer to the given table (page 56):

- Introduce a specific definition of research in MiFID II level 1: 5 – fully relevant
- Authorize bundling for SME research exclusively: 5 – fully relevant
- Excluding independent research providers' research from Article 13 of delegated Directive 2017/593: N.A.
- Prevent underpricing in research: 1- irrelevant
- Amend rules on free trial periods of research: 2- rather not relevant
- Other: 5 – fully relevant

Please specify what other proposals you would have in order to increase the production of SME research:

Answer: The decline in research does not only apply to SMEs with a market cap of up to €200m. Experience shows that companies with a market cap of up to €1bn / free

float market cap of up to €0.5bn are also affected. Therefore, we propose to redefine SME in a more generous way.

In order to foster growth and to gain improved access to equity capital markets we suggest to dispose SME investments from withholding tax. All dividends and capital gains (holding period minimum 2 years) should be freed from withholding taxes. This will give the burdened segment of SME a push with regard to its overall attractiveness to investors.

Question 59.1: Please explain your answer to question 59 and in particular if you believe preventing underpricing in research and amending rules on free trial periods of research are relevant:

Answer: 2 - Rather not relevant. In order to tackle the problem with SME research underpricing and free trial periods will not solve the issue of reduced quantity and quality of research neither will it improve its distribution.

1.2 Alternative ways of financing SMEs research

Question 60: Do you consider that a program set up by a market operator to finance SME research would improve research coverage?

Answer: 2 - Rather not agree

Question 60.1 If you do consider that a program set up by a market operator to finance SME research would improve research coverage, please specify under which conditions such a program could be implemented:

Answer: Research is not the only instrument to attract investments into SMEs. It is just one instrument. In setting up such a program we see difficulties in establishing a pricing and a selection mechanism for research providers. Another strongly subsidized market with all its interactions will be established.

Question 61: If SME research were to be subsidized through a partially public funding program, can you please specify which market players (providers, SMEs, etc.) should benefit from such a funding, under which form, and which criteria and conditions should apply to this program.

Answer: We do see high administrative costs and see this instrument to be rather insufficient.

Question 62: Do you agree that the use of artificial intelligence could help to foster the production of SME research?

Answer: 2 – rather not agree.

Question 62: If you agree, which recommendations would you like to make on the form that such use of artificial intelligence could take and do you see risks associated to the development of AI-generated research.

When analysing SMEs the understanding of soft facts is extremely important (e.g. management quality). Limited data is available (eg. no ESG data is available). All big capital market data suppliers are lacking data on small and micro caps (quantity and speed).

1.3. promote access to research on SMEs and increase quality of research

Question 63: Do you agree that the creation of a public EU-wide SME research database would facilitate access to research material on SMEs?

Answer: 5- Fully agree

Question 63.1: If you do agree that the creation of a public EU-wide SME research database would facilitate access to research material on SMEs please specify under which conditions this database should operate:

Data base should be fully funded by EU budget (providing infrastructure).

Question 64: do you agree that ESMA would be well placed to develop such a database?

Answer: 3 – neutral

Question 64.1: Please explain your answer to question 64:

- Develop a scheme – yes (ESMA)
- Organize a tender process for implementation – yes (ESMA with support of national investment associations)
- Run the database: not ESMA: should be executed by a private company
- Yearly review – Yes (ESMA)

Question 65: In your opinion, does issuer-sponsored research qualify as acceptable minor non-monetary benefit as defined by Article 12 of Delegated Directive (EU) 2017/593?

Answer: 5- Fully agree

Question 65.1: Please explain your answer to question 65:

Investors are used to handle issuer sponsored research within the field of corporate ratings (Moody's; S&P; Fitch etc.) and it works. Research which is not produced in a professional way will lose investor attention and will harm the researched company. Therefore, there is a natural stop to producing poor research.

Question 66: In your opinion, does issuer-sponsored research qualify as investment research as defined in article 36 of delegated Regulation (EU) 2017/565?

Answer: 4 – Rather agree.

Question 66.1: Please explain your answer to question 66:

Answer: issuer sponsored research shall cover the following items:
P&L; Balances Sheet; Cash Flow Statement (last 2 years and minimum 3 years projections); peer group comparison; Target Price of stock; Buy/Hold/Sell recommendation. Please refer to the DVFA link to research requirements:
DVFA/Berufsverband/Standards/Finanz-Research

Question 67: Do you consider that rules applicable to issuer-sponsored research should be amended?

Answer: 5 – fully agree

Question 67.1: If you do consider that rules applicable to issuer-sponsored research should be amended, please specify below:

National / European investment associations like (DVFA / EFFAS) could issue "certificates on good research practice" to research providers ensuring a sufficient quality of research material. Review of certification process after 2 years.

Question 68: considering the various policy options tested in questions 59 to 67, which would be the most effective and have the most impact to foster SME research?

Answer: please refer to attached table on page 63/64

- Introduce a specific definition of research in MiFID level 1: 5 – most effective
- Authorize bundling for SME research exclusively: 5 – most effective
- Amend Article 13 of delegated Directive 2017/593 to exclude independent research providers' research from Article 13 of delegated Directive 2017 / 593: N.A.
- Prevent underpricing of research: 1 – least effective
- Amend rules on free trial periods of research: 2 – rather not effective
- Create a program to finance SME research set up by market operators: 2 – rather not effective
- Fund SME research partially with public money: 2 – rather not effective
- Promote research on SME produced by artificial intelligence: 2 – rather not effective
- Create an EU-wide-database on SME research: 5 – most effective
- Amend rules on issuer sponsored research: 5 – most effective
- Other: 5 – most effective

Please specify which other policy option would be most needed and have most impact to foster SME research:

- New definition of SMEs: up to €1bn market cap / up to €0.5bn free float market cap instead of up to €0.2bn market cap
- Dispose withholding tax on SMEs for all dividends and capital gains (holding period > 2 years)