



# Research Integrity Survey

December 2018

We raised simple questions to asset managers, asset owners and listed companies about research integrity/potential conflicts of interests in a MiFID2 environment.

## What is it all about :

To confirm feedbacks from Asset Managers, Listed Companies and Asset Owners, we launched a survey to better qualify how research integrity is perceived since MiFID2 has been live.

We stress that survey is focused on research integrity rather than independence, as most investors find independence hard to define. Then we decide to scan the frontiers of integrity to identify the most relevant issues.

## Our take:

In a MiFID2 world where contract-research and corporate driven business are viewed as unwanted consequences of this new regulation, this survey highlights that potential conflicts of interests could be better disclosed in research reports.

Investors appear concerned about the true interests of research firms in producing research that is first of all intended for listed companies.

ESG fund managers are more severe than traditional long-only peers about research integrity. It confirms a clear trend: ESG assets can't be managed using conflicted research and data.

## Key findings :

- Overall Asset Managers (35%) and Asset Owners (35%), followed by Listed Companies (26%) see compounded rising risks to research objectivity. Stakeholders have aligned answers indicating that the issue is getting prominence.
- 52% of all respondents see a high level of impact on research integrity “when the research provider seeks to do business with covered companies” (63% for asset owners, 59% for asset managers and unsurprisingly 47% for issuers).
- Submitting research to listed companies before publication is seen as the second highest risk of conflict of interest by Asset Managers (41%).
- 69.2% of respondents consider that « potential conflicts of interests » could be better disclosed/displayed in research reports. 100% of Asset Owners believe so.

## Survey Methodology :

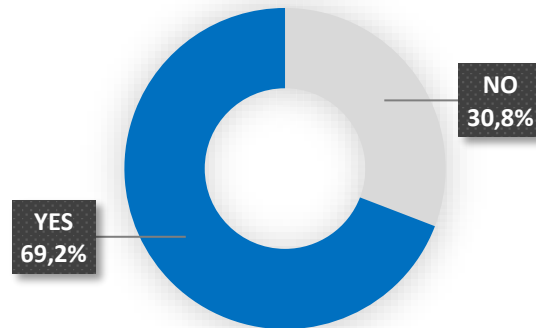
We asked questions about different dimensions of research providers concerns: Business Model, Analyst and Corporate Interests. This survey was conducted between November 22th and November 29<sup>th</sup> 2018, via a direct mailing to AlphaValue's contact base. 253 professionals responded to this survey (33% Asset Managers, 60% Listed Companies, 7% Asset Owners).

## About us :

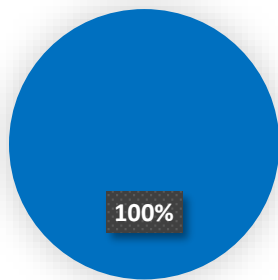
Founded in 2007, AlphaValue has become the world's leading provider of Independent European Equity and Credit Research. We provide comprehensive, unconflicted research-only (no execution) coverage of c. 480 European mid and large cap stocks. We have an average of 46% of negative recommendations at any one time.

[www.alphavalue.com](http://www.alphavalue.com)      [research@alphavalue.eu](mailto:research@alphavalue.eu)

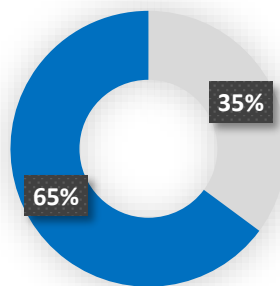
Do you think the list of « potential conflicts of interests » may be better disclosed/displayed in research reports?



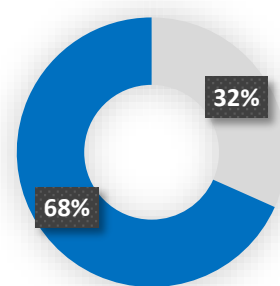
Asset Owner



Asset Manager



Listed Companies



Reminder: FINRA 2241.C.6

**“Research Analysts and Research Reports**

The disclosures required by this paragraph (« Content and Disclosure in Research Reports ») must be presented on the front page of research reports or the front page must refer to the page on which the disclosures are found. Electronic research reports may provide a hyperlink directly to the required disclosures. All disclosures and references to disclosures required by this Rule must be clear, comprehensive and prominent.”

## Is research integrity at risk when the research provider...

Aggregated answers	Risk Level			
	High	Medium	Low	No impact
Average	30.3%	31.6%	17.4%	20.6%
<b>Business Model</b>				
Seeks to do business with companies covered in its research reports	52,3%	22,0%	8,3%	17,4%
Provides an expert network service, enabling a potential insider information leak	27,8%	33,0%	17,5%	21,6%
Provides execution services or seeks to stimulate volumes on companies covered	32,4%	32,4%	19,4%	15,7%
Seeks to offer corporate access, (which requires good relations with the covered company)	21,3%	38,0%	21,3%	19,4%
Received compensation for non-investment banking services from the subject company over the past 12 months	25,0%	35,6%	16,3%	23,1%
<b>Analyst</b>				
Submits research pieces to corporate before circulation to investors	25,9%	28,7%	21,3%	24,1%
Sets analyst's compensation according to volumes	37,4%	37,4%	5,1%	20,2%
Relies on an analyst previously compensated by the subject company over the previous 12 months	24,8%	34,3%	21,0%	20,0%
<b>Corporate Interests</b>				
Is affiliated with or holds an investment management company	25,2%	28,0%	24,3%	22,4%
Is linked to one or several covered listed companies	30,8%	27,1%	19,6%	22,4%

## Asset Owners

	High	Medium	Low	No impact
Average	35%	35%	19%	11%

## Business Model

Seeks to do business with companies covered in its research reports	63%	13%	13%	13%
Provides an expert network service, enabling a potential insider information leak	13%	50%	13%	25%
Provides execution services or seeks to stimulate volumes on companies covered	38%	38%	13%	13%
Seeks to offer corporate access, (which requires good relations with the covered company)	38%	13%	25%	25%
Received compensation for non-investment banking services from the subject company over the past 12 months	38%	38%	13%	13%

## Analyst

Submits research pieces to corporate before circulation to investors	38%	38%	25%	0%
Sets analyst's compensation according to volumes	38%	50%	13%	0%
Relies on an analyst previously compensated by the subject company over the previous 12 months	25%	25%	50%	0%

## Corporate Interests

Is affiliated with or holds an investment management company	25%	50%	13%	13%
Is linked to one or several covered listed companies	38%	38%	13%	13%

## Asset Managers

	High	Medium	Low	No impact
Average	36%	34%	11%	19%

### Business Model

Seeks to do business with companies covered in its research reports	59%	22%	0%	19%
Provides an expert network service, enabling a potential insider information leak	38%	35%	8%	19%
Provides execution services or seeks to stimulate volumes on companies covered	35%	35%	11%	19%
Seeks to offer corporate access, (which requires good relations with the covered company)	24%	49%	22%	5%
Received compensation for non-investment banking services from the subject company over the past 12 months	31%	37%	9%	23%

### Analyst

Submits research pieces to corporate before circulation to investors	41%	35%	14%	11%
Sets analyst's compensation according to volumes	38%	38%	3%	22%
Relies on an analyst previously compensated by the subject company over the previous 12 months	30%	38%	11%	22%

### Corporate Interests

Is affiliated with or holds an investment management company	32%	27%	19%	22%
Is linked to one or several covered listed companies	35%	27%	11%	27%



Listed Companies	High	Medium	Low	No impact
Average	26%	30%	21%	23%
<b>Business Model</b>	<b>47%</b>	23%	13%	17%
Seeks to do business with companies covered in its research reports	23%	<b>29%</b>	25%	23%
Provides an expert network service, enabling a potential insider information leak	<b>30%</b>	<b>30%</b>	25%	14%
Provides execution services or seeks to stimulate volumes on companies covered	17%	<b>35%</b>	21%	27%
Seeks to offer corporate access, (which requires good relations with the covered company)	20%	<b>34%</b>	21%	25%
Received compensation for non-investment banking services from the subject company over the past 12 months	<b>47%</b>	23%	13%	17%
<b>Analyst</b>				
Submits research pieces to corporate before circulation to investors	16%	24%	25%	<b>35%</b>
Sets analyst's compensation according to volumes	<b>37%</b>	35%	6%	22%
Relies on an analyst previously compensated by the subject company over the previous 12 months	22%	<b>33%</b>	23%	22%
<b>Corporate Interests</b>				
Is affiliated with or holds an investment management company	21%	26%	<b>29%</b>	24%
Is linked to one or several covered listed companies	<b>27%</b>	26%	26%	21%