

Le Groupe financier franco-allemand · The Franco-German financial group · Die deutsch-französische Finanzgruppe

# Remuneration of Research under MiFID 2

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# 01

## INVESTOR PROTECTION



## The « Inducements »

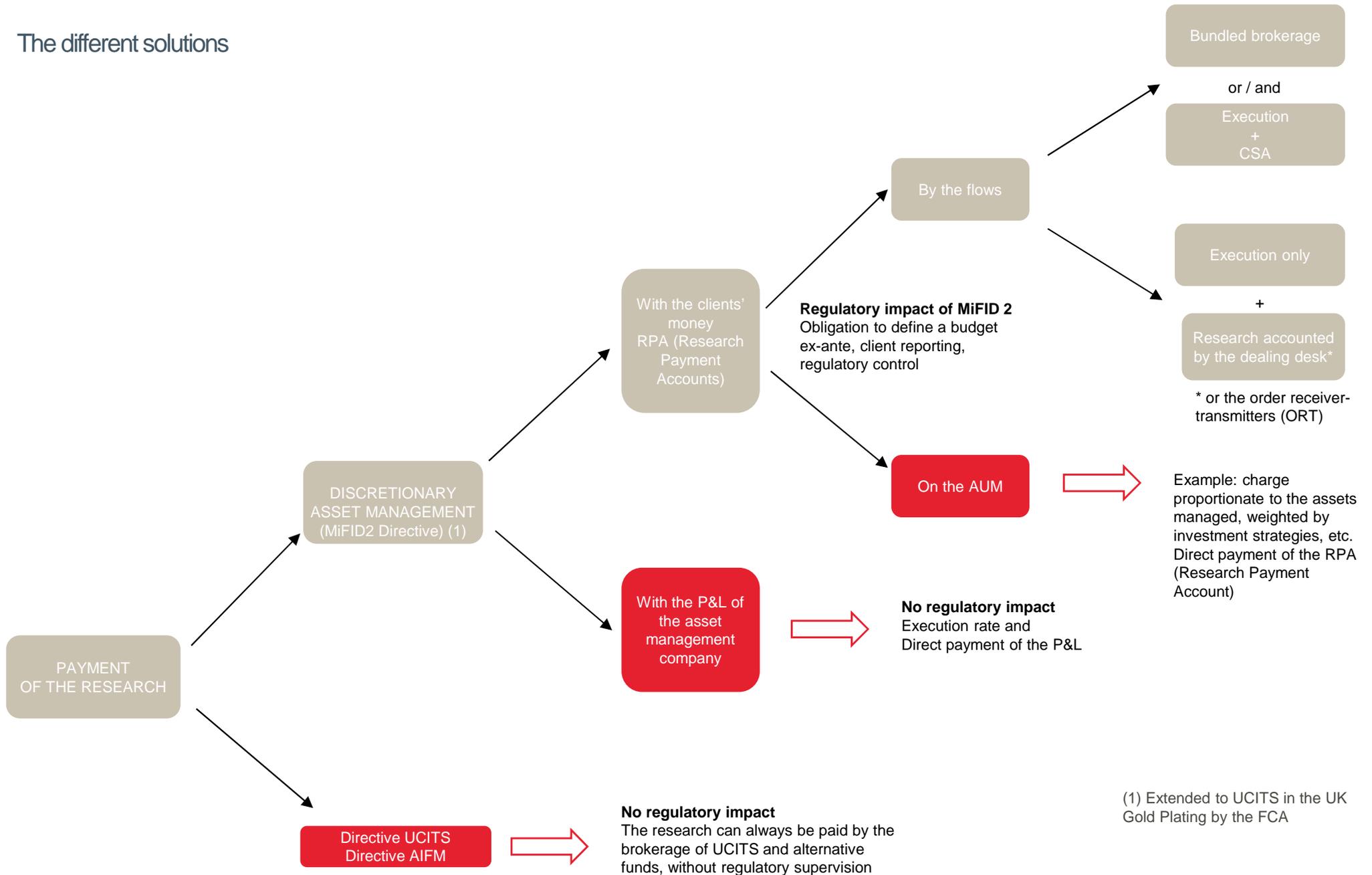
- The origin of the discussion: the FCA underscores the risk of inducements in the provision of research to asset-management companies.
- The MIF2 directive (Art 24-9) does not settle this issue, but deems that research ultimately benefits clients.
- What is encompassed in the concept of "research"?
  - A delegated directive implies national implementing legislation
  - In its proposal of the definition of the services covered by the description of “research”, the AMF includes:
    - Financial analysis
    - Sales services
    - Corporate access in certain circumstances<sup>1</sup>
- The 2 level directive establishes the rules specific to payment of research:
  - If the research is paid directly by your P&L, it is not considered as a benefit
  - If the research is paid by clients (via brokerage or a research cost):
    - Mandatory creation of a research budget (i.e. ex ante approved by clients)
    - If fed by stock-market transactions, research's share must be identifiable
    - Research's total share may not exceed the budget
    - Asset-management companies must regularly evaluate the quality of the research
    - Information ex-post to clients on research costs paid to research providers

1) In its Q&A dated April 4<sup>th</sup> 2017, Question 7 : ESMA replies to a question regarding the payment of corporate access by the RPA by referring to the recital 28 of the delegated Directive “such that it informs views on financial instrument[s]...That type of material or services explicitly or implicitly recommends or suggests an investment strategy and provide substantiated opinion....”

# Investor Protection



## The different solutions





# 02

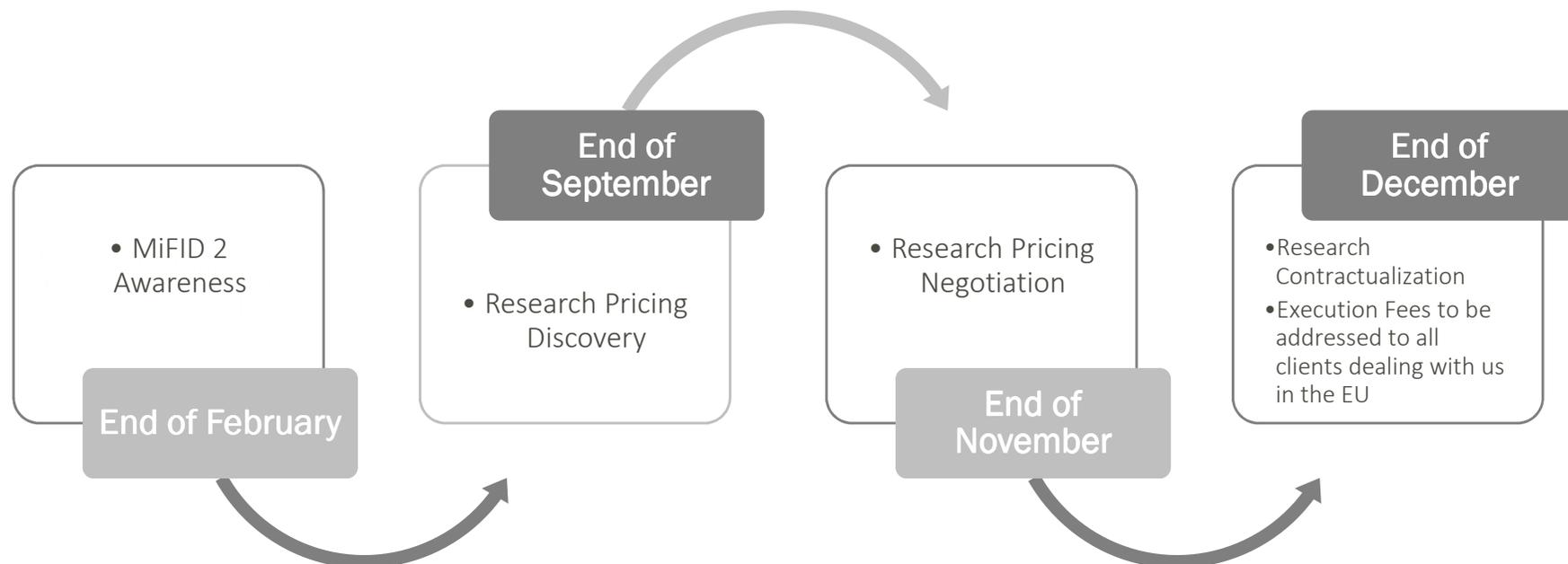
## IMPACT OF INTRODUCING RESEARCH PAYMENT ACCOUNTS

# Mifid 2



## Process and main takeaways since 2017

- Mifid 2 is proving to be a genuine challenge for brokers but also asset managers
- The spread between bulge bracket firms and local / pan European players has shrunk dramatically
- Best in class in all categories are winners
- Proximity and understanding of our clients has never been so important....
- ... But the real price (and equilibrium) of Research has yet to be found
- Mifid 2 has triggered several issues regarding research coverage and execution



# Impact of introducing research payment accounts



## Our Viewpoint: heavy deflationary pressures

- Level of Research Payment Accounts (RPAs):
  - In mainland Europe: market impacted by the VAT effect
  - In the UK: a contraction linked to rationalisation
  - In the US and Canada: convergence due to best practices, under their local regulations.
- Fewer brokers in asset managers' lists:
  - Fewer research products on the cards with particular pressure on small & midcap coverage
  - Polarisation of the market: global brokers – specialist brokers
    - Asset management companies can no longer justify receiving a given piece of research from too many sources
    - Fly to quality response - search for research that stands out from rivals.
- Strengthened voting systems
  - The RPA will have to be split according to a strengthened voting policy correlated with the use of services<sup>1</sup>
  - We favour pricing services based on the current services supporting investment decisions, i.e service packages and level.
  - We do not believe in “bean-counting” services: number of documents sent and/or read; length of telephone calls in number of minutes (even though we have this information).
- Research paid for by brokerage
  - Bundled orders in which services supporting investment decisions are separated from execution
  - Brokerage rate adjusted depending on whether the budget is met or adjusted
  - Delegating<sup>2</sup> the management of the RPA by a CSA<sup>3</sup> at a broker is a straightforward administrative solution for paying for research produced by third-party providers and reducing the VAT effect.

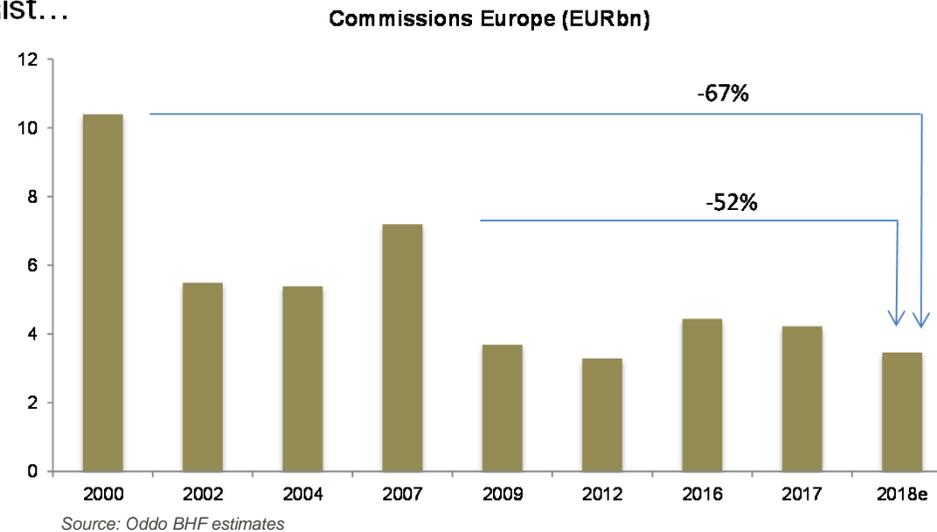
<sup>1</sup> Directive Level2, art 13-8 / <sup>2</sup> Directive Level2, art 13-7 authorises the delegation of the RPA / <sup>3</sup> Commission Sharing Agreement

# An industry that has suffered: -52% vs 2007



Difficult to find a profitable business model

- Pressures on commissions persist...



- Barriers to exit are huge for Investments banks...
- ... Number of analysts per stock has increased... but path has now clearly changed, notably on Small & MidCaps

Market cap. (EURm)	0-10			10-150			150-1000			1000-5000			> 5000		
	2007	2012	2017	2007	2012	2017	2007	2012	2017	2007	2012	2017	2007	2012	2017
Average coverage	0.0	0.1	0.0	0.6	0.8	0.9	4.1	4.6	3.0	9.4	14.0	9.3	19.2	22.0	19.7
Median	0	0	0	0	0	1	4	3	2	10	15	9	20	22	20
Stock not covered	98%	94%	98%	65%	59%	50%	26%	21%	20%	15%	7%	13%	6%	0%	2%
Stock covered by 1 analyst	2%	6%	1%	22%	19%	26%	9%	8%	12%	6%	2%	1%	0%	0%	0%

Source: Amafi report on French market 28/09/18

- Similar trends in Europe... Research quality tends to decrease: maintenance vs added value services, more junior teams

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
-1%	-7%	1%	-2%	-8%	-7%	-1%	-4%	0%	0%	-4%

Source: Oddo BHF

# 03

## RESEARCH OFFERING UNDER MIFID 2



# What do clients want!



## Franchise basics

- What do clients want/expect from sell-side research and advisory services?

All numbers in %	All Market	Oddo	Exane BNP Paribas	Morgan Stanley
Trade Ideas to Generate Alpha	16.4	16.1	16.9	15.3
Company Meetings & Conferences	17.1	16.0	17.0	17.6
Expert panels/networks	8.3	5.7	8.4	8.4
Wide coverage of stocks	9.5	10.4	9.6	8.9
Direct analyst contact	14.5	15.9	16.0	14.7
Independent thinking	16.4	17.6	16.0	16.9
Written Research	12.5	14.7	11.5	12.8
Ongoing client/sales service	5.3	3.6	4.6	5.4
<b>Number of responses</b>	<b>1,991</b>	<b>109</b>	<b>471</b>	<b>676</b>

Source: Extel

- Key items are:
  - Corporate meetings & conferences
  - Trade ideas and independent thinking
  - Direct analyst contact
- **Research thus needs to adapt to client needs:**
  - Develop a Unique Selling Proposition given market polarisation
  - Deliver on clients request as interactions become critical measurement of the value of an Advisory product

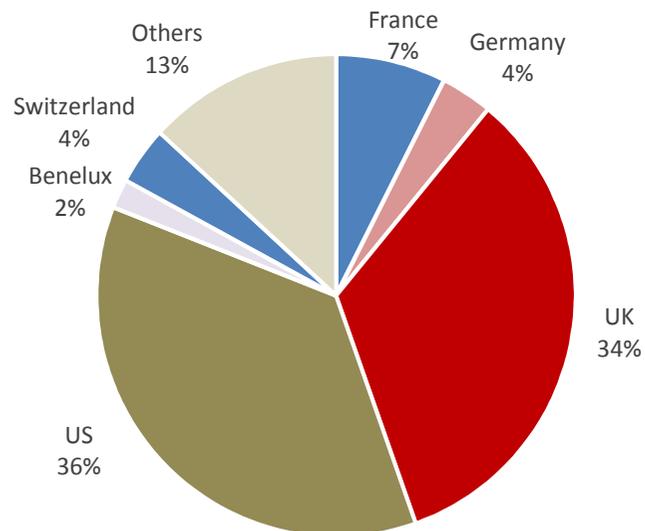
# Oddo BHF Franchise: a Franco-German group



## What to sell and to which clients?

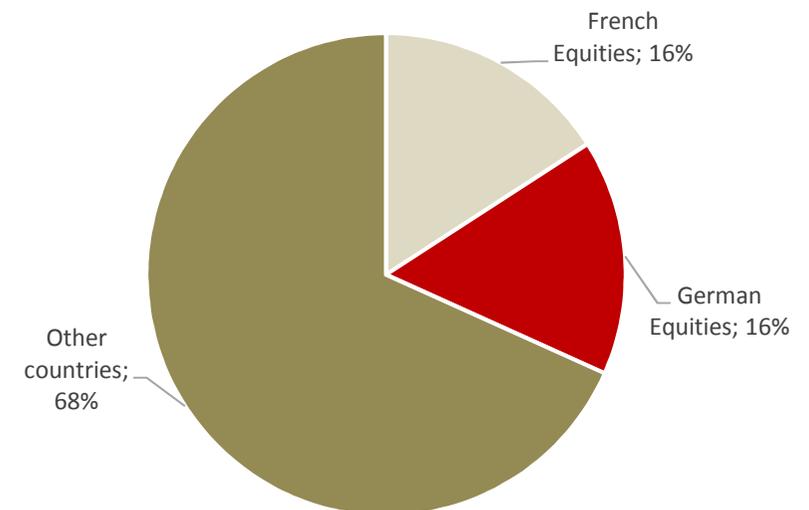
- French and German investors account for 11% of total pan-euro commissions
- UK and US account for 70% of the total pool
- French and German Equities represent c.32% of total
- Our strategy is to become the local broker of reference for France and Germany and to expand selected sector franchises at a pan-eurozone level

Pan-european commissions by origin of investors



Source: Oddo BHF

Pan-european commissions by destination





## Our DNA



### Euro zone coverage

- Largest independent Euro zone broker
- Extensive coverage of major Franco-German industries
- Expertise in Large caps ranking from €5bn to €20bn
- Additional poles of competence: SRI, Technical analysis and Economy



### Strong conviction

- Fundamental research, with strong added value
- Experienced professionals focusing solely on clients needs
- Recognized performance of our recommendations (Thomson Reuters Awards 2018)



### Our legitimacy

- 1<sup>st</sup> broker in French Equity coverage
- Widest Small & Mid Caps coverage on French and German Equities
- 1<sup>st</sup> broker for corporate access in France (by the number of Roadshows)

# Oddo BHF Research: 3 words, one obsession



How to maintain and develop our pricing power?

- 3 words:
  - Quality
  - Intensity
  - Courage
- Quality: proprietary and actionable ideas
- Intensity: Competition is not waiting for us and reactivity becomes key
- Courage: Always question company communication/guidance/ strategic angles

- Obsession:

**IN**

**IN**vestigation

**P**

**Product**

**A**

**Attitude**

**C**

**Commerciality**

**T**

**Timing**

- A quality research piece will generate clients interaction that will be monetized
- “Up or out” in future broker reviews



## Delivering on our strategy

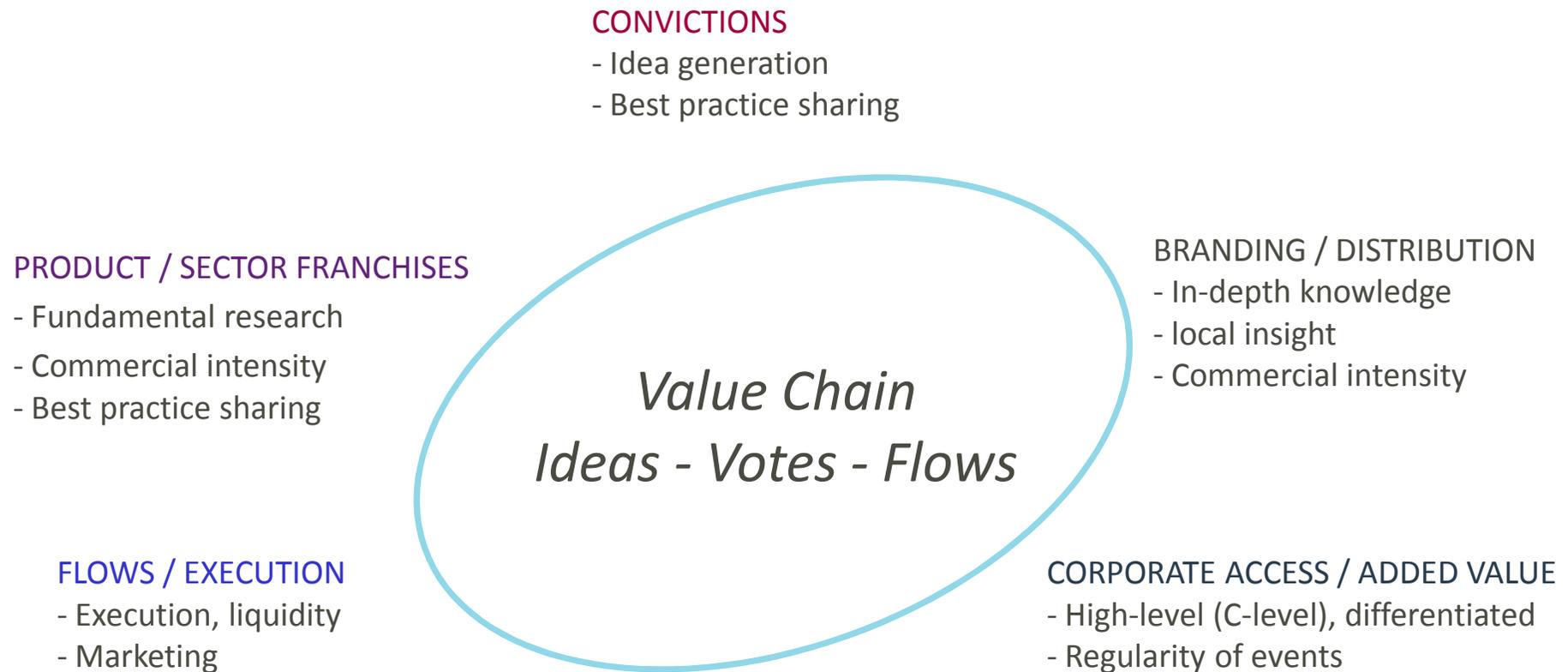
- **Product quality is key under Mifid 2...**
  - **Enhancing and improving our product footprint**
    - Strengthening our financial output: valuation methodologies, Research database to be monetized, etc..
    - Improving product output
    - Expanding coverage
  - **Corporate / expert access: further develop our forums, broad launch of “the CEOs” (Club Expert Oddo)**
    - Focus of areas where clients are paying and for expert access
    - Expand conferences
  
- **... Ability to monetize as well!**
  - **Clients interaction must increase thanks to added-value / differentiated content**
    - Focus on actionable/conviction ideas and alpha generation
  - **Improving clients reporting**
  - **Marketing efforts must be enhanced**
  - **Better allocation of resources**
  - **“Votes” is the ultimate goal ...**
  
- **Aligning our value chain: Ideas – Votes - Flows**

# Aligning our value chain



Our key success factor

- **Aligning our value chain must be a common goal throughout the entire organisation**
- **A genuine one-team approach regardless of positioning and/or location**



# ODDO BHF Corporates & Markets Research offering under MiFID 2



## Services Package and use of services aligned with remuneration

Service Level	Research package Commissions in euros  Consumption cursor 	SERVICES														
		Written research		Sales		Sell-side analyst						Corporate & Expert Access				Conferences
		email or webaccess	Research Platforms (Bloomberg, Reuters, etc)	Weekly call	Daily call	Call on sales' request	Proactive calls	Marketing O2O	bespoke emails	tailor made services	valuation models	GM	O2F	Corporate & Expert Access and Roadtrips	O2O	
Premium	€ xxxk ↔ € xxxk	✓	✓		✓		✓	✓	✓	✓	✓			✓	✓	✓
Upper	€ xxxk ↔ € xxxk	✓	✓		✓	✓	✓	✓					✓	✓		✓
Standard	€ xxxk ↔ € xxxk	✓		✓				✓				✓				✓



# 04

## APPENDICES



- An unrivaled coverage on France names

- 224 stocks covered post merger, way ahead of competition (see table blow)
- 148 Small & midcaps with market cap below 5.0bn€

Firm	31/12/2013	31/12/2014	31/12/2015	31/12/2016	31/12/2017	12/04/2018
Oddo BHF	183	196	194	205	205	203
Natixis	155	151	132	140	148	146
Societe Generale	136	132	145	140	143	132
Gilbert Dupont	135	154	158	161	163	164
Exane BNP Paribas	136	129	136	128	130	124
Kepler Cheuvreux	133	140	146	163	170	169
CM - CIC	124	125	116	127	140	135
HSBC	103	84	91	87	88	88
Goldman Sachs	94	82	83	80	77	76
Portzamparc	86	88	91	102	100	107
UBS	76	74	66	68	66	68
J.P. Morgan	76	82	87	83	81	79
AlphaValue	89	98	99	110	115	114
Morgan Stanley	68	71	75	75	66	65
Credit Suisse	49	59	59	58	63	62
Berenberg	48	50	58	61	65	63
Barclays	71	64	64	72	61	59
Bryan Garnier & Co	43	51	63	73	81	81

Source: SFAF



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