

Reply to EC proposal on Covid-19's "Capital Markets Recovery Package" – Investment research for SME and fixed income instruments

BVI¹ welcomes the opportunity to respond to the proposal amending delegated directive (EU) 2017/593 as regards the regime for research on small and mid-cap issuers (SME) and on fixed-income instruments to help the recovery from the COVID-19 pandemic. The easing of the unbundling requirements with respect to research on SME is one of several measures envisaged to improve the visibility and financing opportunities of SME during the recovery.

Therefore, we are, in principle, supportive of the proposed Commission Delegated Directive. However, the planned limit for the market capitalisation of SME is too low at EUR 1 billion. In Germany this would only apply to around half of the 70 companies in the SDAX. In the MDAX, all companies have a market capitalization of more than EUR 1 billion. According to industry standards, small and mid caps are typically defined as having a market capitalization of less than EUR 10bn. Moreover, for the determination of the market capitalization threshold we suggest an operationally more feasible approach with less monitoring effort by referencing to the valuation on a specific recurring date, e.g. the last business day of the calendar year.

In any case, we understand that the proposed exemptions from the unbundling rules are optional, so that (MiFID subjected or voluntarily applying) asset managers with minor SME engagement are not obliged to make expensive IT changes to their order and accounting systems but could still apply the general unbundling rule also for SME research going forward. In this regard, we strongly advise that the proposed changes are not only temporary but enduring in nature. Otherwise, the benefits envisaged by the exemptions would be outweighed by the administrative burden faced by all asset managers wanting to use the option in case of only a temporary relief.

Further, we support the derogation for fixed income (FI) instruments, for which research is only a fraction of the volume of equity research, and where the application of the unbundling rules has mainly led to make additional payments beyond the spread.

However, the definition of FI research ("research is exclusively provided in relation to fixed income instruments") is too narrow. Firstly, FI research typically relates to issuers rather than to instruments. Secondly, it is market practice that FI research is sold only in conjunction with research on currencies and commodities ("FICC"). We would hence suggest to use the broader term "research not related to equity instruments".

As an additional measure to support SME research, we suggest that the Commission takes into account the promotion of issuer sponsored research and exchanges sponsored research.

¹ BVI represents the interests of the German fund industry at national and international level. The association promotes sensible regulation of the fund business as well as fair competition vis-à-vis policy makers and regulators. Asset Managers act as trustees in the sole interest of the investor and are subject to strict regulation. Funds match funding investors and the capital demands of companies and governments, thus fulfilling an important macro-economic function. BVI's 114 members manage assets more than 3 trillion euros for retail investors, insurance companies, pension and retirement schemes, banks, churches and foundations. With a share of 23%, Germany represents the largest fund market in the EU. BVI's ID number in the EU Transparency Register is 96816064173-47. For more information, please visit www.bvi.de/en.



With regard to sponsored research minor interpretation issues should be clarified.

We believe that issuer-sponsored research, as defined in Art. 12 of the Delegated Directive (EU) 2017/593, ensures the accessibility and the transparency on the "sponsored" character of this research to investors and falls within the definition of an acceptable minor non-monetary benefit. One condition is that the relationship between the third party firm and the issuer is clearly disclosed (cf. Art. 36 of Delegated Regulation (EU) 2017/565) and that the information is made available at the same time to any investment firm wishing to receive it or to the general public. We consider that qualifying issuer-sponsored research as a minor non-monetary benefit will support the development of issuer-sponsored research for the SME market. We also consider that the framework arising out of Art. 36 of Delegated Regulation (EU) 2017/565 (i.e., the existing guidance relating to conflicts of interest management, clarity in communications, and rules relating to marketing communications) is clear and does not need further amendment.
