

**Submission via online portal**

[Consultation on the draft RTS for the establishment of an EU code of conduct for issuer-sponsored research](#)

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**THE EUROPEAN ASSOCIATION OF INDEPENDENT RESEARCH PROVIDERS (EURO IRP) RESPONSE TO ESMA REGARDING THE CONSULTATION ON DRAFT RTS FOR THE ESTABLISHMENT OF AN EU CODE OF CONDUCT FOR ISSUER-SPONSORED RESEARCH**

*REFERENCE ESMA35-335435667-5921*

*CONSULTATION PAPER - DRAFT REGULATORY TECHNICAL STANDARDS FOR THE ESTABLISHMENT OF AN EU CODE OF CONDUCT FOR ISSUER-SPONSORED RESEARCH*

**FORWARD**

The answers to this consultation paper are on behalf of The European Association of Independent Research Providers (Euro IRP). Euro IRP is a London-based association supporting the development of independent research providers (IRPs) across Europe.

Independent research is essentially defined as unconnected research that ensures that conflicts of interest are reduced considerably for research users ('investment firms' under ESMA parlance) receiving such research. Unconnected means that the research provider only derives revenues from selling its research against a subscription and cannot be paid for by direct or indirect investment banking revenues, including commission on secondary market transactions.

Euro IRP members work under different local regulatory contexts, including the absence of regulation (France for instance). While sponsored research cannot be independent research, Euro IRP members may generate revenue from such sponsored research, and it is assumed (but not verified) that such revenues amount to less than 20% of their total revenues.

We believe the questions below fail to take on board the fact that a prosperous equity market needs competition, and that IRPs contribute to that competition. If providers of sponsored research are solely regarded by ESMA as regulated research providers, it opens a grey zone about where IRPs operate and presumably creates the conditions to de facto exclude IRPs from the sponsored research market.

To be clear, Euro IRP does not regard sponsored equity research as independent research - it is conflicted and there is no way to circumvent that dimension, but the Euro IRP recognises that sponsored research may be the only way to get research on smaller stocks and IRPs are known to partly rely on that income.

A tightened code of conduct as wished by ESMA is welcomed only to the extent that such a code does not restrict the ability for IRPs to provide sponsored research under that code of conduct.

**Question 1:** Are you aware of or adhering to another code of conduct for issuer-sponsored research that ESMA could take into account? If so, how widely endorsed and adhered to such code of Conduct is and which specific parts of the code of conduct would be of added value to consider for the EU code of conduct? Please state the reasons for your answer.

**Answer 1:**

Euro IRP is not aware of any code of conduct or similar in Europe beyond the French Charter. As a reminder, the French Charter was initiated by the Société Française des Analystes Financiers (SFAF) following concerns about access to sponsored research for the wider public, the lack of transparency about broker initiated sponsored research and unfair competition to local IRPs.

**Question 2:** Do you agree with the proposed approach? Please state the reasons for your answer.

**Answer 2:**

Euro IRP agrees with Option 3.

*Option 3 – Take the Existing code of conduct as a basis with targeted amendments. As an intermediate option to options 1 and 2 described above, it would be possible to start the development of the EU code of conduct with the Existing code of conduct as a basis, in order to benefit from this existing experience in this area, and adapt it on the basis of the wider EU context and discussions, when appropriate.*

**Question 3:** Do you agree to mainly focus the requirements on research providers? Or do you think that additional requirements are necessary for issuers? Please state the reasons for your answer

**Answer 3:**

Euro IRP agrees to focus requirements on research providers, notably because of proposals under question 4 and 5. However, the wording of section 15 should be clarified as to whether 'research providers' encompasses non-regulated IRPs and whether MAR applies to them. It should, but the point should be clarified.

**Question 4:** Do you agree with a minimum initial term of the contract of two years? Or should the initial term be more, or less? Or should the code of conduct allow one-off reports, such as for initial public offerings? Please state the reasons for your answer.

**Question 5:** Do you agree with a minimum upfront payment of 50% of the annual remuneration? Or should that percentage be more, or less? Please state the reasons for your answer.

**Answers 4 and 5:**

Euro IRP backs the 2-year / 50% upfront proposal. It should be noted that such requirements have not been respected by French issuers under the Charter and that there is no coercive tool to that effect so that providers are not protected from pressure by the issuer.

**Question 6:** Do you agree with the information listed in Clause 7 of the code of conduct that research providers should make available to investment firms? Is there anything missing? Please state the reasons for your answer.

**Answer 6:**

Euro IRP agrees with the fact that Clause 7 needs to apply so that basic information about the research provider should be made available in a transparent fashion. Euro IRP members would request an extra piece of information to be added, which is whether the provider belongs to an investment firm or whether it is unconnected. In both instances sponsored research cannot be independent but the level of objectivity is likely to be greater when provided by unconnected research providers / IRPs.

**Question 7: Do you agree that only when the issuer paid fully for the research, it should be made accessible to the public immediately? Or should research partially paid for by the issuer also be made accessible to the public immediately? Please state the reasons for your answer.**

**Answer 7:**

Euro IRP agrees with the fact that sponsored research should be freely accessible immediately, notably without any technical restriction applied to individual retail investors. Euro IRP also draws attention to the fact that research is of significantly lower value to the market if it not widely distributed in a frictionless manner. The issue with sponsored research is not that it is inherently conflicted (it is) but that it does not reach a wide group of investors. It is possible that regulated research providers may keep sponsored research close to their chest to book commissions against advice about how to read that research. This is one of the many reasons why a lively competitive offer has to be encouraged.

Partially paid-for research should not be allowed - it smacks of disproportionate conflicts of interest risks. Sponsored research is a black & white matter - it is paid for, it is conflicted, and it must be widely distributed. There can be no halfway house.

**Question 8: Do you think that any further requirements should be introduced in the code of conduct? Please state the reasons for your answer**

**Answer 8:**

Sections 22 and 21 are absolutely right, and obvious requirements.

Euro IRP is certainly interested in adding to the code of conduct an obligation to mention whether sponsored research is provided by a connected / unconnected research provider. While the prime conflict of interest (the very payment by the issuer) cannot be avoided, indirect conflicts of interests stemming from connected research providers should be stated loud and clear. That will only benefit market integrity.