

BNP Paribas' response to the consultation paper on standards for the establishment of an EU code of conduct for issuer-sponsored research18th March 2025

BNP Paribas welcomes the adoption of the Listing Act (the "Act") that has come into force on 4th December 2024. The Act represents a significant step towards a more comprehensive Capital Markets Union that will serve all savers and investors across the European Union; one of our key priorities as a leading European investment bank.

BNP Paribas is fully supportive of measures that seek to facilitate access to diversified financing options, including listed stock markets for European companies, including SMEs. We believe that enabling active and deep equity markets for IPOs and subsequent capital increases is key to the development of private equity and venture capital funding that require a viable exit strategy as well as for managements that can develop long term growth plans based on a listed status.

In order to support investors in their decision-making processes and to reduce information asymmetry related to smaller companies, we would encourage greater availability of all types of research, whether fully independent or not, provided it is of sufficient quality. In our experience, issuer-sponsored research has proved popular amongst investors and very useful for SMEs. We advocate to further support the development of issuer-sponsored research as it gives investors better access to relevant information, creating enhanced liquidity, provided that the issuer sponsored research is prepared to a high-standard, with the necessary precautions.

BNP Paribas is pleased to contribute to this assessment by responding directly in our own name to ESMA's consultation,

1/ The EU code of conduct for issuer-sponsored research – The approach taken

Q1: 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.

Equity research is an essential tool for investors in their decision process, and the presence of a strong equity landscape is a condition for dynamic and efficient capital markets. We strongly support the development of all forms of research that would support both issuers and investors, including the different types of issuer-paid research.

Research producers employ a variety of different measures to manage the conflicts of interest that are inherent in the production and dissemination of issuer sponsored research and any code of conduct should be sufficiently flexible to take these different forms of issuer sponsored research into account. For example, in some sponsored research content, the research note does not include a target price or an explicit investment recommendation, just a value range. Other content may appear exactly the same as an investment research note, just with a prominent disclaimer that it is issuer sponsored research.

There are also different types of investors with different risk appetites; notably, a research note that is primarily intended for professional investors may appear different and contain different disclaimers to a research note that is designed for retail consumption. We would therefore strongly oppose any mandatory requirements for research producers to make content that is designed for institutional investor consumption available to retail investors, who may not possess the relevant knowledge and expertise to appropriately digest this content make informed investment decisions based thereon. We believe this requirement should be made on a voluntary basis in a bilateral agreement between the issuer and the research producer.

BNP Paribas, through its various subsidiaries and business lines, including BNP Paribas Exane and Portzamparc, are fully supportive of the code of conduct for issuer-sponsored research developed in France by the *Association Française des Marchés Financiers*, *Association Française de la Gestion financière* and *Société Française des Analystes Financiers* that BNP Paribas actively participated in.

However, the ESMA consultation does represent an opportunity to carry out a post implementation review of these requirements and, where relevant suggest certain improvements that are designed to increase the availability and breadth of all forms of high-quality issuer sponsored research within the EU.

We are not aware of any other codes in the jurisdictions we are operating in.

Q2: Do you agree with the proposed approach? Please state the reasons for your answer

We agree with the proposed approach, which is to adopt option 3 'Take the Existing code of conduct as a basis with targeted amendment'. We believe that this market-led approach will ensure sufficient harmonisation across the EU while allowing some flexibility to adapt to certain local specificities.

2/ Legal status of the EU code of conduct for issuer-sponsored research and proposals included in the EU code of conduct for issuer-sponsored research

Q3: 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.

The code of conduct lays down a set of requirements that primarily fall on the research providers to ensure compliance; among which the assurance that the relevant governance is in place so that potential conflict of interests are identified and managed appropriately, consistent with other forms of investment research. These standards applicable to research providers are necessary to guarantee the credibility of the issuer sponsored research content for consumption by investors.

However, in our view the issuers should also be required to state that they are sponsoring research to allow sufficient transparency. There are also certain requirements of the code (such as minimum contract durations and relatively inflexible termination provisions), responsibility for compliance with which should fall equally on producers and issuers as we see no particular reason why only producers should be charged with ensuring compliance with such obligations.

Q4: 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.

It is important for research providers to have sufficient visibility to engage the relevant professionals and give them sufficient time to invest in the knowledge of the company they cover.

We view the period of two years as an appropriate minimum term and we agree with the principle that contracts should indeed be entered into for a certain fixed duration to minimize the potential risk of issuers selecting their sponsored research providers in a manner designed to achieve favorable, rather than objective coverage.

Q5: 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.

Similarly, we view the principle of an upfront payment as part of the necessary visibility but also comfort for the research provider to engage the relevant resources and offer the different training.

We agree that an upfront payment of 50% of annual remuneration appears to be a reasonable split that should provide sufficient comfort to the research provider to expend the necessary resources to ensure quality coverage.

Similarly to question 4, insisting on a minimum upfront payment of 50% is another mechanism that is designed to prevent the issuer from withholding payment to the research provider in the event that coverage is not perceived to be sufficiently positive. Payment of a significant portion of the fee in advance removes this potential leverage, which is an important control to mitigate certain conflicts of interest that are inherent within this product.

Q6: 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.

We have well noted the proposed clause 7 that will require the issuer-sponsored research providers to make available to investment firms, when requested, all information necessary to assess whether issuer-sponsored research is produced in compliance with this code of conduct.

We do not agree with the point (a) that requires to disclose the agreement between the issuer and the research provider, which is confidential, commercially sensitive information that may also be subject to certain broader banking secrecy and/or trade secrecy requirements in certain jurisdictions.

We view that the points (b) and (c) related to conflicts of interests should reference the Market Abuse Regulation.

In summary, if the intention is to increase the availability and quality of issuer sponsored research, we do not believe that issuer sponsored research should be subject to any further, more burdensome disclosure requirements than other forms of investment research. The potential conflicts that the requirements of clause 7 are seeking to mitigate are addressed in broad terms elsewhere in the proposed code.

Q7: 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.

In practical terms, there are limited circumstances in which the issuer sponsored research is “fully” paid for by the issuer as it is typically made available via a proprietary research platform, to investment firm clients that are required to pay for this content under the MiFID II inducement rules, and therefore only partially paid for by the issuer.

If such research that is partially paid for by the issuer is to be made available on the issuer’s website, we believe this should be subject to a reasonable delay following publication on the research producer’s proprietary research platform or other method of broad and simultaneous dissemination.

As stated in the opening paragraph, as a broader point, we do not believe that producers of issuer sponsored research should be compelled under the code to make this content available to the public at all. While certain content may indeed be appropriate for public consumption, certain content (notably that produced by larger firms) is designed specifically for an institutional investor audience and forcing these institutions, that operate largely global markets businesses that service institutional investors only, could have the unintended consequence of forcing them out of the market.

Q8: Do you think that any further requirements should be introduced in the code of conduct? Please state the reasons for your answer

We view that the code of conduct needs to be short, accessible, and understandable by everyone. We also believe that it should provide for appropriate flexibility and remain fully voluntary. We do not believe that issuer sponsored research producers should be required to make institutional content available to the public and that this requirement should be made voluntary. We oppose any additional burdensome disclosure requirements that could potentially conflict with existing legal and or regulatory obligations.