MEDIA RELEASE

AIRA
AUSTRALASIAN INVESTOR RELATIONS ASSOCIATION

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NEW MIFID II REGULATION IMPACTS RESEARCH COVERAGE & ENGAGEMENT BETWEEN LISTED COMPANIES AND MAJOR INVESTORS

- Overall 40% of respondents reported fewer stock broker research analysts covering them in the last 12 months. 71% of ASX 100 companies in the survey said they had had a decline in the number of stock broking analysts covering them.
- However, 26% of respondents reported an increase in research coverage. Of these, the majority (71%) are outside of the ASX 100.
- 47% of companies reported a recent decline in the quality of broker research.
- 53% of respondents who attended UK stock broker conferences said there had been a decline in the quantity of meetings.
- More than one broker now often required to organise meetings as well as companies having to approach some investors directly.
- Of 46 stock broking analyst changes over the last 12 months, nearly one-third have gone to the buy-side.

A survey released today by the Australasian Investor Relations Association (AIRA) finds that, while the so-called new MiFID II regulation in Europe doesn't directly apply elsewhere, they are forcing companies to find new ways of communicating with global investors to ensure markets are properly informed about their activities.

The survey of 54 companies mostly in the ASX200 and NZ50 indices showed that research coverage by investment banks has fallen sharply. In some company's, that is a direct result of many investors refusing to pay new charges required under the MiFID II law for research, conferences and meetings provided by brokers.

The survey also found that fewer investors attended global investment conferences held in recent months. This occurred even outside of Europe, in major financial centres like New York and Hong Kong. Many companies are now being forced to hire internally to bolster their capacity to engage directly with existing and prospective investors.

"The new regulation is having a rapid and deep impact on the way companies engage with their owners," AIRA's chief executive, Mr Ian Matheson, said. "The global nature of investing means that a law passed in one continent can have a rapid knock-on effect elsewhere.

"Investment banks were already cutting their research coverage, but that is being slashed even further. Our survey finds 40% of respondents had fewer analysts covering them over the last 6-18 months. If that's not enough, 47% said research quality had also decreased. This is, at least in part, likely to be because many leading analysts are being poached by new independent research houses and funds management firms."

*MiFID II (or Markets in Financial Instruments Directive), the Europe-wide regulation that commenced on 3 January 2018, requires institutional investors doing business in Europe to pay separately for trading, research and corporate access.

"This is also having an impact on consensus earnings estimates, used by investors to make decisions on whether to buy, sell or hold", Mr Matheson said. "Not only is there less research on which to base the estimates, but many listed entities report the quality of research and therefore many forecasts have declined making the consensus or average of the analysts' forecasts less reliable.

"Companies are increasingly concerned about the accuracy and timeliness of consensus estimates. The worry is that fewer brokers will issue these numbers, and investors will be less informed. Some investment banks no longer make them available through third party platforms."

Respondents to the survey also noted they were now increasingly being asked to make their own appointments with investors directly rather than being arranged by investment bank. Some 27% of survey respondents who recently attended broker conferences were asked by investors to line up meetings directly.

"It is clear that investor relations activities are going to be managed more in-house by companies as a result," Mr Matheson said. "The survey found that 54% agreed that they needed to change how they engage and communicate, and that more are now saying that they will employ more staff.

"Shareholder engagement is such a critical matter for listed companies that it seems inevitable that they will become more involved with their own programs and budget for higher costs."

In a separate survey of members', we identified 46 moves amongst stock broking analysts over the last 12 months. Nearly one-third were understood to be moving to the buy-side and 15% said they were going to a new independent research firm. These moves are indicative of the structural changes occurring in sell-side research making it even more important for listed companies to build strong relationships with portfolio managers and analysts.

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For more information contact:

Ian Matheson, Chief Executive Officer, AIRA
T: +61 2 9872 9100
M: 0419 444 731
E: ian.matheson@aira.org.au

About AIRA

The Australasian Investor Relations Association (AIRA) was established in 2001 to advance the awareness of and best practice in investor relations in Australia and New Zealand and thereby improve the relationship between listed entities and the investment community. The Association's 160 corporate members now represent over **A$1.2 trillion** of market capitalisation, over 80% of the total market capitalisation of companies listed on ASX.

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