

Whose research is it, **anyway?**

Independence, conflicts of interest and the cost of an opinion in European equity research, after the pendulum swings back.



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FOREWORD

Why we are publishing this

For most of the past decade, the debate over investment research in Europe was framed as a question of price: who should pay, how much, and how transparently. With the Listing Act now reversing MiFID II's unbundling regime, that question is being reopened - and with it, an older and more fundamental one that price never fully addressed: whose interests does a piece of research actually serve?

This paper is not a product brochure. It sets out how the economics of research shape the opinions investors receive, why structural independence changes those opinions, and what asset owners should reasonably expect, and reasonably discount, when they read a rating. We have tried to argue the case on evidence, including evidence that complicates our own position.

EXECUTIVE SUMMARY

The argument in brief

The way research is funded is not a back-office detail. It quietly determines which opinions get written, which get suppressed, and which stocks keep any coverage at all. As Europe swings from unbundled back towards bundled payments, the conflict-of-interest question that disaggregation was meant to settle returns to the table.

KEY FINDINGS

- The funder of research shapes its output. A provider paid, directly or indirectly, by the companies it covers has a structural incentive towards optimism; a provider paid only by investors does not.
- Sell-side coverage of European issuers fell materially after MiFID II unbundling, with hundreds of companies losing coverage entirely and the sharpest pressure felt in small and mid-caps. [1,4,5]
- The Listing Act (in force December 2024) re-permits joint payments for research and execution, removing the €1bn threshold. It may revive coverage - but it also re-opens the very conflict channel unbundling closed. [6,7,8]

- An investor-pay independent provider sits outside this debate by construction: it never depended on execution flow or issuer money, so rebundling neither rescues nor compromises it.
- Independence is observable, not merely asserted. Its clearest signature is a rating distribution willing to carry a high share of negative calls — where AlphaValue stands well apart from the street. [9]

SECTION 01

Who pays for research and why it **matters**

Equity research looks like a neutral good: an analyst studies a company and publishes a view. But research is expensive to produce and has always had to be paid for by someone. Who that someone is turns out to shape the product more than any single analyst's diligence.

Two funding models dominate. In the **issuer-pay** model, the party being analysed, or a bank that wants its banking, brokerage or corporate-access business, foots the bill, directly or indirectly. In the **investor-pay** model, the end reader (the asset owner or manager who acts on the view) pays for it. The distinction sounds academic until you follow the incentives.

Where revenue depends on issuers, on winning mandates, or on the trading commissions that a positive story helps generate, the path of least resistance runs towards optimism. Not through dishonesty, but through the ordinary gravity of commercial relationships: initiations lean constructive, downgrades are softened, and coverage quietly lapses when a candid view would be inconvenient. Where revenue comes only from investors who need to be right, the incentive inverts: a wrong “Buy” costs the reader money and the provider its credibility.

Research is never free of incentives. The only question worth asking is whose incentives you are reading.

SECTION 02

The unbundling experiment - and its reversal

MiFID II, effective January 2018, forced asset managers and brokers to separate - “unbundle” - the cost of research from the cost of execution. [7] The intent was sound: make research payments transparent and stop investors from over-paying through opaque commission flows. The consequence, however, was a sharp contraction in how much research got produced and sold.

The evidence of that contraction is now substantial. Academic work found that sell-side coverage of European companies dropped significantly after implementation, with 334 firms losing coverage entirely. [1] Industry bodies reported the same direction of travel: the CFA Institute pointed to reduced coverage and fewer analysts, concentrated in small and mid-caps, [4] and a Peel Hunt / Quoted Companies Alliance survey found a majority of investors - 62% - believed less research was being produced on smaller companies. [4] The European Commission itself acknowledged a multi-year decline in small- and mid-cap coverage when it proposed rolling the rules back. [5]

334

European firms that lost sell-side coverage entirely after MiFID II unbundling [1]

62%

of investors said less research was being produced on mid & small-caps [4]

Dec 2024

Listing Act in force - joint research/execution payments re-permitted [6]

In fairness to the counter-argument. The picture is not one-sided. Some studies found that while the quantity of European coverage fell, its quality improved - forecast errors declined and surviving research became more informative. [2] Part of the decline also reflects a long-term downtrend that pre-dates MiFID II and the rise of passive investing. [2] And at least one early regulatory review found limited evidence of a disproportionate hit to small-caps in the first year. [3] The honest reading is that unbundling thinned the market and rewarded the strongest providers, rather than that it destroyed research outright.

The pendulum swings back

Europe has now reversed course. The Listing Act (Directive (EU) 2024/2811), in force since 4 December 2024, re-permits joint - bundled - payments for research and execution for issuers of any size, abolishing the previous €1bn market-cap threshold. [6,8] ESMA's subsequent technical advice confirms that such joint payments, subject to disclosure and a quality-assessment framework, are not to be treated as inducements. [6] The stated goal is to revive coverage and make European capital markets more attractive.

Whether “rebundling” can undo structural change already absorbed by the market is genuinely uncertain. [8] But for the purposes of this paper the direction matters more than the outcome: Europe is deliberately loosening the wall between who pays for execution and who pays for opinions. That is precisely the wall whose absence creates buyer bias.

SECTION 03

The anatomy of buyer bias

“Buyer bias” is the structural tilt of research towards positive conclusions. It has two well-documented mechanics, and independence addresses both.

1 · The optimism tilt

When a research house also earns from banking mandates, corporate access or execution, negativity is costly. A “Sell” can jeopardise a mandate, chill an issuer relationship, or dry up the trading that a bullish thesis encourages. The result, across a full cycle, is a rating distribution skewed towards “Buy” and “Hold”, with genuine “Sell” calls kept scarce. This is not an accusation of bad faith; it is what the incentives predict, and what published rating distributions broadly show.

2 · The coverage cliff

The second blind spot is timing. Conflicted research tends to go quiet exactly when it is most needed - when a stock is subject to a deal, a capital raising or a restructuring in which the same institution is advising. Coverage is suspended for compliance reasons precisely at the moment investors most need an independent read. Continuity of coverage is therefore not a service feature; it is a direct consequence of not being conflicted in the first place.

A “Sell” that costs the analyst nothing to write is worth more than a “Buy” that earns the bank its next mandate.

SECTION 04

What independence actually **implies** and what it does not

Independence is easy to claim and easy to overclaim. To be useful, the term has to be defined in a way that is precise and verifiable rather than promotional.

What it means, precisely

The defensible core of independence is a **revenue model**, not a slogan. A structurally independent provider derives no revenue from the issuers it covers, engages in no investment-banking or M&A advisory, and takes no execution or brokerage flow. Its income comes from the investors who consume the research. Because none of its revenue is contingent on a favourable view of any company, the optimism tilt described above simply has no channel through which to operate. This is a claim about incentives that can be checked against a firm's activities - not an assertion of virtue.

	Conflicted model	Structurally independent model
Who pays	Issuers, banking clients, execution flow	Investors who act on the research
Incentive on ratings	Tilt towards optimism	Neutral to negative where warranted
Coverage in a deal	Often suspended	Uninterrupted
Effect of rebundling	Re-opens the conflict channel	No effect - never depended on it

What it does not mean

Independence is not a claim of infallibility, nor a claim that a firm has no commercial relationships of any kind. Independent providers still form distribution and strategic partnerships, still market themselves, and can still be wrong on any given stock. Overstating independence - implying zero relationships, or guaranteed out-performance - is not only inaccurate; it undermines the credible, narrower claim that actually matters. The honest and powerful statement is specific: **no issuer revenue, no banking, no execution - and a rating distribution anyone can inspect.**

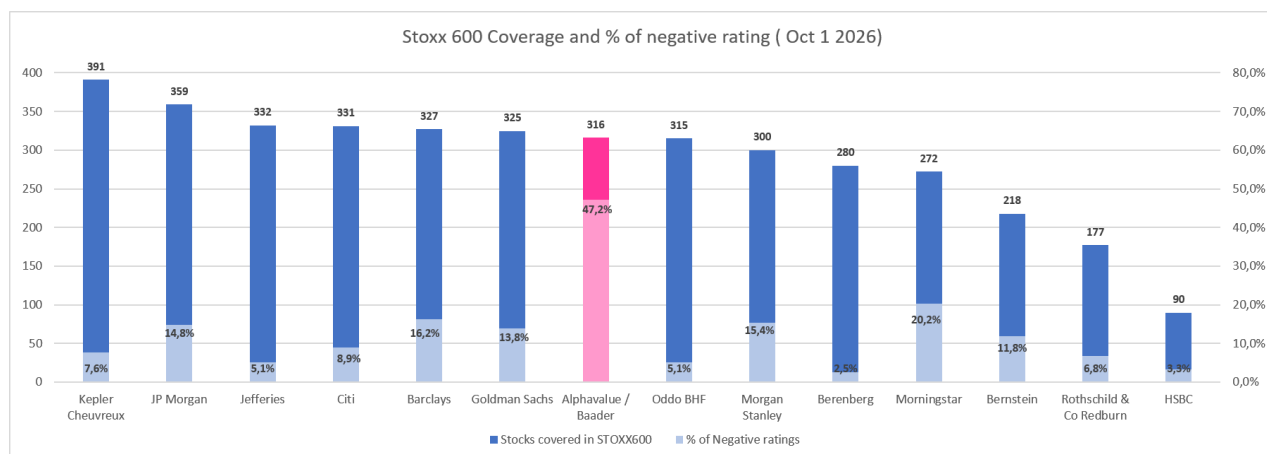
The verification test. An investor need not take independence on trust. Two things are checkable: the firm's revenue and activity model (does it advise issuers or take execution?), and its published distribution of recommendations (does it actually carry negative calls, or only claim to?). The next section applies the second test.

SECTION 05

Reading the evidence

If independence removes the optimism tilt, it should leave a measurable fingerprint: a materially higher share of negative recommendations than conflicted peers carry. Rating distributions are public, so this is testable. Across a broad panel of houses covering the STOXX 600, the contrast is stark.

Exhibit 1 — Share of negative (Reduce / Sell) recommendations, by research house



Source: Bloomberg, as of October 2026 - Houses covering the STOXX 600.

Where most of the street keeps negative recommendations below roughly 15% of coverage, AlphaValue's distribution sits close to half. That gap is not evidence of pessimism for its own sake - it is what an unconflicted incentive structure produces when analysts are free to reach the conclusion the numbers support, including the unwelcome one. Read the other way: a house that almost never says "Sell" is telling you something about its incentives, whatever the merits of any single stock.

What this exhibit does and does not prove. A high negative share is consistent with the absence of buyer bias; it is not, on its own, proof of superior returns. Performance depends on being right, not merely on being willing to be negative. AlphaValue publishes the track record of its model lists separately, and readers should judge performance on that record rather than infer it from rating distribution alone. The claim here is narrower and more robust: the distribution is the visible signature of the incentive structure.

SECTION 06

What this means for **asset owners**

For the buy-side and for asset owners, the practical implications are concrete rather than ideological.

Treat independent research as complementary, not a substitute

Independent research is most valuable alongside sell-side coverage, not instead of it. It fills the two structural gaps the sell-side cannot close from the inside: it supplies the candid negative view, and it stays present through deals and disruptions when conflicted coverage steps back. A process that reads both is better informed than one that reads either alone.

Use independence as a governance and fiduciary tool

For an asset owner, sourcing at least some genuinely unconflicted research is a form of alignment: it provides a check on views that may be commercially shaded, and it maps naturally onto fiduciary and stewardship obligations. Where sustainability integration matters, research whose ESG conclusions are not softened by issuer relationships is more defensible under frameworks such as SFDR.

Do not let rebundling lull the question to sleep

As bundled payments return, the transparency that unbundling forced will erode at the margin. That makes it more important, not less, for asset owners to keep at least one research input whose funding is unambiguous. The conflict question does not disappear because the regulation that surfaced it has been relaxed.

ABOUT

About AlphaValue

Founded in 2007, **AlphaValue** is an independent provider of European equity, credit-risk and ESG research. A team of around 35 analysts actively covers more than 510 large and mid-cap companies across some 20 European countries, on a continuous basis and within a single standardised, transparent methodology. AlphaValue derives no revenue from the issuers it covers, undertakes no investment-banking or M&A advisory, and takes no execution flow - an investor-pay model by construction. It is a member of Euro IRP, the European association of independent research providers.

AlphaMena (Tunis) extends the same approach to MENA and West-African markets. Distribution and corporate-access partnerships, including with **Baader Bank**, sit alongside - and do not alter - this independent research model.

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AlphaValue is a proud member of Euro IRP.

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SOURCES & REFERENCES

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9. Bloomberg data on STOXX 600 coverage and recommendation distributions by research house, as of October 2026 (Exhibit 1).

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