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FEATURE

IPOs

Back to the market

IPO boom reflects renewed faith in the stock exchange

From tech unicorns to renewable energy specialists, companies are racing to go public. Initial public offerings are soaring worldwide – and nowhere more so than in Paris, which saw a record 25 deals between January and end-July 2021. Experts see this as the start of a new cycle driven by policies to promote innovation and encourage businesses to grow.

(See page 2)

EDITORIAL

Stéphane Giordano and Bertrand de Saint Mars | AMAFI

Brexit is barely a year old, yet preparations are already underway on both sides of the Channel to revisit the framework created by the second Markets in Financial Instruments Directive. In Europe, the Commission is pushing ahead with discussions on overhauling MiFIR and MiFID II in 2022, while Britain has kicked off its Wholesale Market Review. The simultaneous appraisals of a framework in place for less than four years exposes the gulf separating the European and UK visions, with one side looking to strengthen the framework and the other to make it more flexible.

This divergence, epitomised by the different stances on bond market transparency, reflects a deep conceptual difference. Whereas European lawmakers believe that continually bolstering protection and transparency is necessarily good for market users, Britain prefers a more pragmatic approach, putting the onus on preserving but also attracting liquidity, which is vital to a well-functioning financial market.

European companies and investors are free to do business where they choose. For this reason, the European Union can ill-afford to ignore the discussions taking place in the City, given the issues at stake and London's position as a nexus of expertise. It is clear that the City has no intention of surrendering its position as the world's leading financial centre, which is currently under threat from New York, so any adjustments will be meticulously weighed.

Ultimately, though, this is about Europe's ability to ensure that the sources of market financing that its economy needs are located within its borders and thus under its control. Business competitiveness and an attractive regulatory framework are key in this regard, a point AMAFI is keen to stress *(AMAFI / 21-38)* as France prepares to take over the rotating presidency of the European Union in early 2022.

Back to the Market

Sandra Sebag

IPO performances around the world have shattered records since the start of 2021, showing that financial markets are charting a course through the Covid-19 storm. *Global IPO Trends*, a report published mid-July by the professional services group EY, counted 1,070 offerings globally in the first six months of this year, with total proceeds of $222 billion. Deal numbers were up 150% and proceeds 215% compared with 2020, itself a record-breaking year with annual growth of 20%. According to EY, the first quarter of 2021 was the busiest in two decades.

SPAC-tacular performances

The boom partly reflects the current popularity of special purpose acquisition companies. Sometimes called "blank cheque" companies, SPACs list on the stock exchange with the sole purpose of raising money to merge with an unlisted company, which then goes public. Typically, a SPAC must merge with an operating company within two years, otherwise it is liquidated and the IPO proceeds are returned to investors. SPACs rely heavily on the reputations of their founders, who usually have expertise in a particular sector which they are looking to grow or consolidate. Offering an alternative to listing, these vehicles have exploded onto the scene, especially in the United States. According to information from France's securities regulator, Autorité des Marchés Financiers, SPACs accounted for 45% of the total value of US IPOs in 2020, compared with less than 2% in 2014. They are now gaining ground in Europe as well, particularly in the Netherlands and, more recently, in France, where three were approved in June 2021 alone.

Putting this into context, there have been just two SPAC listings in Paris over the past few years. In the UK, meanwhile, where the regulatory burden has dampened SPAC activity until now, there are hopes that new rules introduced this summer will spur more London listings.

But SPACs are only part of the story. Traditional IPO activity has soared globally this year, including several huge offerings that have raised billions of dollars in proceeds. According to the EY report, there were 43 mega IPOs – deals with proceeds of above $1 billion – in the first half of 2021, garnering a combined $88 billion. This compares with just 14 such deals in the first half of 2020. Moreover, there was a healthy spread of IPO activity across many markets, from the Americas to Asia and Europe. As for Paris, the French market has performed strongly this year, with around 25 IPOs since January, substantially up on 2020, which saw around ten deals over the entire year. Numbers of this magnitude have not been seen since the 1990s and early noughties. Experts see this as a sign that the stock exchange has re-established itself as an attractive source of long-term business financing, returning to where it was in 2006 and 2007 before the global financial crisis.

Cyclical and structural growth drivers

Growth in IPOs has been driven by both cyclical and structural aspects. One crucial factor is excess liquidity in search of investment opportunities. "Central banks have provided massive amounts of liquidity in recent years," says Florence Greau, Head of Structuring & Execution - Corporate Finance at Société Générale. "And they have stepped up these injections even further since 2020, which has boosted financial markets." Stock indices have duly headed higher, with France's CAC 40 climbing close to 20% at end-August on a year-to-date basis. Crucially, indices focusing on small and mid caps have also racked up gains: the CAC Small & Mid index advanced by just over 13% during the same period. According to Pascal Mathieu, CEO of Gilbert Dupont, a Paris-based investment services provider: "The number of issuers that are candidates for IPOs is closely tied to market valuation levels". He believes the stock exchange has regained its place as a competitive financing solution for highcalibre companies from a range of sectors. He points out that when indices were much lower, IPO-bound firms tended to have little or no access to conventional bank financing. Many were not prime targets for private equity, while others, including biotechs and medtechs, had private equity backers that could not handle additional financing rounds on their own.

"The stock exchange has regained its place as an attractive source of long-term business financing, returning to where it was before the global financial crisis"

Rising IPO numbers also reflect structural factors. When asked to account for the renewed interest among business owners in going public, Pauline Roux, a partner at private equity fund Elaia Partners, cites policies pursued over the last 10 to 15 years by French authorities and policymakers to promote business creation, especially in new tech areas. She also mentions initiatives to stimulate innovation and encourage major institutional investors to provide financing for the economy. For their part, the Paris market community and Euronext have spearheaded initiatives to boost the number of firms seeking listings and sharpen France's competitive edge in this area. The Tibi Initiative, for instance, aims to inject a massive €6 billion into listed as well as non-listed innovative firms. Business incubators have sprung up, access to funding has increased, and huge amounts of capital have been injected as private equity into companies at the start-up or seed stages. Some of these outfits are reaching the point where they need to go public if they are to continue growing. Meanwhile, IPO candidates are not confined to the tech and digital sectors: projects are cropping up in other innovative areas, such as sustainability and renewable energy. Three key sectors account for much of the IPO pipeline in France and in Europe more broadly. Tech is one, as economies go increasingly digital. Sustainability is another, amid the push to make headway in energy transition, achieve carbon neutrality and promote circular economy approaches. Health is a third major source of IPO candidates. The many leaders emerging in all these sectors have significant capital needs that can be met by financial markets.

Keen interest from the retail segment...

Another vital development has been retail interest in these deals. Illustrating this point, individual investors flocked to the IPO organised recently by Hydrogen Refueling Solutions (HRS), a pioneer in hydrogen mobility. Demand during the company's IPO hit a record €416 million, much of which came from retail investors, who accounted for €90 million of the total. By comparison, previous-year demand from the retail segment would have been expected to range between €2 million and €3 million for a company at a similar stage of development. In a huge shift, retail investors have begun to pay closer attention to the stock exchange and are investing directly, says Vincent Le Sann, deputy CEO of Portzamparc, an investment services provider. A combination of factors is driving the change. For starters, the increase in interest seems to have coincided with the Covid crisis and the fact that people working from home have been spending more time in front of their screens. Another contributing factor is the arrival of user-friendly investment platforms offering easy and affordable access to financial assets. And since many of the latest IPOs have performed well, retail investors have made gains from the recent market rebound. “Over the last year, we have seen more success stories than before, with the market evenly balanced overall between companies whose stock prices went up, such as Ecomiam, HRS, Pherecydes, Omer Decugis and NAMR, and those whose valuations fell after going public. Before the start of this new cycle, post-IPO performances tended to be more mixed,” says Le Sann.

...while institutional investors hang back

Retail enthusiasm may partly offset the uncertainty within the Paris institutional investment community, which has been hanging back in recent months. While there are more and more IPO candidates and opportunities, institutional investors are picking and choosing their deals, potentially making it harder to reconcile the expectations of pre-IPO firms and their shareholders with those of investors. According to experts, however, the cautious attitude among professionals is a logical and timely response to the current situation.

As such, it is unlikely to derail the new trend. After all, institutional investors suddenly have a slew of opportunities to analyse in a short space of time. They need breathing space to rebuild their teams after downsizing to suit the low IPO numbers of recent years. And the industry is definitely recruiting. Asset managers are organising themselves around tech questions and hiring specialist personnel. Brokers, meanwhile, have ample reason to upsize, with listing candidates commanding sizable capitalisations and focusing more heavily on innovation, allowing them to attract French and global investment funds.

As increasing numbers of companies opt to go public, whether through traditional IPOs, direct listings or SPACs, stock exchanges appear to have regained their appeal among business owners. Moreover, the listing boom is not expected to tail off any time soon. Looking ahead, EY says that it expects a steady pipeline of US$1b-plus IPOs for the rest of the year, including tech unicorns, SPACs and companies in sectors such as renewables, e-commerce and health care, which should remain attractive for IPO investors. Challenges abound, of course, from uncertainty about the continued spread of the coronavirus pandemic to geopolitical issues and questions about government stimulus programmes and monetary policy. Be that as it may, interest in IPOs looks set to continue. And Paris is well placed to be part of the action.

MiFID II

Retail investment

AMAFI responded in late July 2021 *(AMAFI / 21-46)* to the European Commission consultation on *retail investment strategy*, which lays the groundwork for reviewing EU rules on the protection, disclosure and financial investments of retail investors, including MiFID II, PRIIPs and IDD. AMAFI reiterated its positions on the reviews of MiFID II *(AMAFI / 21-35)* and PRIIPs *(AMAFI / 20-59)*, underlining the need to simplify and rationalise the legal and regulatory regime for retail investment to give individual investors smoother access to financial markets.

Pauline Laurent, Adélaïde Fischmeister

MiFID II REVIEW

European engagement

Ahead of the MiFIR review, AMAFI Chairman Stéphane Giordano, along with several members of the European Action Committee, presented AMAFI's priorities *(AMAFI / 21-31)* to a number of key European figures, including Tilman Lueder (Head of Unit, Securities Markets, DG FISMA), the representatives of Slovenia, the Netherlands, Germany and Finland, the Spanish and Italian securities supervisors (CNMV and CONSOB), and ESMA.

One major topic of the discussions, particularly those with Mr Lueder, was the creation of an EU consolidated tape *(AMAFI / 21-28)*, a central plank in the reforms proposed by the European Commission. Other issues covered included the transparency/liquidity tradeoff for the bond market *(AMAFI / 21-29)*, the DTO's scope of application, the cost of market data and the regime for OTC derivatives and reference data.

Investor protection – AMAFI's priorities

AMAFI finalised in June a position paper on investor protection *(AMAFI / 21-35 and 21-35 EN)* that set out proposed amendments and built on discussions held in 2019 *(AMAFI / 19-109, 19-110, 19-111)*. The aim was to reiterate and clarify the association's priorities in the light of the measures already taken, particularly on inducements (see below). Designed to buttress AMAFI's initiatives in this area, the paper provided input for work on the European Commission's retail investment strategy.

In July, AMAFI also finalised the consolidated version of MiFID II as amended by the *Quick Fix* package *(AMAFI / 21-36)* and made it available to its working groups.

Inducements

In the context of questions raised by the inducements regime, discussions on the quality of service enhancement were wrapped up and member guidance published in mid-September *(AMAFI /21-52)*.

Work also continued over the summer in order to publish a study on inducement practices and the resulting costs for investors. The study, due for release in October, will be accompanied by a survey showing that while investors believe investment advisory services to be important, they are reluctant to pay for them directly. This finding supports the case for maintaining the inducements regime.

Arnaud Eard, Pauline Laurent, Adélaïde Fischmeister

COMMODITIES

Position limits

ESMA held a consultation earlier this year on technical standards for position limits in commodity derivatives markets. AMAFI said in its feedback that, overall, ESMA's proposals were appropriate for the stated goals of the MiFID II Quick Fix package, namely to simplify the position limit regime and introduce a system that will better support the development of new, less liquid contracts *(AMAFI / 21-45)*.

But AMAFI also voiced scepticism about some of the proposals for technical standards on position management controls. It argued that the proposals, including one to introduce the notion of "close links" to the monitoring of participant positions, impose new obligations that are incompatible with the business of trading venues dealing in commodity derivatives.

Emmanuel de Fournoux, Mehdi Ounjema

SUSTAINABLE FINANCE

MiFID II & ESG

The final versions of the delegated acts incorporating the question of "sustainability factors" in the MiFID framework were published in early August. The acts clarify the definitions of sustainability factors and preferences, and explain how both should be recognised within MiFID II with regard to the obligations on organisational requirements *(Delegated Regulation (EU) 2021/1253)* and product governance *(Delegated Directive (EU) 2021/1269)*.

AMAFI passed on this information to its membership and published two memos providing direct access to the consolidated versions of the amended legislation *(AMAFI / 21-50 and 21-51)*.

Pauline Laurent, Adélaïde Fischmeister

REFORMING ESMA

Meeting with DG FISMA

Following the consultation by the European Commission on supervisory convergence, an AMAFI delegation led by Stéphane Giordano met with Johannes Erhard, Léah Dahmani and Francesco Tuzi of DG FISMA to emphasise the need to reform ESMA as part of the CMU reboot *(AMAFI / 21-41)* and to set out AMAFI's key proposals in this area *(AMAFI / 21-32)*.

Topics broached during the meeting included integrating competitiveness in ESMA's mandate, improving a number of convergence tools such as Q&As, governance reform to better reflect the importance of certain markets within the Union, and the need to promote clearer understanding of the operational issues facing market participants. Commission representatives stressed the binding nature of the European legislative framework applicable to convergence tools and highlighted the political challenges associated with governance reforms, as illustrated during talks on the 2019 ESA review.

Arnaud Eard

EUROFI

Ljubljana, 8-10 September 2021

AMAFI attended the Eurofi Forum in Ljubljana on 8-10 September, represented by Chairman Stéphane Giordano, Director of European and International Affairs Arnaud Eard, and several members of the European Action Committee. On the sidelines of the public sessions, AMAFI representatives met with a number of key figures, including DG FISMA Director Martin Merlin, Eva Wimmer, Head of Financial Markets at the German Finance Ministry, and the financial services advisors for Finland, Luxembourg, the Netherlands and the Czech Republic.

The talks covered four key issues for AMAFI:

- Competitiveness and attractiveness of European markets (see Editorial), especially reforming ESMA *(AMAFI / 21-41)*;
- The MiFIR review *(AMAFI / 21-31)*, particularly the creation of an EU consolidated tape *(AMAFI / 21-28)* and bond market transparency *(AMAFI / 21-29)*;
- Retail investment strategy *(AMAFI / 21-48)*;
- Treatment of derivatives under the sustainable finance strategy *(AMAFI / 21-47)*.

Given the reforms mulled by the United Kingdom as part of its Wholesale Markets Review, the AMAFI delegation stressed the question of branch treatment. Whether for branches of European firms doing business in the UK or those of British firms seeking access to the Union's markets, competitiveness issues are vitally important and should be addressed accordingly in the discussions underway within DG FISMA.

Arnaud Eard

LIQUIDITY CONTRACTS

Accepted market practice

As planned, following a two-year observation period, the French market authority, AMF, conducted an overall review of the accepted market practice (AMP) for liquidity contracts created by AMF Decision 2018-01. Accordingly, on 31 March 2021, it submitted a new draft AMP to ESMA, which responded with a negative *opinion*.

On 23 June 2021, the AMF decided to disregard ESMA's opinion and published *Decision 2021-01* on renewing the implementation of liquidity contracts in equity securities under the accepted market practice. The French financial community, including AMAFI *(see press release)*, welcomed the decision, which is supported by detailed analyses, as mentioned in the explanatory *memo* published by the Authority pursuant to MAR Article 13(5).

Acting through its Liquidity Contract Group, AMAFI is updating its standard liquidity contract and accompanying memo. It is also drafting a charter to clarify the commitments of market members acting under liquidity contracts to help them implement the obligations resulting from the AMF's decision. These documents will be discussed with the AMF in the near future, with the intention of publishing them in October.

Thiebald Cremers, Mathilde Le Roy

ANTI-LAUNDERING

European Commission proposals

The European Commission webposted in July *a set of legislative proposals to strengthen European rules on anti-money laundering and countering the financing of terrorism* (AML-CFT), including the proposal for a Sixth Anti-Money Laundering Directive (AMLD6) and the draft regulation establishing a new European AML-CFT authority (the "AMLA").

The Commission's package raises major issues. For this reason, AMAFI is playing an active part in the work being done by the French Treasury on this initiative and highlighting problems encountered by its membership.

Draft revision of ACPR guidelines

In late May, the ACPR began a review of its customer identification, ID verification and Know Your Customer guidelines.

The proposed changes capture not only Annex 10 on market transactions, which was published in March on the *ACPR website* and to which AMAFI actively contributed, but also other topics for which it provided input, such as ID verification when entering into a non-face-to-face business relationship or marketwide discussions on the register of beneficial owners.

AMAFI sent its observations to the ACPR's Consultative Commission on AML-CFT issues, which will continue discussing the issue with the Paris financial community. A final version of the guidelines is expected by the end of the year.

Adélaïde Fischmeister

INVESTMENT FIRMS

Prudential regime

Directive (EU) 2019/2034 of 27 November 2019 on the prudential supervision of investment firms (IFs) and the accompanying Regulation (EU) 2019/2033 entered into application on 26 June 2021. Shortly beforehand, the prudential regime had been transposed into French law by *Ordinance No. 2021-796* of 23 June 2021 (subsequently clarified by several executive orders issued in July 2021).

The new regime is the outcome of a constructive dialogue with public authorities that allowed the legislation to be transposed in a manner that addresses the main concerns put forward by AMAFI. For example, the new category of "credit and investment institution" (CII) added to the banking regulations adjusts the effects of IF-to-CII conversion to reflect the nature of the business activities actually carried on. CIIs will therefore continue to be bound by some of the rules that previously applied to IFs, such as requirements covering the segregation and protection of customer assets and the provision of credit, and they will not fall within the scope of *Act No. 2013-672 of 26 July 2013* on the separation and regulation of banking activities.

To help members implement the new framework, AMAFI published a Q&A *(AMAFI / 21-39)* and a document summing up the main regulatory changes linked to transposition *(AMAFI / 21-49)*. The IFR-IFD Group is now switching its focus to look at more practical issues, including the exact procedures for the first round of reports and the accounting changes connected with the new rules.

Emmanuel de Fournoux, Mehdi Ounjema

RESEARCH

Updating the AFG/AMAFI standard agreement

AMAFI and the French asset management association, AFG, have updated the AFG/AMAFI standard agreement on the provision of research services *(AMAFI / 21-53a)* as well as its accompanying memo *(AMAFI / 21-53b)*. The main amendments concern data privacy (clause 12), notably on the classification of the parties (controller or processor) with regard to the legislation on private-data protection, including the *General Data Protection Regulation (EU) 2016/679*.

The update also provided the opportunity to add a sixth annex to the agreement. The new section includes the European Commission's standard contractual clauses covering the transfer of private data to third countries, updated by the Commission on 4 June 2021.

Thiebald Cremers, Mathilde Le Roy

NEW MEMBERS

▶ **AYDO,** an investment firm whose activities include order reception-transmission and investment advice. Its senior managers are Arthur Teixeira (Chairman), Jordan Sfez (Chief Executive Officer) and Pierre-Yves Breton (Deputy Chief Executive Officer).

▶ **Citadel France SAS,** a firm offering portfolio management and investment advisory services. Mathias Feau (Chairman) and Simon Herbert (Chief Executive Officer) are its senior managers.

▶ **Citadel Securities GCS (Ireland) Paris Branch**, an investment firm whose parent company is in Ireland. Its services include order execution and dealing on own account. Its senior managers are Mathias Feau (Country Manager, France) and Alison Bothwell (Country Manager, Ireland).

▶ **Forte Securities Europe**, a firm whose activities include order reception-transmission, investment advice and placement without a firm commitment. Its senior managers are Matthieu Prévot (Chairman) and Hajer Anane (Chief Executive Officer).

▶ **Fundimmo**, an investment firm whose activities include order reception-transmission and investment advice. Jérémie Benmoussa (Chairman) and Vincent Lamotte (Member of the Management Board) are its senior managers.

▶ **La Banque Postale**, a credit institution offering a full range of investment services other than MTF/OTF operation and portfolio management. Its senior managers are Philippe Heim (Chairman of the Management Board), Marion Rouso (Chief Executive Officer, Retail Banking), Bertrand Cousin (Chief Executive Officer, Corporate and Investment Banking) and Tony Blanco (General Secretary).

▶ **Makor Securities Paris SAS**, an investment firm offering order reception-transmission services. Yankel Hassan (Chairman) et Jean-Luc Cohen (Chief Executive Officer) are its senior managers.

AMAFI TEAM

Stéphanie Hubert appointed AMAFI Deputy Chief Executive

As the issues facing members grow ever more diverse, AMAFI has widened its scope of action significantly in recent years. Reflecting these changes, the AMAFI Board is acting to strengthen the roster of full-time staff by appointing Stéphanie Hubert as Deputy Chief Executive *(see press release)* effective 15 October. She will be responsible for questions relating to the development of sustainable finance, an issue of clear importance to market participants.

Stéphanie has worked in the banking and financial sectors for over 20 years. She has experience in private banking, equity, fixed income and currency markets, and asset management, and has worked in French and international institutions. Previously a member of the Executive Committee of Banque Neuflize OBC and the Group Compliance Head of ABN AMRO in France, Stéphanie has been involved more recently in corporate governance and sustainable finance advising. After starting out at Crédit Agricole Indosuez, she held management positions at JP Morgan in London and Paris and, more recently, at AXA Investment Managers. Stéphanie is a familiar face at AMAFI, having helped to grow the Compliance Division while she was Compliance Manager between 2008 and 2015.

A graduate of EDHEC Business School, Stéphanie also holds an MBA from Laval University in Canada as well as an IFA-Sciences Po Corporate Director certificate.

Adélaïde Fischmeister, who joined AMAFI in January 2020 as Adviser in the Compliance Division, has been appointed Compliance Projects Adviser in charge of Financial Security. In her new role, besides being involved in the issues addressed by the Compliance Division, Adélaïde is specifically responsible for AML-CFT and anti-corruption projects.

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AMAFI documents quoted in this Newsletter and flagged with a reference number are on our website at

www.amafi.fr

Most of them, notably AMAFI's responses to public consultations, are freely available, but some are restricted to members only.

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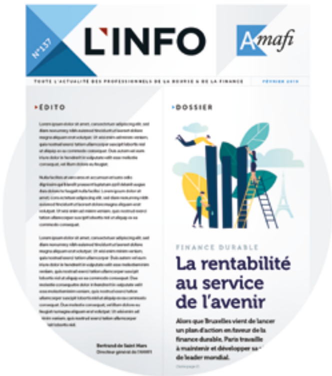

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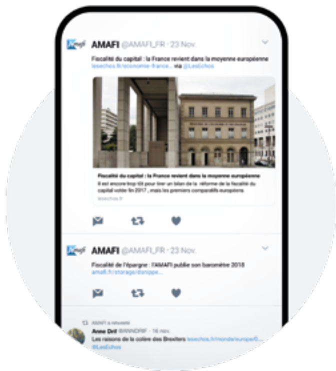

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