

Shane Smith, CEO of IIR plc, explains the new 'intermediated' model - a fresh approach which protects the objectivity of sponsored research at a contained price point.

PSQ Analytics - An Intermediated Research Model

auditing profession which can protect itself on reasonable commercial terms, hence the EU's recommendation that member states take steps to allow auditors to limit liability. Although we would have liked CA06 to introduce statutory fixed caps, the investment community clearly opposed them. But an amendment to the Act bringing in statutory proportional liability is one possibility.

The UK's attempt to introduce voluntary LLAs may read like comedy. However, while the failure of a large audit firm, with the resulting adverse consequences, continues to be the biggest risk to audit quality in the UK, it's clear that doing nothing is not a serious option.

Oliver Tant is KPMG's UK Head of Audit. He joined the audit practice of the then Thomson McLintock in 1982. For the past three years, he has been Global Head of Private Equity, as well as being a Lead Partner within the UK practice. Over time, his clients have included Alchemy, Charterhouse, Compass, Otto Versand, Granada and TUI Travel.

Co-writer Helen Brennan is a senior manager in KPMG's audit practice. She qualified as an accountant with Shipleys in 1998 and has worked for KPMG for the past ten years.

Tel: 020 7311 1000

Email: oliver.tant@kpmg.co.uk

Healthy markets are driven by information and transparency for the investor, which in turn drives liquidity for issuers, facilitates the capital-raising process and supports the issuer's M&A objectives. As broker commissions have diminished and as cross-subsidisation of research departments by investment banking has been reduced or eliminated, the decline in research coverage on listed companies has become a mounting problem for stock exchanges - and issuers - around the world.

A commonly adopted response by un-covered companies has been to engage 'sponsored' research firms to initiate coverage on the basis of payment of a fee by the company. However, the cost to the company of existing solutions, combined with potential scepticism of investors who may question its objectivity, resulted in an estimated 900 un-covered companies, invisible to investors, on the London Stock Exchange.

The challenge was to create a new model for sponsored research wherein commercial and methodological processes are enshrined within the framework to protect the independence and objectivity of the research, at a



contained price point. The solution is an 'intermediated' framework: a model which, while accepting the need for issuers to pay for the research, maintains and protects strict research standards of independence, integrity and analysis. The research industry has struggled with how best to establish an intermediated model.

There are key 'pillars' that an intermediated scheme must include in order to address the shortfalls of

Continued overleaf

PSQ Analytics - An Intermediated Research Model

Continued from page 9

sponsored research. These pillars of intermediated research are:

- *The allocation mechanism must be arbitrary to ensure companies cannot pick and choose research providers.* This is essential, otherwise the institutional investor reading the report will always harbour concerns that the company has selected the analyst on the basis of a favourable angle;
- This naturally requires *the participation of multiple research partners.* Three is the minimum and, in our opinion, the optimal number, as it allows each firm to achieve a reasonable scale of operation, which in turn mitigates the impact of the loss of any individual client who is put off by our 'write it as we see it' approach;
- *Payment in advance and a minimum two year contract term* will also mitigate the issuer's ability to influence research providers;
- *Homogenous approach between the participating research providers,* in terms of the research format/template as well as the data elements, to deliver directly comparable reports which are easily readable;
- *Compelling price point* in order to make the proposition feasible for smaller companies and to drive scale of adoption;
- *Established global distribution relationships* to ensure the widest possible distribution of research reports and generate ROI for issuers;
- *Finally, oversight of the service by a*

“A 2007 TNS survey found that 57% of private investors avoid owning small cap shares due to the lack of information available...”

third party, such as a stock exchange, in order to highlight the integrity of the proposition.

In March of this year, three highly regarded international firms came together in a unique alliance with the support of the London Stock Exchange to launch PSQ Analytics.

The three firms share important characteristics of independence and objectivity:

- No traditional sponsored research relationships
- No investment banking or broking activities
- No proprietary asset management

The three research providers field around 120 analysts and have covered around 1500 companies from all industries and sectors, and bring this collective international experience to bear within a scheme that includes many features outlined here.

The need for the service is evident. A 2007 TNS survey found that 57% of private investors avoid owning small

cap shares due to the lack of information available. Issuers - ignore these findings at your peril!

Planet Payment (AIM: PPT) was amongst the initial pilots covered by PSQ and CEO Philip Beck, interviewed in April's edition of *Small Cap News*, said:

“It has got to be a problem for investors to not have good quality research coverage... London Stock Exchange is absolutely right in sponsoring a portal that allows companies to get very good quality research coverage from three very good quality research companies.... We're hopeful it will help sell our story to a larger audience so more people can understand what we do and the success that we are having... [The price is] very reasonable and [the analysts] did a very good job”.

PSQ Analytics early adopters are enjoying an introductory tariff incentive - but time is rapidly running out on the 'early bird' scheme. Visit www.psqanalytics.com for more information about PSQ Analytics.

Shane Smith is CEO for IIR Plc and is based in London. He can be reached at shane.smith@iirgroup.com

Editor's Note: PSQ Analytics is only one of the many equity research services for quoted companies. We will be featuring others in further editions of *Voice*. Watch this space and as with any service you consider - shop around!