**Research in the context of an IPO**

This element explains the importance of research reports and how they are produced.

**Research reports**

Research reports on listed companies are regularly produced by ‘**research analysts**’. These analysts are generally employed by investment banks or corporate brokers who work behind an information barrier so that they remain independent of colleagues who may be advising the companies themselves.

Research is:

* intended to provide an independent view (including forecasts) of the business and prospects of a listed company; and
* may include a recommendation of whether investors should buy, sell or hold the listed company’s issued securities.

Since 2018, it has been obligatory for an issuer to publish either a registration document or a full prospectus before any research is released to analysts.

**Role of research in an IPO**

The publication of research on an applicant for listing is one of the key marketing tools used in an IPO. Research is not a statutory or regulatory requirement but, from a commercial perspective, it is often considered vital to the success of any IPO.

On the one hand, the prospectus is a formal document prepared by the issuer which contains regulatory disclosures as well as the commercial justification for the IPO. On the other hand, a research report contains an analyst’s independent opinion (including in relation to the forecasts) on whether the issuer’s shares would make a good investment.

Investors understandably often see the research report as a very important measure of whether they should invest in the company and at what price.

**Production of research**

In order to produce a research report, an analyst requires access to information about the company. The key source of information is generally a comprehensive presentation by management, based on a set of detailed slides, followed by a lengthy question and answer session (the ‘**Analysts’** **Presentation**’). The analyst will use this information to draw its own conclusions about the prospects for the new issuer.

Research can be produced by **connected** **analysts** or **unconnected** **analysts**, as explained on the following pages.

[DIAGRAM]

The ‘**Analysts’** **Presentation**’

Presentation based on slides - arrow to - Question and answer session

**Analysts**

Key word or definition: ‘**Connected analysts**’ are analysts who are employed in the same group as the brokers/investment advisers/underwriters who are acting for the issuer. Despite this connection, they are required to remain independent of the issuer.

Key word or definition: ‘**Unconnected analysts**’ are independent research analysts, who do not have a connection to any of the advisers to the issuer.

**Conduct of Business sourcebook**

These requirements are enforced through the Conduct of Business sourcebook (the ‘**COBS**’), rather than the LPDT Rules. The COBS rules control how a regulated person is required to carry on its regulated business; they include rules on how analysts must carry on their business of producing research.

**The first key provision** in these rules is that no research on an applicant in an equity IPO may be disseminated by analysts until a specified time period has elapsed after the applicant has published either a prospectus or a registration document that has been approved by the FCA. A registration document is one of the three documents that can make up a tripartite prospectus and contains information about the business and prospects of the issuer (see element entitled ‘The content of the prospectus’).

**The second key provision** is that an applicant in an equity IPO must now make an early decision on whether connected analysts will still be given earlier access to management than unconnected analysts, or whether unconnected analysts will also be invited at an early stage to attend the same Analysts’ Presentation. If unconnected analysts are invited alongside the connected analysts, the earliest any research may be released is one day after the publication of the prospectus or registration document.

If connected analysts are instead given exclusive access to the initial Analysts’ Presentation (and unconnected analysts only receive access to information when the registration document or prospectus is published), the earliest release date for research is instead **seven** **days** after the publication of the prospectus/registration document.

During this seven day period, unconnected analysts must be given access to all the information that the connected analysts previously received; the rules require them to be given the same information as the connected analysts, including the answers to any Q&A. This can be achieved by giving unconnected analysts a chance to attend their own presentation, or otherwise by giving them a written record of the information given to the connected analysts.

**In compliance with these rules, market practice is for issuers to publish a registration document early in the IPO process, rather than a full prospectus. General market practice is also for issuers to choose the seven-day option, which brings unconnected analysts into the process only after the registration document has been published.**

The full set of rules relating to the provision of information to analysts and the dissemination of research is contained in paragraphs 11A.1.4A – 4F of the Conduct of Business sourcebook.

**Association for Financial Markets in Europe (‘’AFME’’)**

AFME is an association that represents the leading global and European banks and other significant capital market players. It has published a number of standard forms and documents for use in equity market transactions, which are widely adopted: including an agreement regulating the relations between underwriters and some model research guidelines.

In response to the changes in the COBS rules, AFME has published a number of additional industry guidelines relating to the new processes to be followed during an IPO. These include a process document and guidelines for unconnected analysts seeking to access information from prospective issuers: this sets out a process by which issuers/banks can facilitate access for unconnected analysts and includes guidelines to be signed by those unconnected analysts who are given access to a prospective issuer. These are commonly adopted by participants in the UK IPO market.

**Summary**

Research reports on listed companies provide an independent view of the business and may include a recommendation of whether investors should buy / sell / hold securities.

Analysts prepare research reports using information gained from a presentation and Q&A session called the ‘**Analysts’ Presentation**’.

‘**Connected analysts**’ are employed in the same group as the brokers/investment advisers/underwriters but must still remain independent of the issuer. ‘**Unconnected** **analysts**’ have no such connection.

The COBS regulates research, in particular preventing dissemination of research until a specified time after publication of either prospectus or registration document.

AFME has also published guidelines in this area which are commonly adopted by participants in the UK IPO market.