Analysts fear repercussions

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SOPHIE BRODIE

The judgment in the LVMH/Morgan Stanley case has sent shock waves through the French financial industry, which believes it could set a precedent for other companies to sue analysts who hold negative views of their stock.

One head of research at a large French bank said: "I fear I'll end up having to spend much more time in the future defending my analysts against companies that are not happy with our opinion."

Many bankers have questioned the decision by the French court to find in favour of LVMH and demand €30m ($38m) in damages from Morgan Stanley. One French broker said the move had gagged analysts under the pretext of protecting their independence. He said: "The court has just given companies more weapons to use against analysts."

A spokesman for LVMH dismissed this view as ridiculous. He said: "LVMH has no problem with criticism as long as people have reasons to back it up and declare their interests."

Analysts claim they are caught between a rock and a hard place when it comes to writing research. One French analyst said: "Fund managers used to say we were not critical enough of individual companies. Now we have the court telling us we might be breaking the law if we are too critical."

A spokeswoman for AFG, France's fund manager association, said: "Our aim in conjunction with SFAF, the analyst association, is to start a debate by putting forward the opinions of people who are widely respected but neutral on the issue – for example academics."

The judgment has already frightened several London-based bulge bracket banks into silence on the subject. However, those brave enough to venture an opinion said they were surprised that Claire Kent, Morgan Stanley's senior luxury goods analyst, who has a reputation for independence even among rivals, should be accused of bias. One UK banker suggested the judgment could cause Morgan Stanley and other banks to review the risks of covering French companies.

Analysts remain divided as to whether LVMH or Morgan Stanley will win the next round if the case goes to appeal. Some think the verdict will be overturned.

However, Jamie Stewart, head of independent research at Eden Group, said: "I can't imagine the French courts will willingly go against one of their own corporates in favour of a US bank – at least in the early stages."

Others have hinted that nationalism and even chauvinism lie behind the verdict. One Paris-based head of research said: "Bernard Arnault chose his target well: a big American, predominantly M&A house."

In court, LVMH linked the evidence of biased research in the US in 2002 to Morgan Stanley's UK business, implying that similar abuses occurred in London. The company accused Morgan Stanley of favouring Gucci, an investment banking client, not directly by flattering it but indirectly by attacking LVMH.

Some analysts feel their banks' $1.4bn settlement with US regulators has labelled them guilty by association of biased research.

Others have taken a philosophical view in the wake of the recent Parmalat and Adecco scandals. A US investment banker in Paris said: "The process of questioning conflicts of interest, which took place a year ago in the US, is now happening here."

Some analysts are used to companies turning on them. One said: "A lot of French companies have found it difficult to accept analysts' independence." Since the number of Sell recommendations increased as a result of the market's two-year downturn and intervention by regulators, analysts have expected complaints.

One French analyst has even compiled a list of companies that raised the most objections. It is topped by companies with dominant shareholders such as LVMH, PPR and Suez.

The analyst said: "Leaders who feel they are personally responsible for the success of their company are the most likely to blame 'biased' analysts when investors start questioning their performance."

sbrodie@efinancialnews.com