



Best Practice Guidelines for Research Integrity





BEST PRACTICE GUIDELINES FOR RESEARCH INTEGRITY

STATEMENT OF SUPPORT

The Best Practice Guidelines for Research Integrity have been developed by the Securities Institute and the Securities & Derivatives Industry Association to assist analysts and their firms in managing potential conflicts of interest which may influence research reports and investment recommendations.

Whilst recognising that the Guidelines are not mandatory, the following organisations believe that the Guidelines provide a benchmark for best practice and support their adoption by the industry.

List of supporting organisations

Australian Shareholders Association

The Institute of Chartered Accountants in Australia

Australian Institute of Company Directors

Australian Stock Exchange

Chartered Secretaries Australia Ltd

DISCLAIMER

These Guidelines are intended to assist in maintaining and raising standards in the securities and financial services industry by fostering ethical and effective markets and by advocating the highest levels of professional conduct, and are a general guideline only. Readers should seek professional advice relating to their particular circumstances. The Securities Institute of Australia, the Securities & Derivatives Industry Association and the supporting organisations listed on page 1 do not warrant or represent that compliance with the Suggested Guidelines will eliminate the possibility of potential conflicts of interest or guarantee the integrity of research outcome, and the Securities Institute of Australia, the Securities & Derivatives Industry Association and the supporting organisations listed on page 1 do not authorise the making of any such representation. These Guidelines do not constitute an endorsement of any participant in the industry.

The Securities Institute of Australia is a self-financing professional organisation representing people engaged in and connected with investment and securities markets.

The Securities & Derivatives Industry Association is a national self-regulatory industry body representing the interests of stockbroking firms and Practitioner members in Australia.

FORWARD

The HON. **Joe Hockey** MP
Minister for Financial Services
& Regulation

Parliament House
Canberra ACT 2600
Australia

Telephone (61 2) 6277 7230
Facsimile (61 2) 6273 4075

www.joehockey.com
joe@joehockey.com

Guidelines for Research Integrity

As Australia's first Minister for Financial Services & Regulation I have been interested in the potential conflicts of interest that analysts and their firms face. Analyst independence has significant implications for the integrity of our markets, and I am concerned that investors should have access to truly independent broker research. It is essential that Australia foster the highest levels of professional conduct in the Australian securities and financial services industry.

The United States Securities Exchange Commission recently urged investors not to rely solely on analyst recommendations when deciding to buy, sell or hold stock. The SEC was concerned that analysts were making recommendations about the performance of companies that, in many cases, their firms and broking houses also work for.

In other cases, the firm or the analysts may themselves own shares in the companies that they are recommending. Similarly, I understand that Japan's Financial Services Agency has asked the Japan Securities Dealers Association to draw up a strict code of conduct for stock analysts.

Against this background I welcome the contribution made by the Securities Institute of Australia and the Securities & Derivatives Industry Association through these "Best Practice Guidelines for Research Integrity". Resolving the complexities of our modern securities practice is never easy. Unfortunately, there are very few "magic wands" capable of solving complex issues like the one's discussed in these guidelines.

I welcome these guidelines as an important contribution to a debate that needs to be had about independent broker research. We must ensure this research is not rendered meaningless and that Australian practitioners are operating in accordance with best practice.

Hon Joe Hockey MP
Minister for Financial Services & Regulation

PREFACE

The Best Practice Guidelines for Research Integrity have been prepared by the Securities Institute of Australia and the Securities & Derivatives Industry Association in consultation with industry bodies, investor groups, regulators and other key stakeholders.

The Guidelines reflect a commitment to raising standards in the securities and financial services industry by fostering ethical and effective markets and advocating the highest levels of professional conduct. They are based on the premise that all market participants have a duty to establish and maintain a corporate culture that protects and promotes the integrity of the market.

Whilst the Guidelines are intended for use by analysts and their firms, the industry recognises that in addition to their primary responsibility to keep the market fully informed, corporate issuers also have a responsibility to respect and promote the integrity of research.

Investors, too, bear responsibility for conducting sufficient research to enable them to make a confident and informed investment decision, rather than simply relying on an analyst's investment recommendation.



Michael Willis FSIA
National President
Securities Institute of Australia



Brendan Egan MSDIA FSIA
Chairman
Securities & Derivatives Industry
Association

BEST PRACTICE GUIDELINES FOR RESEARCH INTEGRITY

INTRODUCTION

The role of the analyst is to promote the efficiency of the market by gathering and analysing information and providing valuable insights on companies and industry trends.

However, where an analyst's firm offers both research and other corporate and trading services, the symbiotic relationship that exists between these activities has the potential to give rise to conflicts of interests which, if not properly managed, could damage investor confidence in the integrity of the market.

PURPOSE

The Best Practice Guidelines for Research Integrity have been developed to assist analysts and their firms in managing potential conflicts of interest that may affect the integrity of research and investment recommendations.

The principles set out in the Guidelines provide an ethical benchmark against which the integrity and quality of research reports and investor recommendations may be judged.

In choosing to comply with these industry-based Guidelines, analysts and firms are demonstrating their commitment to protecting and promoting investor confidence in the integrity of the market.



BEST PRACTICE GUIDELINES FOR RESEARCH INTEGRITY

1. Putting the Interests of Investors First

Analysts have a fundamental duty to put the interests of investors first and should not allow this duty to be influenced by their own interests or those of their firm.

Analysts should be independent and objective observers of the companies they cover and have a reasonable basis, supported by proper research and analysis, for investment recommendations they make.

2. Establishing Separate and Distinct Reporting Structures

Where an analyst's firm offers both research and other corporate or trading services, it should provide separate and distinct reporting structures to ensure that the integrity of research and investment recommendations is not compromised.

Analysts should report directly to the Head of Research and should not submit research reports or investment recommendations to the firm's other corporate or trading units for approval.

Draft research reports may be distributed to companies which are the subject of the research, only for the purpose of verifying facts and only if the investment recommendation has been removed.

3. Having Chinese Walls to Prevent Dissemination of Information

Firms offering research and other corporate or trading services should have in place well-defined Chinese Walls and appropriate compliance procedures to prevent the dissemination of information which may compromise the integrity of research or investment recommendations.

4. Disclosure of Interests

A research report or investment recommendation should disclose, specifically and prominently:

- any economic interest that the analyst or their immediate family may have and which may influence the research report or investment recommendation
- whether any publicly-announced transaction involving the payment of a fee has taken place with a recommended corporate issuer in the previous 12 months

- a list of definitions of the terms used in the firm's recommendations and, if applicable, risk factors.

5. Restriction on Trading

Firms should have policies and procedures in place to avoid potential conflicts of interest where analysts trade in the companies they cover:

- analysts should not trade a security while they are preparing research on it or for a reasonable period after issuing research on it
- analysts should not be allowed to trade in a manner inconsistent with their recommendations.

6. Remuneration Should not be Directly Linked to Revenue

Analysts' remuneration should not be directly linked to revenue received through corporate activities in which the analyst has been involved.

Remuneration should be a reflection of the analyst's overall performance, including the performance of investment recommendations.

7. Investment Recommendations Should be Unambiguous

Analysts' investment recommendations should be unambiguous, consistent and transparent.

8. Dissemination of Research

Research, and any significant changes to investment recommendations, should be disseminated to clients in a timely manner.

9. Statement of Firm's Policies and Procedures

Each firm should produce a written statement outlining its policies and procedures for managing potential conflicts of interest that may influence the integrity of research and investment recommendations.

These policies and procedures should be reviewed on a regular basis to ensure their continuing relevance.

The statement of policies and procedures should be made freely available to investors on request.

10. Monitoring Compliance with Firm's Policies and Procedures

Each firm should monitor compliance with its policies and procedures for managing potential conflicts of interest that may influence the integrity of research and investment recommendations.
