

FREQUENTLY ASKED QUESTIONS
GUIDELINES ON MARKET CONDUCT AND BUSINESS PRACTICES FOR
INVESTMENT ANALYSTS AND THEIR ANALYSTS
(Issued: 8 December 2022)

Core Principles

1. What are the SC’s expectations in relation to the core principles which apply to Investment Analysts and their Analysts?

Examples of the SC’s expectations (non-exhaustive) are as follows:

Core Principles	Examples of the SC’s expectations
1. Care, skill and diligence	Policies and procedures are established and adhered to in ensuring the facts, financial models and methodology employed in producing the research reports and recommendations are robust and reliable.
2. Manage conflict of interests	Appropriate information and physical barriers are established and maintained to safeguard information about unpublished research reports or recommendations from being released and to prevent undue influence from any parties that may compromise the independence of an Analyst or the objectivity of the research-related services provided by an Investment Analyst and its Analysts.
3. Supervision	An Investment Analyst has in place effective monitoring policies and procedures to ensure its Analysts comply with the requirements of these Guidelines and any other obligations applicable in providing research-related services.
4. Market conduct	An Investment Analyst ensures that any recommendation, rating or price target has a reasonable basis, taking into account current market and economic conditions, and is not based on material non-public information.
5. Disclosure and dissemination	An Investment Analyst ensures that the research reports are disseminated responsibly within a reasonable timeframe to manage market impact and enable investors to make informed decisions.

Management & Disclosure of Conflict of Interests

2. Paragraph 7.01 requires an Investment Analyst and its Analysts to identify and manage any actual and potential conflict of interests. What is an example of a scenario in which there is failure to identify and manage actual and potential conflict of interests?

Analyst Z is one of Investment Analyst Y's most prominent analysts in the telecom sector. Analyst Z recently upgraded his rating for public-listed company (PLC A) stocks, from his long-time rating of 'Neutral' to a 'Buy' rating.

Prior to the upgrade, the CEO of PLC A requested that Analyst Z take a 'fresh look' at PLC A and offered a paid-for trip for Analyst Z to visit one of PLC A's processing plants. However, this was not disclosed in Analyst Z's research report.

An Investment Analyst should have in place policies and procedures to identify and manage conflict of interests. In this situation, Investment Analyst Y would fail to meet this requirement if it does not have in place the necessary policies and procedures which clearly set out:

- (a) the principles and criteria to determine whether or not there is a conflict of interest relating to its staff; and
- (b) where there is a conflict of interest—
 - (i) an obligation on its staff to report such conflict of interests to relevant identified person(s); and
 - (ii) the action(s) to be taken to address such conflict of interest such as requiring Analyst Z to be excluded from being involved in the research report of PLC A or to disclose the paid-for trip to PLC A's processing plant in his research report.

3. What is considered as conflict of interests for Investment Analysts involved in other business functions as stated in paragraph 7.02 of the guidelines?

Possible conflicts of interests for Investment Analysts involved in other business functions can include the following:

- (a) The Investment Analyst offers favourable research coverage on a Subject Company or prospective corporate clients so as to procure corporate finance business for the Investment Analyst;

- (b) The Investment Analyst's compensation structure of its analysts is tied to the income generated from their ability to procure corporate finance business or other business from a Subject Company; and
- (c) Any other arrangements, relationships or circumstances which may compromise the independence and objectivity of the Investment Analyst or its Analysts by virtue of being beholden to a Subject Company or prospective corporate clients.

4. What are examples of explicit or implicit promises of favourable research as prohibited in Paragraph 7.09?

Examples of promises, explicit or implicitly made, that are prohibited include the provision of related-research services that contain—

- (i) promises of specific results or profits;
- (ii) exaggerated or unjustifiable claims;
- (iii) opinions without reasonable basis; or
- (iv) forecasts of future events which are not clearly labelled as forecasts.

5. Are there any circumstances where an Analyst may be allowed to personally deal and trade after issuing a research recommendation under paragraph 7.10?

An Investment Analyst may only consider granting an exception to the restriction in trading activity under special circumstances i.e. where there is a material development, including an announcement of significant news or occurrence of material events, shortly after the issuance of the research report resulting in a material change to or inapplicability of the research recommendation.

The assessment or determination of any special circumstances to justify an exception to the restriction and the approval of such trades should be by authorised personnel who is independent of any research, dealing and corporate advisory functions.

6. What is an example of an Analyst trading in a manner contrary to his most recent recommendations as prohibited in paragraph 7.10(a)?

This includes a situation where an analyst issues a 'Sell' recommendation on a Subject Company, which results in a significant drop in its stock price. However, two days later, the analyst buys a substantial amount of stocks in the Subject Company at the lower price.

7. What are considered as activities designed to solicit corporate finance advisory businesses as mentioned in paragraph 7.11(b)?

These activities may include an engagement with a Subject Company, a marketing pitch, road shows or any other deals or negotiations which are not related to preparation of the research report.

8. What are some examples of 'any other relationship' as referred to in paragraph 7.12(c)?

Examples of 'any other relationship' in relation to an Analyst may include—

- (i) an immediate relation (e.g. spouse, partner, parent, child or sibling, etc.) who is an officer, director, or advisory board member of the Subject Company or its related entity; or
- (ii) any personal relationship between an Analyst and an employee or agent of a Subject Company that gives rise to or has potential to cause conflict of interests.

9. Paragraph 7.13(e) requires disclosure if I have received a material benefit in relation to the production of my research report. What are some examples of benefit and what should my disclosure include?

Examples of benefit may include a gift or a paid-for trip sponsored by a Subject Company. As per paragraph 7.15, the disclosure should be clear and meaningful. It should include, among others, the identity of the party who provided the benefit, and the nature and form in which the benefit was received.

10. What is an example of an Analyst failing to provide a clear disclosure, as required in paragraph 7.15?

As an example, Analyst F provides positive research coverage on PLC G and PLC H after announcement of proposed mergers with private companies. Analyst F praises both mergers in his research reports and media statements.

However, he fails to disclose that he owns stocks in these private companies which could give rise to a conflict of interest because if the mergers materialise, the value of Analyst F's holding would increase significantly.

Confidentiality of Unpublished Research Reports

11. What is an example of improper use of material non-public information in relation to paragraph 8.02?

An example of improper use of material non-public information is where an Investment Analyst trades or invests in the shares of a Subject Company ahead of its own research report of the Subject Company which could give rise to a potential violation of insider trading provisions.

In many cases, the content or conclusion of a research report may comprise material non-public information. Such research recommendations may be price-sensitive material information which may impact or influence the price of a company's shares.

12. Are there any circumstances where an Investment Analyst may provide research-related services during the blackout period as set out in paragraph 8.09?

The provision of any research-related services during the blackout period, including making a public appearance, may be permitted in relation to publicly-known events that have a material impact on, or cause a material change to, a Subject Company's operations, earnings or financial condition. In this regard, the Investment Analyst should maintain records of any public appearances by its Analysts in order to demonstrate compliance with the aforementioned.

However, the provision of such research-related services should be limited to the effects of the event that triggered the exception and may contain or update a price target, rating or recommendation concerning the Subject Company's securities.