

# **GUIDELINES ON MARKET CONDUCT AND BUSINESS PRACTICES FOR INVESTMENT ANALYSTS AND THEIR ANALYSTS**

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**GUIDELINES ON MARKET CONDUCT AND BUSINESS PRACTICES FOR  
INVESTMENT ANALYSTS AND THEIR ANALYSTS**

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# **PART A**

## **Chapter 1**

### **INTRODUCTION**

- 1.01 The *Guidelines on Market Conduct and Business Practices for Investment Analysts and Their Analysts* (Guidelines) are issued by the Securities Commission Malaysia (SC) pursuant to section 377 of the *Capital Markets and Services Act 2007* (CMSA).
- 1.02 Investment Analysts and their Analysts play an important role in providing investors with valuable insight and information to assess any particular investment opportunity. Consequently, investors often consider the Analysts as experts and place reliance on their research and recommendation in relation to the relevant securities or derivatives and sectors. As such, the SC holds Investment Analysts and their Analysts to high standards of integrity and competence and expects them to exercise reasonable care and diligence in providing research-related services.
- 1.03 These Guidelines seek to outline the core principles and minimum standards to be observed by Investment Analysts and their Analysts towards maintaining fair, efficient and transparent markets by ensuring objectivity, quality and transparency of their research and recommendation.
- 1.04 Any disclaimers in relation to the research and recommendations contained in a research report do not preclude or absolve Investment Analysts and their Analysts from the obligation of responsible provision and dissemination of research.

## **Chapter 2**

### **APPLICABILITY**

- 2.01 These Guidelines apply to all Investment Analysts and their Analysts as defined in paragraph 4.01.
- 2.02 All Analysts are required to comply with the relevant policies and procedures put in place by the Investment Analysts as required under these Guidelines.
- 2.03 The SC may, upon application, grant an exemption from or a variation to the requirements of these Guidelines if the SC is satisfied that—
- (a) such variation is not contrary to the intended purpose of the relevant requirements in these Guidelines; or
  - (b) there are mitigating factors which justify the said exemption or variation.
- 2.04 To assist with the interpretation and application of the requirements under these Guidelines, Guidance has been provided, where appropriate. Any departure from the Guidance will be taken into consideration in the SC's assessment on whether a breach of these Guidelines has occurred.

## **Chapter 3**

### **RELATED PROVISIONS**

- 3.01 These Guidelines are in addition to and not in derogation of any other requirements under securities laws or any other guidelines issued by the SC.
- 3.02 For avoidance of doubt, compliance with these Guidelines does not relieve Investment Analysts or their Analysts from other obligations which may be imposed on them under any other written law or by any other relevant regulator.

## Chapter 4

### DEFINITIONS

4.01 Unless otherwise defined, all words used in these Guidelines shall have the meaning assigned to them in the CMSA. In these Guidelines, unless the context otherwise requires—

Analyst	means a holder of a Capital Markets Services Representatives Licence (CMSRL) for the regulated activity of investment advice, who issues or promulgates analyses or reports concerning securities or derivatives, whether electronically, in print or any other form;
associated person	in relation to an Investment Analyst, refers to—  (a) a director or secretary of the Investment Analyst;  (b) a body corporate that is related to the Investment Analyst; or  (c) a director or secretary of such a related body corporate;
compliance function	refers to a compliance officer or any person who is primarily responsible for the compliance function of an Investment Analyst;
Head of Research	refers to an authorised personnel of an Investment Analyst who is primarily responsible to lead and oversee the research function;
Investment Analyst	means a holder of a Capital Markets Services Licence (CMSL) for the regulated activity of investment advice, either as a sole regulated activity or in addition to other regulated activities, who issues or promulgates analyses or reports concerning securities or derivatives, whether electronically, in print or any other form;
investor	means any person who takes or may take any action or position in securities or derivatives based on the research-related services provided by an Investment Analyst and its Analyst;

material non-public information	refers to such information which would or would tend to, on becoming generally available, influence reasonable persons in deciding whether to take any action or position regarding the relevant securities including whether to acquire, dispose of or hold the relevant securities;
research-related services	means issuing or promulgating analyses or reports concerning securities or derivatives, whether electronically, in print or any other form;
research function	means any function, whether or not identified as such, that is primarily responsible for preparing the substance of a research-related services on behalf of an Investment Analyst;
Restricted List	refers to a list of securities for which an Investment Analyst potentially possesses material non-public information on; and
Subject Company	means any company whose securities are the subject of the research-related services;



## PART B

### Chapter 5

#### CORE PRINCIPLES

5.01 Chapter 5 sets out the core principles which apply to Investment Analysts and their Analysts, where applicable, as below:

<b>Core Principles</b>	
<b>1. Care, skill and diligence</b>	An Investment Analyst and its Analysts must ensure that they exercise reasonable care, skill and diligence in providing research-related services.
<b>2. Manage Conflict of Interests</b>	An Investment Analyst and its Analysts must manage, including avoiding and mitigating, actual and potential situations of conflict of interests appropriately, adequately and fairly.
<b>3. Supervision</b>	An Investment Analyst must establish and maintain an adequate supervisory system to ensure their research-related services are managed responsibly and effectively.
<b>4. Market conduct</b>	An Investment Analyst and its Analysts must conduct their research-related services in a manner which contributes to the maintenance of a fair and orderly market.
<b>5. Disclosure and Dissemination</b>	An Investment Analyst and its Analysts must exercise reasonable care and communicate in a way which is clear, fair and not misleading to ensure that the informational needs of investors are met.

## **Chapter 6**

### **INTEGRITY AND ETHICAL BEHAVIOUR**

- 6.01 An Investment Analyst and its Analysts must observe a high standard of integrity and objectivity in providing any research-related services.
- 6.02 An Investment Analyst and its Analysts must—
- (a) act in an ethical manner with honesty, respect, competence and dignity; and
  - (b) exercise independent and objective judgement with reasonable care.

## Chapter 7

### MANAGEMENT & DISCLOSURE OF CONFLICT OF INTERESTS

- 7.01 An Investment Analyst and its Analysts, where applicable, must identify and manage any conflict of interests or potential conflict of interests that may compromise the independence of the Analysts or the objectivity of the research-related services provided by the Investment Analyst and its Analysts.
- 7.02 An Investment Analyst should regularly assess its policies and procedures with regard to conflict of interests to ensure that the policies and procedures are tailored to the nature, scale and complexity of their business, particularly for Investment Analysts who are involved in other business functions that may prejudice the objectivity in their provision of research-related services.
- 7.03 Such policies and procedures are to be disseminated to all Analysts and made available upon request to prospective and existing clients of the Investment Analyst's research-related services.
- 7.04 Investment Analysts must also have in place, among others, the following controls governing business conduct:
- (a) Process on conflict of interests clearance for routine day-to-day transactions, including handling and approval arrangements for significant or sensitive transactions;
  - (b) IT solutions to monitor conflict of interests at transactional level, both within and across business lines; and
  - (c) Documentation and record keeping measures to manage conflict of interests.
- 7.05 An Investment Analyst must structure the reporting lines and approving authority within its research function to ensure the objectivity of the research-related services provided by its Analysts by avoiding or eliminating conflict of interests.
- 7.06 Where an Investment Analyst is unable to avoid or eliminate conflict of interests, the Investment Analyst must effectively manage such conflict of interests, including but not limited to the following:
- (a) Ensure that Analysts are not reporting to, supervised or controlled by any person or function that may pose actual or potential conflict of interests;
  - (b) Prohibit functions not directly responsible for the production and distribution of research reports, other than legal and compliance functions, from pre-publication review, clearance or approval of research reports; and

- (c) Limit input from non-research functions in respect of decisions on research coverage initiation and termination to ensure objectivity of research-related services.

7.07 An Investment Analyst must structure its Analysts' remuneration in a way to avoid any bias in their research analyses and recommendations or any incentive that may compromise the independence of the Analyst or the objectivity of his research, including but not limited to the following:

- (a) Salary, bonus or other form of compensation to Analysts must not be based on or linked to any dealing or corporate finance advisory transactions; and
- (b) The basis upon which an Analyst's compensation is established and decided upon must be properly documented.

7.08 An Investment Analyst must ensure that its Analysts' remuneration is reviewed and approved regularly by senior management personnel who report to the Board of Directors of the Investment Analyst.

**Guidance to paragraph 7.08**

In reviewing its Analysts' remuneration, an Investment Analyst should consider, among others, the following factors, where applicable:

- (a) The Analyst's individual performance;
- (b) The correlation between the Analyst's recommendations and the performance of the recommended securities; and
- (c) The overall ratings received from clients of the Investment Analyst's research-related services, peers independent from the dealing and corporate finance advisory function and external independent ratings services.

7.09 An Investment Analyst must prohibit explicit or implicit promises of favourable research as consideration or inducement for the receipt of business or compensation. Any research report must be properly evaluated and be subjected to the approval of the Head of Research or the authorised delegate to ensure that the analyses, recommendation, rating and price target proposed are objective and has a reasonable basis.

7.10 An Investment Analyst must establish, maintain and enforce policies and procedures governing the personal dealing and trading activities of its Analysts to address any

actual or potential conflict of interests that may compromise the independence of the Analyst or the objectivity of his research, including but not limited to the following:

- (a) Prohibit its Analysts from trading in a manner that is contrary to their most recent recommendations, except in circumstances determined to be acceptable by the Investment Analysts' conflict management policies and procedures;
- (b) Prohibit its associated person or its Analyst from dealing in or trading within a period before and after the provision of research-related services. Such period must—
  - (i) be clearly assessed and specified by the Investment Analyst; and
  - (ii) take into consideration that investors would have had a reasonable opportunity to act on the research recommendations and information therein;
- (c) Prohibit its Analysts from circumventing any trading restrictions by encouraging or arranging for others to trade or deal during such period as specified by the Investment Analyst pursuant to subparagraph (b).

7.11 An Investment Analyst must supervise and restrict the participation of its Analysts in any business activities which could reasonably jeopardise the objectivity of the research-related services or cause conflict with their duties to investors, including but not limited to the following:

- (a) Ensure its Analysts are not serving as officers or directors of Subject Companies under their coverage; and
- (b) Restrict its Analysts from participating in activities designed to solicit corporate finance advisory businesses.

7.12 An Investment Analyst must establish, maintain and enforce policies and procedures to ensure that its Analysts abstain from influencing or participating in the preparation of the research-related services including the content of the report, particularly where an Analyst—

- (a) owns securities of the Subject Company or its related entity;
- (b) has recent employment or other significant business relationships with the Subject Company or its related entity; or
- (c) had, has or is aware of any other relationship with the Subject Company or its related entity,

which in turn, gives rise to or has potential to compromise the independence of the Analyst or the objectivity of his research.

7.13 An Investment Analyst and its Analysts, where applicable, must disclose all actual or potential conflict of interests in respect of the research report at the material time including in the following circumstances where:

(a) The Investment Analyst or its associated person has a material financial interest;

**Guidance to paragraph 7.13(a)**

A material financial interest refers to any financial interest in a transaction that may reasonably be expected to compromise the independence and objectivity of the Investment Analyst's judgment when providing research-related services in relation to a Subject Company.

(b) The Investment Analyst is a market maker in the securities of the Subject Company covered within the research report;

(c) An associated person or a staff of the Investment Analyst serves as a Board member or officer of the Subject Company covered within the research report;

(d) The Investment Analyst received a compensation for corporate finance advisory services from the Subject Company in the past 12 months;

(e) The Investment Analyst or its Analyst receives a material benefit in relation to the production of the research report; and

(f) Any other material circumstances which could give rise to actual or potential conflict of interests.

7.14 Without affecting the generality of paragraph 7.13, the Investment Analyst must have in place proper policies and procedures in relation to—

(a) the threshold of materiality that would require the necessary disclosure; and

(b) the rationale and methodology of deriving such threshold of materiality.

7.15 All disclosures must be clear, prominent and meaningful to enable investors to make informed decisions. The disclosure should not be too general and should include the nature of the actual and potential conflict of interest situations at the material time of the provision of the research-related services.

## Chapter 8

### **CONFIDENTIALITY OF UNPUBLISHED AND PROPOSED RESEARCH REPORTS AND RECOMMENDATIONS**

- 8.01 An Investment Analyst must put in place policies, procedures, appropriate information and physical barriers to regulate the flow of information relating to unpublished and proposed research reports and recommendations within its business functions. Such policies and procedures include but are not limited to the following:
- (a) Requirement that research reports and recommendations must be prepared within the research function;
  - (b) Restrict information and physical access relating to unpublished and proposed research reports and recommendations to only within the research function until publication;
  - (c) Active monitoring, surveillance and controls to ensure proper functioning of all information and physical barriers;
  - (d) Effective monitoring tools in dealing with provision of research-related services concerning securities on the Restricted List; and
  - (e) Routine reviews on trading in securities listed on the Restricted List, including review on historical trades by Analysts who were brought over the information and physical barriers to provide their expert opinion on an underwriting proposal for the corporate finance advisory function.
- 8.02 An Investment Analyst must establish, maintain and enforce policies and procedures to ensure that discussions and references in relation to material non-public information is contained within the research function and other authorised non-research functions such as legal and compliance. Such policies and procedures must provide, among others—
- (a) in relation to the communication with investors and the sales and trading function, if any, that—
    - (i) any communication be restricted to previously published research reports and publicly available information; and
    - (ii) such communication does not discuss or imply, among others, any upcoming change in recommendation, rating, price target or earnings estimates;

- (b) in relation to the Subject Company, that—
  - (i) all communication with the Subject Company or with any third party in relation to the Subject Company is properly documented to avoid, among others, any potential dispute or allegation of misrepresentation or misleading information in the provision of research-related services;
  - (ii) any section of a research report that might communicate or relate to the research summary, recommendation, rating, price target or any other non-factual information is not shared or communicated to the Subject Company or any third party prior to the provision of any research-related services; and
  - (iii) any disagreement or dispute arising from factual errors, omission, conflict of interests, partiality, etc. with the Subject Company, is managed amicably.
  
- 8.03 Only non-research functions which are appropriately authorised in accordance with the policies and procedures of an Investment Analyst may review the research reports and recommendations before publication to verify the factual accuracy of information or to identify conflict of interests, if any, provided that all communications are made through legal and compliance functions.
  
- 8.04 After the Subject Company's review, if there is a need to amend the proposed research reports and recommendations particularly in relation to the rating or target price, approval must be sought from the Head of Research or the relevant authorised delegate subject to sufficient justification and documentation prior to any amendment being implemented.
  
- 8.05 A completed draft of the research reports and recommendations along with copies documenting subsequent amendments must be given to the legal or compliance function prior to final submission to the Subject Company. The legal or compliance function must ensure that there are reasonable causal grounds for the amendments and monitor the basis for approval accordingly.
  
- 8.06 The timing and content of pending research reports, including any recommendations, estimates and price targets, and decisions to issue research reports must not be disclosed, by any means, to anyone other than the research function or other authorised non-research functions such as legal and compliance functions until such information is disseminated appropriately.
  
- 8.07 An Investment Analyst must ensure that the research reports and recommendations are disseminated responsibly at a reasonable time to manage market impact and enable investors to make informed decisions.



- 8.08 Towards ensuring that no one client or any person would receive or be deemed to receive preferential treatment, an Investment Analyst must establish policies and procedures to ensure fair dissemination of research reports and recommendations to each client's or classes of clients' respective tier of research-related services.
- 8.09 An Investment Analyst must impose a blackout period to prohibit the provision of any research-related services in relation to a Subject Company, including making a public appearance, where the Investment Analyst is involved in non-research related services such as provision of expert opinion on corporate finance advisory activities such as IPO, secondary offerings or underwriting involving the Subject Company.

## Chapter 9

### RESEARCH QUALITY AND CONTENT

9.01 An Investment Analyst must have in place policies and procedures to ensure that the information provided in its research-related services is accurate, relevant, complete and meaningful.

9.02 All recommendations, opinions, ratings, price targets or any changes in the research-related services must have reasonable bases which is supported by adequate research and investigation and must be appropriately, adequately and clearly communicated.

9.03 In this regard, an Investment Analyst must carry out supervision over its research quality and content to ensure the integrity and reasonableness of the following:

(a) Scope and expertise of research-related services

Sufficient information on the nature and scope of the research must be provided to ensure understanding on the scope of service and expertise the Analyst brings to the research task;

(b) Coverage policy

An Investment Analyst must provide the summary of information about its coverage policy and indicate the extent of coverage. Information about its coverage policy must be regularly updated and communicated to clients of the Investment Analyst's research-related services.

(c) Basis of recommendation

The concepts and methodologies applied in making the recommendations must be clearly disclosed to ensure key elements and important limitations are understood. Where there are any changes in the recommendation, basis of recommendation, research methodology or approach, the change and all material information in relation to the basis of the change must be clearly communicated and disclosed in providing research-related services;

(d) Facts and financial models

Research recommendations must be based on facts that are not from any material non-public information. Where any Analyst receives material non-public information, they must refrain from providing any research-related services and recommendation in relation to that material non-public information.

An Investment Analyst must also have in place policies and procedures to ensure that the facts and financial models employed by their Analysts in producing the research-related services and recommendations are reliable;

(e) Quality of research

An Investment Analyst must develop clear criteria for assessing the quality of research. Any research report or recommendation must be properly evaluated and be subjected to the approval of Head of Research or the authorised delegate to ensure that the recommendation, rating and price target proposed are objective and has a reasonable basis.

9.04 An Investment Analyst must also establish policies and procedures to rectify and notify investors of any error discovered in the report post-publication which may have an impact on the recommendation, rating or price target.