Monetary Authority of Singapore

FINANCIAL ADVISERS ACT
(CAP. 110)

GUIDELINES ON ADDRESSING CONFLICTS OF INTEREST ARISING FROM ISSUING OR PROMULGATING RESEARCH ANALYSES OR RESEARCH REPORTS

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GUIDELINES ON ADDRESSING CONFLICTS OF INTEREST ARISING FROM ISSUING OR PROMULGATING RESEARCH ANALYSES OR RESEARCH REPORTS

Purpose of these Guidelines

1 These Guidelines are issued pursuant to section 64 of the Financial Advisers Act (Cap. 110) [“FAA”]. They apply to any financial adviser who provides the financial advisory service of advising others by issuing or promulgating research analyses or research reports, whether in electronic, print or other form, concerning any investment product [“FA Service”] under the FAA [such financial adviser hereinafter referred to as a “Financial Institution”].

2 Regulation 14(b)(viii) of the Financial Advisers Regulations (Rg 2) [“FAR”] stipulates that a Financial Institution shall, in the manner that is commensurate with the nature, scale and complexity of its business, ensure effective controls and segregation of duties to mitigate potential conflicts of interest that may arise from its operations. While the obligation to manage conflicts of interest is applicable to the provision of every type of financial advisory service under the FAA, these Guidelines focus specifically on the conflicts of interest that may arise from issuing or promulgating research analyses or research reports. For the purposes of these Guidelines, research analyses or research reports refer to analyses or reports that contain opinions or recommendations about a clearly identifiable investment product[1]. These Guidelines set out examples of potential conflicts of interest that may arise, and the standards and practices expected of the Financial Institution and its representatives [such representatives hereinafter referred to as “analysts”] in relation to addressing such potential conflicts of interest arising from the Financial Institution’s FA Service. For the avoidance of doubt, the examples of potential conflicts set out in these Guidelines are illustrative and are not exhaustive. The failure to comply with the Guidelines may be relied upon to establish or negate any liability in question in relation to any proceeding under the FAR.

[1] For example, economic research or research on asset allocation does not include an opinion or recommendation about a named or readily identifiable investment product, and hence is excluded from these Guidelines.

3 These Guidelines should be read in conjunction with the provisions of the FAA, the FAR, as well as written directions, notices, codes and other guidelines that the Authority may issue from time to time.

4 All terms used in these Guidelines shall, except where the context otherwise requires, have the same meaning as defined in the FAA.

Internal Policies on Research Activities

5 Research analyses and reports play an important role in providing investors with valuable insights and information to assist investors with assessing any particular investment opportunity. They can have a significant impact on the market, and should be objective, clear, fair and not misleading. To this end, a Financial Institution should have in place appropriate mechanisms to ensure the independence of its FA Service from its other business units. Each Financial Institution should establish and implement written policies to effectively manage conflicts of interest which may affect the impartiality of its research analyses and reports.

6 Any procedures or controls designed to manage actual or potential conflicts of interest should be tailored according to the nature, scale and complexity of the Financial Institution’s business. The internal conflict management policy should identify sources of conflicts of interest and address the effects of these conflicts so that the quality of the research and recommendations is not compromised. Senior management should approve and endorse the policies and the Financial Institution should monitor the effectiveness of its conflict management policies.

7 The internal policies should address:

(i) Conflicts arising from:
  a. Trading activities and financial interests of the Financial Institution and its analysts;
  b. Reporting lines and compensation of analysts;
  c. Influence from business relationships of the Financial Institution and other external parties; and

(ii) Standards of disclosure.

Trading Activities and Financial Interests of Financial Institutions and Analysts

8 A Financial Institution may hold stakes in securities or other investment products that allow it to benefit from favourable research analyses or recommendations issued by its analysts. Conflicts of interest arise when the Financial Institution has an incentive or is in a position to influence the outcome of the research recommendations. A Financial Institution's trading activities or financial interests should not be allowed to prejudice the research analyses and recommendations made by its analysts. To this end, a Financial Institution should have an adequate basis, supported by research, for making a research recommendation. It should not issue a research report or recommendation that is not consistent with its analysts' actual views regarding a subject company.

9 If an analyst trades in or has financial interests in the securities or other investment products that he covers, the integrity of the Financial Institution's research report may be compromised. To address such potential conflicts of interest, a Financial Institution should establish, implement and enforce policies and procedures for personal trading by its analysts, as well as all its other staff who have access to non-public information. Generally, the personal trading activities of the analysts and staff should be monitored, recorded and where necessary, subject to a formal approval process.

10 An analyst should not trade for himself in a manner that is contrary to his outstanding research recommendations, except in special circumstances that are deemed acceptable by the Financial Institution's conflict management policies. In the event of such special circumstances[2], prior written approval for each trade by the analyst should be obtained from a senior compliance or management staff who is independent of the research, sales trading, dealing or corporate finance advisory functions. Proper documentation of the decision and approval for each trade should be maintained by the Financial Institution.

11 A Financial Institution should have proper segregation policies and mechanisms between the FA Service and other business functions such as sales trading, dealing or corporate finance advisory, to ensure that these other business functions are not privy to information that is not generally

[2] Special circumstances include situations where significant news is publicly announced that would change the research recommendation, or for personal reasons relating to financial hardship, the analyst is required to liquidate a position.

available to the public regarding the timing of and recommendations contained in the research reports to be issued.

12 The Financial Institution and its analysts should not improperly trade in the securities or other investment products in advance of the issuance of the research reports. An example of such improper trading by the Financial Institution is where a staff in another business function of the Financial Institution has come to be in possession of non-public information set out in the research reports, and carries out trading in respect of such securities or other investment products for the Financial Institution or for himself. In this regard, the Financial Institution should have a policy in place for analysts and other staff of the Financial Institution with access to non-public information in the research reports that mandates a "blackout period" for trading of those securities or investment products before and after the issuance of the research reports. The Financial Institution should assess what is a reasonable "blackout period" to be imposed and take reasonable steps to ensure that such analysts and other staff do not circumvent any trading restrictions by encouraging or arranging for others to trade in those securities or investment products during the "blackout period". In assessing what constitutes a reasonable "blackout period" to be imposed after the issuance of the research report, the Financial Institution may take into consideration whether the recipients of the reports would have had a reasonable opportunity to act on the research recommendations and information therein.

Reporting Lines and Compensation of Analysts

13 The reporting lines and remuneration practices within the Financial Institution should be structured to ensure research objectivity by eliminating or where this is not possible, effectively managing, conflicts of interest. The Financial Institution should ensure that its analysts are separate from staff who are performing sales trading, dealing, corporate finance advisory or any other back office function that may affect the independence of the analysts' FA Service. Separate reporting lines should be in place between the analysts and staff from other corporate or business functions. In particular, research reports should not be reviewed or approved by the sales trading, dealing, or corporate finance advisory function, or any other business function that may pose potential conflicts of interest.

14 An analyst's remuneration should be structured in a way to avoid any bias in his research analyses and recommendations. In particular, the

analyst's bonus, salary or other form of compensation should not be based on any sales trading, dealing or corporate finance advisory transaction.

Influence from Business Relationships of the Financial Institution and Other External Parties

15 A Financial Institution's business relationships should not prejudice the research analyses and recommendations of its analysts. A potential issuer might be encouraged to engage the commercial services of the Financial Institution if promised favourable reviews by the research unit. This creates a conflict of interest for the research analyst assigned to cover the securities or other investment products of that issuer. The Financial Institution should not offer favourable research coverage as consideration for business or compensation. Accordingly, a Financial Institution should have an adequate basis, supported by research, for making a research recommendation. It should not issue a research report or recommendation that is not consistent with its analysts' actual views regarding a subject company.

16 Issuers and their stakeholders[3] have a vested interest in the research and recommendations provided by analysts, and may seek to influence the analysts to issue favourable recommendations. The Financial Institution should put in place procedures to manage or eliminate the undue influence of issuers, institutional investors and other external parties on its analysts.

17 There should be robust and effective information and system access barriers between the FA Service and other business dealings or functions of the Financial Institution to ensure independence and objectivity of the analysts' research and recommendations. The Financial Institution should have clearly defined procedures for dealing with situations where such information and system access barriers have been crossed and maintain proper records of such occurrences. In this regard, any pre-deal research that is issued by the Financial Institution or its analysts shall comply with the applicable regulatory requirements under the FAA, the Securities and Futures Act (Cap. 289) and the Securities and Futures (Offers of Investments)(Shares and Debentures) Regulations 2005.

[Amended on 18 October 2013]

[3] Stakeholders include substantial shareholders, substantial unitholders, and persons with controlling interest as may be applicable.

Standards of Disclosure

18 To ensure that investors who rely on the research reports are aware of the conditions under which a Financial Institution and its analysts issue the reports and are therefore able to make informed decisions, disclosures of actual and potential conflicts of interest should be in writing and should be clear and prominent. The information provided should be complete, concise and specific such that investors can understand the actual or potential conflicts of interest and their likely impact on the quality of the research report published. For example, if the Financial Institution makes a market in a particular securities or investment product, generic or boilerplate statements such as the Financial Institution "may or may not have interest in the securities of the issuer" on their own would not achieve the intended outcome of complete, concise and specific disclosure.

19 The Financial Institution and its analysts should disclose any material interest in the subject of the report or recommendation that may create a potential conflict of interest and thereby affect the ability of the Financial Institution to maintain independence and objectivity in its FA Service. This includes, but is not limited to, making disclosures in relation to the issues set out in the following paragraphs.

[Amended on 18 October 2013]

20 The Financial Institution and where applicable, its analysts, should disclose in its research reports if it or its connected persons have a financial interest or make a market in the securities or other investment products of an issuer covered within the research report, and how this can create a conflict of interest that may affect the Financial Institution's or analysts' ability to offer independent and unbiased analyses and recommendations.

21 The Financial Institution and where applicable, its analysts, should disclose in its research reports when its staff or connected persons serve on the board or in trustee positions of an issuer covered within the research report, and if this can create a conflict of interest that may affect the Financial Institution's ability to offer independent and unbiased analyses and recommendations.

22 The Financial Institution should disclose in its research analyses or reports any corporate finance advisory relationship between the Financial Institution or its connected persons, and issuers of the securities or other

investment products being covered in any research analysis or report over the past 12 months, or any other relationship that may create a potential conflict of interest.

23 The Financial Institution and its analysts should disclose any compensation or benefit received by them in connection with the production of a research report. The disclosure should include the identity of the party who provided the compensation or benefit, and the nature of such compensation or benefit, including the form in which such compensation or benefit is made.

24 The Financial Institution should disseminate research recommendations to all interested parties simultaneously to ensure that that no one party would receive, or be deemed to receive, preferential service.

Maintenance of proper records

25 A Financial Institution should maintain proper records of the bases and supporting documents of its analysts' research recommendations for a period of not less than 5 years from the date of publication of the research recommendation.