Monetary Authority of Singapore

SECURITIES AND FUTURES ACT (CAP. 289)

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

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

Purpose of these Guidelines

1 These Guidelines are issued pursuant to section 321 of the Securities and Futures Act (Cap. 289) ["SFA"]. They apply to any holder of a capital markets services licence or person who is exempt from holding a capital markets services licence under section 99(1)(a), (b) or (c) of the SFA who has a related corporation that issues or promulgates research analyses or research reports, whether in electronic, print or other form, concerning any investment product [hereinafter referred to as a "Financial Institution"].

2 Regulation 13(b)(ix) of the Securities and Futures (Licensing and Conduct of Business) Regulations (Rg 10) ["SFR"], 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[1]. While the obligation to manage conflicts of interest is applicable to all holders of capital markets services licenses and persons who are exempt from holding a capital markets services licence under section 99(1)(a), (b) or (c) of the SFA, these Guidelines focus specifically on the conflicts of interest that may arise from the related corporation of a Financial Institution 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[2]. These Guidelines set out examples of potential conflicts of interest that may arise between the Financial Institution and its related corporation which carries out research activities, and the practices expected of the Financial Institution in relation to addressing such potential conflicts of interest arising from the

[1] This requirement applies to CMS licensees and, read with regulation 54, applies to a person who is exempt from holding a capital markets services licence under section 99(1)(a), (b) or (c) of the SFA.

[2] 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.

related corporation's research activities. 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 SFR.

3 These Guidelines should be read in conjunction with the provisions of the SFA, the SFR, 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 SFA.

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 with a related corporation should have in place appropriate mechanisms to ensure the independence of the related corporation's research activities. Each Financial Institution should establish and implement written policies to effectively manage conflicts of interest which may affect the impartiality of the related corporation's 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 related corporation's 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 conflicts arising from:

(i) Trading activities and financial interests of the Financial Institution;
(ii) Influence from business relationships of the Financial Institution and other external parties.

Trading Activities and Financial Interests of Financial Institutions

8 A Financial Institution may hold stakes in specified products or other investment products that allow it to benefit from favourable research analyses or recommendations issued by its related corporation. Conflicts of interest arise when the Financial Institution has an incentive or is in a position to influence the outcome of the related corporation's 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 related corporation.

[Amended on 8 October 2018]

9 A Financial Institution should have proper segregation policies and mechanisms between the related corporation and its own business functions such as sales trading, dealing or corporate finance advisory, to ensure that these business functions are not privy to information that is not generally available to the public regarding the timing of and recommendations contained in the research reports to be issued. The Financial Institution should establish, implement and enforce policies and procedures for personal trading by all its staff who have access to non-public information. Generally, the personal trading activities of such staff should be monitored, recorded and where necessary, subject to a formal approval process.

10 The Financial Institution and its staff should not improperly trade in the specified products or other investment products in advance of the issuance of the research reports by its related corporation. An example of such improper trading by the Financial Institution is where its staff has come to be in possession of non-public information set out in the research reports of its related corporation, and carries out trading in respect of such specified products or other investment products for the Financial Institution or for himself. In this regard, the Financial Institution should have a policy in place for its staff with access to non-public information in its related corporation's research reports that mandates a "blackout period" for trading of those specified products or investment products before and after the issuance of the related corporation's research reports. The Financial Institution should assess what is a reasonable "blackout period" to be imposed and take reasonable steps to ensure that such staff do not circumvent any trading restrictions by encouraging or arranging for others to trade in those specified products 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.

[Amended on 8 October 2018]

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

11 A Financial Institution's business relationships should not prejudice the research analyses and recommendations of its related corporation. A potential issuer may be encouraged to engage the commercial services of the Financial Institution if promised favourable reviews by its related corporation. The Financial Institution should not offer favourable research coverage by its related corporation as consideration for business or compensation.

12 Issuers and their stakeholders[3] have a vested interest in the research and recommendations provided by the Financial Institution's related corporation, and may seek to influence the related corporation 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 related corporation.

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