CP290 PROPOSAL	CP290 CONSULTATION QUESTION	SAFAA COMMENTS
B1 Our proposed guidance:		
(a) defines MNPI as information that: (i) is not generally available, and (ii) if the information were generally available, a reasonable person would expect it to have a material effect on the price or value of particular financial products;	B1Q1 Is the guidance on how a licensee identifies MNPI helpful? If not, why not? Please include in your reasons what alternative measures you think would be helpful.	The Guidance is helpful. We believe that some clarification would be useful as to the exclusion from the insider trading prohibitions of "generally available" information as defined in paragraph (1)(c) of section 1042C Corporations Act. Our members believe that there is sometimes a suggestion in some quarters that the contents of draft research could trigger the insider trading provisions prior to publication of the research, particularly where the analyst is considered to be "market moving". Whereas the effect of section 1042C ought to make it clear that the information is generally available (unless of course the research is not based entirely on readily observeable information or information which has been disclosed, which would be a different matter).
(b) sets out our expectation that licensees will have policies and procedures to identify MNPI. These could include advising staff to verify whether information has been made generally available by:	B1Q2 Should we provide more detailed guidance on the training we expect licensees to conduct for their staff to identify MNPI? If so, please describe.	No
(i) checking the market announcement platforms and company website; and	B1Q3 Relative to what you are already doing to ensure that MNPI is handled appropriately, would our proposed guidance lead to you incurring any additional business costs? If so, please provide an estimate of these costs and why.	No comments.
(ii) where appropriate, asking the company to identify where the information has been publicly disclosed;		

(c) states that we expect the relevant policies and procedures to be available to all staff and to be supported by training.		
B2 Our proposed guidance sets out our expectations that licensees will have policies and procedures in relation to MNPI which address its identification and what staff should do when they receive MNPI.	B2Q1 Do you agree with our proposed guidance? If not, why not? Please be specific in your response.	We make the basic observation that, if an issuer needs to be contacted to verify that information has been publicly disclosed, this should be done at an appropriate level. Prudent procedures should require staff to escalate to an appopriate level for ths prurpose, and to ensure that any enquiries are co-ordinated, and not conducted by a multitude of staff at all levels.
	B2Q2 Are there alternative or additional measures to those listed in our guidance that should be included in the policies and procedures for identifying and managing MNPI? If so, what are those alternative or additional measures? Please give a detailed response.	No comments.
	B2Q3 Relative to what you are already doing to ensure that MNPI is handled appropriately, would our proposed guidance lead to you incurring any additional business costs? If so, please provide an estimate of these costs and why.	No comments.

B3 Our proposed guidance sets out our expectation that licensees must implement, maintain and monitor wall-crossing procedures. We expect the procedures to include a requirement for a written acknowledgement by the research analyst that they have been wall-crossed. We also expect compliance or another control function to manage the procedure and to be notified as soon as a research analyst is in possession of MNPI. The wall-crossing procedures should inform staff, in particular research analysts, what they may or may not do once they are in possession of MNPI, for so long as the information constitutes MNPI.		
	B3Q1 Do you agree with our proposed guidance on wall-crossing procedures? If not, please give your reasons.	The guidance is largely non- contentious. We do not support the requirement for analysts to provide a written acknowledgement that they have been wall crossed. This is an unnecessary bureacratic step. It should be sufficient for the analyst to be notified in writing and recording that the notification has been given.
	B3Q2 Do you think our proposed guidance sufficiently sets out our expectations of when a research analyst should be wall-crossed and how this should be done? If not, please give your reasons. Please include in your comments what additional guidance, if any, you would expect to be provided.	We refer to the answer to B3Q1 above.

	B3Q3 Relative to what you are already doing to ensure that wall-crossing procedures are implemented, would our proposed guidance lead to you incurring any additional business costs? If so, please provide an estimate of those costs and why.	We refer to the answer to B3Q1 above.
B4 Our proposed guidance requires research analysts to provide a declaration or certification for sell-side research:		
(a) about whether or not they have been in contact with the company, the subject of the research, in the month before the research's publication;	B4Q1 Do you agree that the research analyst should be expected to provide the certification or declaration? If not, why not? Please be specific in giving your reasons.	SAFAA does not support the need for such written declarations. It is an unnecessary bureacratic step which achieves nothing. All of the matters in the declaration are what is required. If something is required, then there is no need to state the obvious that the requirements have been complied. If they haven't, then the research should not be published. There are already espressed concerns that the formal notices accompanying research are too long, complex, and not often read. Adding a lengthy declaration that adds nothing but length to the formal notices will only exacerbate these concerns. In relation to sales desk notes or other communications not emanating from research, we reiterate our comments in the General Submissions above. Extending these obligations to those other communications is highly impractical. It would be better for any ASIC Guidance to make it clear that the management of any risks associated with such communications is a matter for the licencee, and that the Draft RG does not extend to such communications.

(b) that they are not in receipt of MNPI and the research does not contain MNPI; and		
(c) that no attempt has been made by any other part of the licensee to influence the valuation information.		As to paragraph (c). This guidance should be clarified to ensure that nothing should prevent a research supervisor/head of research from carrying out their proper supervisory function, which may include requiring an analyst to justify their conclusions as part of the process of quality control, particulalry if the supervisor has concerns that the analysts methods might be flawed. Appropriate supervision should not be construed as an attempt to influence the valuation information. This is reinforced by the proposals in B5 below.
This declaration should be provided to, and recorded by, the licensee's internal compliance or another control function and included in the research. Where the research comprises a desk note, email or flash note, licensees will need to consider whether it is practical to include this declaration in light of the nature of the research and its timeliness.	B4Q2 Do you think the research analyst should provide a certification or declaration about any other matters? If so, please state them and provide your reasons for their inclusion.	We refer to the answer to B4Q1 above.
B5 Research should be reviewed and approved by an experienced supervisor (or by a group of peers) before it is distributed to clients: see RG 79.142. Our proposed guidance sets out our expectation that licensees will have an appropriate review process for:		

(a) initiation of research; and	B5Q1 Do you agree that a licensee should have a review and approval process for an initiation of research? If not, why not? Please give a detailed explanation in your response.	The requirement for there to be a process governing approval for initiation of research is not contentious. The process should come within the supervisory framework which governs the research function within a licensee.
(b) any change to the recommendation or a material change to the price target in the research.	B5Q2 Do you agree that a licensee should have a review and approval process for changes to recommendations or material changes to price targets included in research? If not, why not? Please give a detailed explanation in your response.	Changes to recommendations or material changes to price targets should be the subject of the supervisory framework which applies to the research function within a licensee. In a small firm, the analyst may also be the Responsible manager for the research function, in which case their changes do not warrant being required to be signed off by any other supervisor, particularly if they are the RM for the sales business. In such cases, alternative processes for reviewing the actions of the analyst/RM, having regard to the size and nature of the firm's business, should be able to be devised.
We expect the review to be undertaken by a supervisory analyst (or compliance or another control function) with appropriate knowledge and experience. We also expect sufficient time to be allowed for the review, taking into account the length and complexity of the research and the nature of any changes in the report.	B5Q3 Are there any other matters you think should be subject to a review and approval process? Please provide details.	For clarity, the supervision of decisions to cease research should operate in the same way as decision to initiate coverage.

Our proposed guidance sets out our expectation that the review will consider if the statements in the research are based on generally available information and what to do if it is not generally available, question the reason for the change in recommendation or any material changes to price targets that are made, and ask for the source of the information which supports the change.	B5Q4 Do you think that the review and approval process should be undertaken by a supervisory analyst, or compliance or another control function? Do you think that this is sufficient to ensure the integrity and independence of the research function?	We refer to our answers to B5 Q1 and Q2 above. The supervisory arrangements should depend on the firm and the size and nature of its business. Firms are required to demonstrate that they have appopriate supervision in place, and there should be flexibility as to how this is done. We do not support mandating the need for a supervisory analyst, as many firms would not be large enough to warrant such a role, or might not operate under US requirements which may require a supervisory analyst. SAFAA does not support compliance exercising a supervisory function over research. As mentioned in our General Submissions above, this is not part of the skill set for Compliance, and it also tends to confuse the compliance role.
	B5Q5 Should we provide guidance on what constitutes a material change to a price target? Should we include a percentage movement in the price target? If so, please provide information on what you consider would be appropriate.	The concept of materiality in relation to the price or market for securities is extremely imprecise. We do not believe any guidance could be other than very vague. For this reason, it should be up to firms to adopt their own approach to determining material changes to the price target for a stock.
B6 Our proposed guidance sets out our expectation that licensees will have a process to deal with requests for research analysts' financial models.		
Our expectation of this process is that:	B6Q1 Do you think that requests for research analyst models should be subject to this process? If you do not agree, why not? Please be specific with your reasons.	No Comments

(a) requests will be managed by compliance or another control function;	B6Q2 Relative to what you are already doing to ensure MNPI is managed, would our proposed guidance on requests for research analyst models lead to you incurring any additional business costs? If so, please provide an estimate of these costs and why.	No comments
(b) the research analyst will not know that a request has been made or who made the request;		
(c) asking the research analyst for research analyst models for a number of companies to minimise the risk of the research analyst becoming aware of the purpose of the request;		
(d) only research analyst models that are consistent with the valuation, price target and recommendation in published research should be provided in response to the request; and		
(e) if information is in a research analyst model but is not in published research (for example, comments or notes of the research analyst), it should be redacted from the research analyst model before being provided in response to the request.		
B7 Our proposed guidance is as follows:		

(a) compliance or another control function should undertake regular reviews of communications between research analysts and other parts of the licensee and the issuing company. This may include electronic communications, physical notes and, where available, recordings;	B7Q1 Do you agree with our proposed guidance? If not, please give detailed reasons for your answer.	Guidance in (b) is appropriate so long as there is no mandatory obligation to emply data anlytics tools for such monitoring. These tools can be extremely expensive and beyond the reach of all but the largest firms. Review of communications by random sampling should be an appropriate program. The same holds for the attendance of compliance at such meetings. Attendance should be based on random sampling. It would be impossible for compliance to attend all such meetings, as that would leave little time for anything else, given all of the other functions that compliance must carry out.
(b) licensees may wish to review communications between research analysts, sales and corporate advisory in real-time, using key word 'hits' to signal items requiring further review;		
(c) compliance or another control function should periodically attend meetings where both research analysts and sales are present. This would include sales meetings, meetings to discuss companies or industry sectors, company briefings and meetings with institutional investors. Licensees will need to determine how often compliance or another control function should attend meetings, but we would expect this to occur at least once a month		
C1 We propose that licensees should implement the following controls:		

(a) for genuine pre-solicitation discussions, representatives from various parts of the licensee may attend;	C1Q1 Do you agree with our proposed guidance? If not, please give your reasons. Please include in your response what alternative measures you think would ensure the integrity and independence of the research function of the licensee and management of MNPI during pre-solicitation.	As regards (b) and (c), we refer to our General Submissions above. There are good reasons why a firm may want to obtain the analyst's views prior to solicitation e.g to determine whether the firm should be pursing the transaction, the level of risk to the firm, and so on. The analyst's views as the expert are preferable to relying on ECM valuations. As regards (d), there is no harm in restating this, although it should already be a self-evident requirement under existing laws and guidance. Clearly public side employees should leave the meeting, otherwise they will become insiders. It should be made clear that a firm may consciously make the decision to bring a public side employee, such as an analyst or a dealer, across the wall to work on the transaction, which is the firm's call from a resource and a risk perspective. In those cases, those employees should be allowed to remain, although the firm's wall crossing procedures should have been invoked beforehand.
(b) licensees should not commit to provide research coverage on the company;	C1Q2 Do you think our proposed guidance sufficiently explains our expectations of how a licensee should manage conflicts of interest and MNPI during pre-solicitation? If not, please give your reasons. Please include in your comments what additional guidance, if any, you would expect to be provided.	This section only relates to MNPI. Hence it does not fully set out ASIC's expectations regarding other types of conflict of interest, although we not that some of these are dealt with in later sections of CP 290.
(c) there should be no discussion of valuation information by research analysts or by others when research analysts are present;	C1Q3 Do you think our definition of 'sell-side research' for the purposes of our regulatory guide is appropriate (see paragraph 27 of the attached draft regulatory guide)? If not, please give your reasons. Please provide an alternative definition in your response.	We refer to our General Submissions. We believe that the definition is too broad and should not extend to communications such as sales desk emails.

(d) if there is any discussion that is to involve MNPI or a capital raising transaction, staff from the public side of the licensee should leave the meeting;	C1Q4 Relative to what you are already doing to ensure that MNPI and conflicts of interest are managed appropriately, would our proposed guidance lead to you incurring any additional business costs? If so, please provide an estimate of these costs and why.	
(e) if, however, MNPI has already been discussed or staff from the public side of the licensee obtain MNPI they should follow the internal protocols for the management of MNPI (see proposal B1 above);		
(f) research analysts should maintain a written record of any pre-solicitation meetings; and		
(g) compliance or another control function should undertake periodic reviews to determine the effectiveness of the licensee's arrangements.		
C2 Our proposed guidance allows research analysts to participate in 'vetting' a potential transaction provided the licensee has the following controls in place for interactions between its research analysts and its corporate advisory team:		

(a) research and corporate advisory may interact during the transaction vetting process; however, they should not be aware of each other's opinions on valuation information or unpublished research analyst models;	C2Q1 Do you agree with our proposed guidance on interactions between the research analyst and the corporate advisory team during transaction vetting? If not, please give your reasons. Please include in your response what alternative measures you think would ensure the integrity and independence of the research function of the licensee during the transaction vetting process.	As regards (a) and c), we refer to our General Submissions and previous comments regarding utilising analysts in order to determine whether to pursue a transaction, and reliance on the analyst valuation as preferrable to ECM valuations. As regards (b), SAFAA is totally in agreement that there should be no influence on research analysts brought to bear by corporate advisory staff. This is already well dealt with by ASIC in existing Guidance, and is echoed in the SAFAA Best Practice Guidelines. We believe that this is well understood in the market, and does not necessarily require further clarificaiton. In cases where this does not occur, SAFAA would expect that ASIC would take licencing action and/or any other enforcement action as may be available.
(b) corporate advisory should not place pressure on research or otherwise seek to influence research;	C2Q2 Relative to what you are already doing to ensure that MNPI and conflicts of interest are managed appropriately during transaction vetting, would our proposed guidance lead to you incurring any additional business costs? If so, please provide an estimate of these costs and why.	As regards (e), the monitoring activity should be in accordance with a compliance program determined by the licensee having regard to the size and nature of its business.
(c) research should not provide feedback on valuation information during the transaction vetting process in internal discussions or meetings with the licensee's corporate advisory staff;	C3Q2 Relative to what you are already doing to ensure that MNPI and conflicts of interest are managed appropriately during this stage, would our proposed guidance lead to you incurring any additional business costs? If so, please provide an estimate of these costs and why.	The implications of the proposed Guidance on this Item, and in CP 290 generally, would be to create a significant demand for compliance resources. Availability of compliance staff is scarce, and compliance costs, which have already been consistently rising, would rise further in order to secure the staff needed to perform the control functions envisaged in CP 290.

(d) if research staff obtain MNPI during the transaction vetting process they should follow the licensee's internal protocols for managing MNPI (see proposal B1 above);	C3Q1 Do you agree with the proposed guidance on interactions between the research analyst and the issuing company during the transaction vetting stage? If not, please give your reasons. Please include in your response what alternative measures you think would ensure the integrity and independence of the research function of the licensee during transaction vetting.	As regards (a), we reiterate our General Submissions regarding the need for analysts to be able to directly communicate with the issuer.There are sound reasons asoutlined previously as to why a firm may want the analyst to critically evaluate management and what it is saying. Passing questions and communications compliance is strongly opposed for the reasons outlined above. This includes adding complexity and delay to the process of communication. Compliance does not have the skill set to supervise communications in the way that ASIC envisages, and the potential for errors to arise in the course of inerposing compliance is high. It is one thing for compliance to monitor communications, but another thing for them to **pass through** compliance or for them to supervise them or act as a research control function.
(e) compliance or another control function should be aware of and monitor transaction vetting to ensure that the licensee's policies and procedures are being adhered to;		
(f) compliance or another control function should undertake periodic reviews to determine the effectiveness of the licensee's arrangements; and		
(g) licensees should ensure that additional care is taken in relation to involving research analysts in transactions that relate to listed companies as the likelihood of obtaining MNPI is increased.		

C3 We propose the following guidance on how research analysts should interact with the issuing company during transaction vetting:		
(a) research analysts are not to interact directly with the issuing company;		
(b) any communication between the research analyst and the issuing company should be passed through compliance or another independent control function;		
(c) research analysts may forward questions to compliance or another independent control function, which will then submit them to the issuing company. The research analyst may respond to any subsequent questions from the issuing company that relate to the research analyst's queries, but may not respond to any other questions;		
(d) if a research analyst obtains MNPI during the vetting process, the research analyst should follow their licensee's internal protocols for managing MNPI (see proposal B1 above); and		

(e) compliance or another control function should be aware of and monitor transaction vetting to ensure that the licensee's policies and procedures are being followed. This would include ensuring any communication between the research analyst and the issuing company is passed through compliance or another control function.		
C4 We are proposing to continue to emphasise RG 79.86 along with the following guidance on how licensees should manage their research analysts' interactions with corporate advisory during pitching and before the post-mandate period. Specifically, we propose:		

(a) research analysts should not communicate with, or discuss, the company or the potential transaction with their licensee's corporate advisory team as part of the pitching stage. This includes any discussion of valuation information;	C4Q1 Do you agree with our proposed guidance on interactions between the research analyst and the corporate advisory team during pitching? If not, please give your reasons. Please include in your response what alternative measures you think would ensure the integrity and independence of the research function of the licensee during pitching.	As regards (a), we reiterate our comments in the General Submissions above. A firm may wish to involve an analyst at the pitching stage, if it considers that this is the best use of the analyst. This should be the firm's right to decide, provided of course that the consequences of doing so in terms of bringing the analyst over the wall are acknowledged and managed. As a result, the prohibition in (d) should not be applicable. As regards (f) and (h) we reiterate our earlier comments, that a firm should be entitled to offer research coverage as part of a pitch, subject to compliance with all other requirements relating to the integrity of the content of the research. As regards (c) (h) (i) and (j), these are already required under existing law and/or licence obligations, and are not contentious.
(b) corporate advisory and research should not be made aware of each other's opinions on valuation information or research analyst models;	C4Q2 Do you think research analysts should be allowed to interact with corporate advisory staff during pitching but that this should be subject to other conditions or controls? If so, please include these other conditions or controls in your response. Please also include in your response why you think these alternative conditions would maintain the integrity and independence of the research function during pitching.	We refer to C4Q1 above. We would expect that firms will have in place Wall Crossing Procedures, and research integrity procedures, that would permit interaction of analysts with corporate advisory staff at the pitching stage, in compliance with the existing guidance in RG 79. These should be allowed to operate as intended, and any failures should be dealt with by ASIC by using its enforcement and/or licensing powers.
(c) corporate advisory should not place pressure on research staff or seek to influence research to initiate research coverage or to amend their valuation or price target assessments on issuing companies;	C4Q3 Do you think our proposal will help licensees to manage their conflicts of interest and MNPI during pitching? If not, please give your reasons. Please be specific in what additional guidance you consider is needed.	We refer to Q41 and 2 above. We do not think that the proposals will add anything to the existing guidance on conflicts management, or to the processes that firms will already have in place. As regards the proposals that we do not support, it follows that we do not consider that they would help licensees.

(d) corporate advisory should not represent to issuing companies or their advisers that their research team or analysts were involved in the preparation of, or endorse, the pitch valuation;		
(e) corporate advisory staff should not represent to issuing companies that favourable research coverage will be provided on the issuing company in an attempt to secure a mandate (see also RG 79.86, Table 3);		
(f) in no circumstances should a licensee commit to favourable research coverage of an issuing company (whether express or implied);		
(g) any pitch document should contain a brief explanation of the licensee's policy on the independence of its research and information on how a full copy of the policy can be accessed;		
(h) corporate advisory mandates should not include any commitment or inducement to provide research;		
(i) if a research analyst obtains MNPI during the pitching process they should follow their licensee's internal protocols for managing MNPI (see proposal B1 above); and		

(j) compliance or another control function should be aware of and monitor the pitching stage to ensure policies and procedures are being adhered to.		
C5 We are proposing the following guidance on research analysts' interactions with the issuing company during pitching:		
(a) before the capital raising mandate is signed, research should not meet or communicate with the issuing company or its advisers;	C5Q1 Do you agree with our proposed guidance on interactions between the research analyst and the issuing company during pitching? If not, please give your reasons. Please include in your response what alternative measures you think would ensure the integrity and independence of the research function of the licensee during pitching.	We refer to our General Submissions and previous answers above. We reiterate our submissions that analysts should not be precluded from directly inteacting with the issuer, provided that any consequences are managed in accordance with the law and regulations. Analysts interact with issuers routinely on a day to day basis, and there are clear obligations regarding the exisitnce of MNPI wich are or should be well understood. As regards to (c),we reiterate out comments above regarding the undesirability of interposing compliance between the issuer and research for all communications. As regards (d) (e) and (f), these are already required under exisitng law and/or licence obligations.

(b) any information sought by or provided to the research analyst from the issuing company or its advisers should be passed through compliance or another control function;	C5Q2 Do you think that research analysts should be allowed to directly interact with the issuing company during pitching, subject to other conditions (e.g. no corporate advisory staff present or only when chaperoned by compliance or another control function)? If so, please set these out. Please include in your reasons what other conditions could apply and how they would maintain the integrity and independence of the research produced.	We refer to comments under C5Q1 above.
(c) a research analyst may forward questions to compliance or another control function, who will then submit them to the issuing company. The issuing company may seek clarification of the research analyst's questions through compliance, but may not ask other questions of the research analyst;	C5Q3 Do you think our proposal will help licensees to manage their conflicts of interest and MNPI during pitching? If not, please give your reasons. Please be specific about any additional guidance you consider is needed.	Refer to comments under C4Q3 above.
(d) if research staff obtain MNPI during pitching they should follow their licensee's internal protocols for managing MNPI (see proposal B1 above);	C5Q4 Relative to what you are already doing to ensure the appropriate management of MNPI and conflicts of interest during pitching, would our proposed guidance under proposals C4 and C5 lead to you incurring any additional business costs? If so, please provide an estimate of these costs and why.	
(e) compliance or another control function should be aware of and monitor pitching to ensure that the licensee's policies and procedures are being adhered to; and		

(f) compliance or another control function should undertake periodic reviews to determine the effectiveness of the licensee's arrangements		
D1 We are proposing the following guidance in relation to general IER preparation:		
(a) to minimise the risk of communicating MNPI, valuation information in an IER should be expressed as an enterprise or total value for the issuing company;	D1Q1 Do you agree with our proposals? If you do not, please give detailed reasons for your answer. In your response, please provide alternative controls or measures.	We do not see there being any the proposal to require valuation to be expressed as an enterprise or total value as having any bearing on the management of the risk of communicating MNPI. Information is either MNPI or it is not, and the disclosure of such MNPI is either permissible in certain circumstances or it is not. There should not be any restriction on how valuation information should be presented, subject to the fundamental obligations of the parties to comply with the law on the handling of MNPI.
(b) an IER should include a warning that any initiating coverage value may not be consistent with any IER valuation;	D1Q2 Do you think that not including valuation information in the IER would help manage conflict of interest risks? Please give detailed reasons for your answer.	We do not see there being any connection between the inclusion of valuation information in IER and managing conflicts of interest.Investors like to see valuation information in any research to help them to form an opinion on the offering. Conflicts of interest is a risk that requires management, and this is done by a range of other policies which safeguard the independence of research from influence by others. Valuation information does not contribute to the management of that risk.

(c) research analysts should not have a policy of adopting the mid-point in the IER valuation as a default valuation reference point from which to determine their initiating coverage valuation after the issuing company's securities are issued;	D1Q3 Do you agree that information provided in IERs should be limited to what is reasonably expected to be contained in a prospectus? Please give reasons for your answer.	We do not believe that this is an issue which requires any attempt at standard setting by ASIC. It should be left up to the issuer and the research department. If information is provided in IER that is material to the prospects of the issuer, then presumably it will need to be in the prospectus, as required by law, and if it is not, there would be a question as to why not and whether the prospectus is defective. If information is material to the research report, then it should not be omitted from the research report. These are issues which are managed on a day to day basis already, and do not require any further rules.
(d) an IER should not be used to communicate financial and non-financial information to potential investors that is not public or reasonably expected to be contained in the prospectus relating to the offer. Any valuation information or assumptions in the IER should be based on the financial information to be contained in the prospectus; and	D1Q4 Do you think we should adopt a similar approach to what was consulted on in the UK where an IER is not published until after the prospectus is made public? Alternatively, should any research by a licensee that has been mandated to manage a capital raising transaction be deferred until after the securities have been issued? Please give reasons for your answer.	SAFAA does not support the UK approach or the post-issue deferral. There is no need to introduce these restrictions. Any issues including legal issues are capable of being managed by the parties. The experience of our members is that this is a time when there is a demand from investors for research. There are suitable legal requirement for statutory warnings drawing the attention of investors to the existence of an offer document, and the need for make a decision based on the offer document. These warnings are understood and have been in place for decades. If investors fail to heed those warnings, there is no need for research to be banned entirely in order to protect the subset of investors from their own behaviour. If there are issues of consistency between research and the prospectus, then there are potential remedies that might be available, and no shortage of law firms ready to bring actions on behalf of investors.

(e) research analysts should not release the IER outside the research team (except to compliance or another control function or legal counsel) or circulate it for fact checking until the licensee has a signed mandate to provide corporate advisory services on the relevant transaction (see proposal D2 below).	D1Q5 If you are from the buy-side, do you find valuation information, as presently provided in IERs, valuable? Please give reasons for your answer. When providing your response, please outline what sort of information included in IERs you find particularly useful.	No comment.
D2 We propose continuing to emphasise RG 79.128 and RG 79.141–RG 79.142 along with the following guidance in relation to the type of controls that a licensee should have in place for interactions between their research analysts and their corporate advisory colleagues during the preparation of an IER:		
(a) a licensee's corporate advisory or other non-research staff should not be able to access the licensee's research analyst's research data, working files or draft research (see RG 79.128);	D2Q1 Do you agree with our proposal? If not, please give detailed reasons why. Please include in your response what alternative measures you think would ensure the integrity and independence of the research function of the licensee during preparation of the IER.	As regards (a), (b) and (c), access to research in the course of preparation should already be prohibited under existing guidance. we refer to previous comments regarding the interaction between research and corporate advisory. Likewise, (e) and (f) should also already be a requirement under existing guidance. Regarding (d), we are not supportive of a requirement mandating that oversight must be by compliance or a control function. Research management should be in a position to properly supervise any interaction with analysts, given that the maintenance of research integrity would be one of the key functions of research management.

(b) a licensee's corporate advisory and research staff should not communicate directly or indirectly during the post-mandate period in relation to the issuing company before the IER is widely distributed to potential investors;	D2Q2 Relative to what you are already doing to ensure MNPI and conflicts of interest are appropriately managed during the preparation of IERs, would our proposed guidance lead to you incurring any additional business costs? If so, please provide an estimate of these costs and why.	
(c) discussions or interactions between a licensee's research and corporate advisory staff should be limited to administrative issues relating to the transaction. These may include schedules to meet with potential investors and the timing of the release of the IER;		
(d) any interactions between a licensee's corporate advisory and research analysts should be subject to oversight by compliance or another control function;		
(e) a research analyst's views on valuation information in relation to an issuing company should not be shared outside the research team before it is widely distributed to investing clients except to compliance or another control function and legal counsel which must keep it confidential (see RG 79.141–RG 79.142); and		

(f) licensees should have robust physical and electronic information barriers between a licensee's research team and those staff performing corporate advisory or sales functions (see Section B above).		
D3 We propose to continue to emphasise RG 79.141–RG 79.142 along with the following guidance in relation to the interactions between research analysts and the issuing company and other licensees' research analysts during the IER preparation stage:		
(a) a research analyst may attend a briefing with the issuing company after the transaction mandate has been signed. The briefing allows the research analyst to obtain information about the issuing company's business and operations. This may include site visits of the issuing company's assets or operations;	D3Q1 Do you agree with our proposal? If not, please give detailed reasons why. Please include in your response what alternative measures you think would ensure the integrity and independence of the research function of the licensee in relation to interactions between research analysts and the issuing company during preparation of the IER.	We refer to previous comments regarding the ability of analysts to interact directly with the issuer, and also with the injection of compliance into the process.
(b) compliance or another control function should attend the research analyst briefing. Research analyst requests for additional information (and the responses) provided outside the briefing should be passed through compliance or another control function;	D3Q2 Do you think compliance or another control function should chaperone all meetings between the research analyst and the issuing company or its advisers or just the initial analyst briefing? Do you think any supervision of meetings is necessary to manage conflicts of interest? Please give detailed reasons in your response.	See answer to D3Q1 above.

(c) the issuing company or its advisers may not ask research analysts questions or seek information or comments from the research analysts about valuation information;	D3Q3 Relative to what you are already doing to ensure MNPI and conflicts of interest are appropriately managed during the preparation of the IER, would our proposed guidance lead to you incurring any additional business costs? If so, please provide an estimate of these costs and why.	See answer to D3Q1 above.
(d) the issuing company and its advisers should not express or pass on any views on valuation information to research analysts;		
(e) research analysts should not communicate their views on the issuing company, the transaction or any valuation information before it is widely distributed to investors outside the research team except to compliance or another control function and legal counsel which must keep it confidential (see RG 79.141–RG 79.142);		
(f) a licensee's corporate advisory staff should not participate in or see any communication between research analysts, the issuing company or its other advisers;		
(g) a licensee should maintain a record of any meetings between its research analysts, the issuing company and its advisers;		

(h) research analysts working for different JLMs on the same transaction should not interact (directly or indirectly) on the merits of the issuing company or on the valuation information relating to the issuing company or the transaction. Nor should they discuss or provide access to each other's opinions, research analyst models or draft research on the issuing company.		
D4 We propose the following guidance for checking draft IERs:		
(a) a draft copy of the IER (i.e. before its distribution to investors) may only be distributed outside a licensee's research team in the following situations:	D4Q1 Do you agree with our proposed guidance on restricting who can review the IER? If not, please provide reasons why.	We have no issues other than in respect of (d) and (e). In respect of (d), there is no reason why this process must be carried out by compliance. It should be managed by the Research department staff. They are aware of and must comply with processes which ensure the maintenance of integrity of the research function, and do so routinely in other aspects of research production.
(i) for a review by the licensee's compliance or another control function and/or legal advisers; or	D4Q2 Do you agree with our proposed guidance on restricting the sort of information that can be reviewed? If not, please provide reasons why.	We refer to D4Q1 above.

(ii) to the issuing company and its legal advisers for fact checking and legal review provided all valuation information is redacted and the issuing company and its lawyers agree in writing not to share the draft IER or opinions expressed in it with any other party except each other;	D4Q3 Relative to what you are already doing to ensure conflicts of interest are appropriately managed during the fact checking of research reports, would our proposed guidance lead to you incurring any additional business costs? If so, please provide an estimate of these costs and why.	
(b) feedback that the issuing company or legal advisers pass to research should be limited to factual or legal observations;		
(c) a licensee's corporate advisory staff and the issuing company's other non-legal advisers may not review a draft copy of the IER (redacted or un-redacted) before its release to investors;		
(d) compliance or another control function must manage the distribution process for the unpublished redacted IER, including sending, receiving and vetting comments from the issuing company and its legal advisers;		
(e) the final copy of the IER (including valuation information) may be provided to the issuing company only after it has been widely distributed to potential investors; and		

(f) licensees should maintain a written record of any meetings between a research analyst, the issuing company and, if relevant, the issuing company's legal advisers.		
D5 We propose the following guidance in relation to the IER after its publication:		
(a) the IER should not be amended, updated, reissued or replaced following its distribution to potential investors;	D5Q1 Do you agree with our proposal? If not, please provide reasons for your answer. Please include in your response what alternative measures you think would ensure the integrity and independence of the research function of the licensee after publication of the IER.	The requirements in (a) and (b) are unnecessarily restrictive. All research is issued on the basis that events could arise at any time after issue which could impact on the research. This is understood. If proper records are kept as to the persons to whom IER is given, then issuing updated IER should events arise ought not be a difficult matter. It is not in investors interests to merely withdraw the IER and leave investors none the wiser.
(b) if new information comes to light following the release of the IER (but before the transaction is completed) which renders material statements or information in the IER false, misleading or deceptive, the IER should be withdrawn. All parties who were provided with the IER should be notified that it has been withdrawn and no further IER should be reissued, nor the withdrawn IER updated, amended, reissued or replaced;	D5Q2 Relative to what you are already doing to ensure conflicts of interest are appropriately managed after publication of the IER, would our proposed guidance lead to you incurring any additional business costs? If so, please provide an estimate of these costs and why.	

(c) meetings with potential investors to discuss the IER may include the licensee's research analyst and sales staff. Corporate advisory staff should not be present, nor should the issuing company or its other advisers;		
(d) factual information discussed by research analysts at IER meetings should be consistent with the factual information generally available or reasonably expected to be contained in the prospectus, and licensees should have appropriate review processes;		
(e) any subsidies or reimbursement of expenses in relation to a research analyst's involvement in preparing the IER or attending meetings to discuss the IER should be subject to the licensee's usual policy and procedures for reimbursement of expenses;		
(f) any research analyst's participation in the due diligence of the issuing company may only occur after the IER has been widely distributed to investors; and		
(g) research analysts should not attend 'management roadshow' meetings (that is, meetings with the issuing company or its advisers and potential investors).		

	D5Q1 Do you agree with our proposal? If not, please provide reasons for your answer. Please include in your response what alternative measures you think would ensure the integrity and independence of the research function of the licensee after publication of the IER.	The requirements in (a) and (b) are unnecessarily restrictive. All research is issued on the basis that events could arise at any time after issue which could impact on the research. This is understood. If proper records are kept as to the persons to whom IER is given, then issuing updated IER should events arise ought not be a difficult matter. It is not in investors interests to merely withdraw the IER and leave investors none the wiser.
	D5Q2 Relative to what you are already doing to ensure conflicts of interest are appropriately managed after publication of the IER, would our proposed guidance lead to you incurring any additional business costs? If so, please provide an estimate of these costs and why.	
D6 We propose to continue to emphasise RG 79.120, Table 4 and RG 79.123, Table 5 along with the following guidance in relation to discretionary fees:		
(a) where a capital raising mandate includes a discretionary fee, licensees should have appropriate and robust controls to manage the conflicts inherent in discretionary fees;	D6Q1 Do you agree with our proposals? If not, please provide reasons for your answer. Please include in your response what alternative measures and controls you think would ensure the integrity and independence of the research function of the licensee in relation to discretionary fees.	SAFAA does not raise any issues with D6.

(b) if conflicts are likely to be created or exacerbated through fee arrangements and those conflicts cannot be effectively managed, the fee arrangements should be adjusted or the conflict otherwise avoided (see RG 79.120, Table 4; RG 79.123, Table 5);	D6Q2 Do you think that discretionary fees for transactions on which research is to be provided by a licensee mandated to manage the transaction present conflicts that can only be effectively managed by not publishing any research until the discretionary fee has been determined and paid? If you do not, please give detailed reasons why.	
(c) if a discretionary fee is included in a capital raising mandate and its payment is determined following the release of the IER, care should be taken by licensees to ensure this does not place pressure on a research analyst to produce an IER that is consistent with the issuing company's expectations. Disclosure of the discretionary fee arrangements is unlikely to be a sufficient mitigation of this conflict risk and licensees should consider a range of additional controls; and	D6Q3 Do you think it would be more appropriate for discretionary fees to be prohibited? If not, please give detailed reasons why	
(d) research analysts should not be made aware of the fee arrangements of any existing transactions before the IER is widely distributed to investors. Where a draft prospectus has information about fee arrangements, that information should be redacted from any copy provided to a research analyst before the IER is distributed.		

E1 In our proposed guidance, we will continue to set out our expectations already outlined under RG 79.121–RG 79.124 in relation to controls that licensees should implement as part of their business structure. In addition, our proposed guidance will clarify the following controls:		
(a) information about the initiation and cessation of research, changes to recommendations or unpublished targets to the research team should be restricted to the research team until widely distributed to clients;	E1Q1 Do you agree with the above proposal to provide supplementary guidance on the business model and organisational structure of a licensee to strengthen research independence? If not, please give detailed reasons for your answer. Please include in your response what alternative measures you think would ensure the integrity and independence of the research function of the licensee.	SAFAA does not raise any issues with E1.
(b) compliance arrangements should be clearly documented and communicated to staff and be subject to periodic monitoring and review by compliance;	E1Q2 Do you think there needs to be more specific guidance provided on this point? If so, please give details in your response.	No.

(c) all staff, particularly those involved in the preparation of research or the review of research and corporate advisory staff, should receive training on research independence policies; and	E1Q3 Do you have a view on the impact of MiFID II to our proposals and the likely impact of MiFID II on the structure and funding of research in this market more generally?	The impact of MIFID II will potentially vary from firm to firm. MIFID II is a matter of offshore regulatory priorities, which are not necessarily well founded or correct, in our view. MIFID II principles should not be adopted here unless, as a jurisdiction, there is agreement that they are ones that we should adopt for Australia'smarket. Firms which are not caught be MIFID II should not be compelled to comply with it through indirect measures. To the extent that licencees divest themselves of research departments as a consequence of MIFID II, there is a real question whether the availability of equities research, and access by investors, will be further reduced, and whether there will arise a concentration risk of research being produced by a small number of entities only.
(d) the licensee's research independence policies should be published on its website.		
E2 We are proposing supplementary guidance to clarify the types of controls licensees should implement to manage conflicts of interest when making decisions to provide research coverage. Our proposed guidance will require:		
(a) a licensee to publish on its website:	E2Q1 Do you agree with our proposal? If you do not, please provide detailed reasons for your answer. Please include in your response what alternative measures you think would ensure the integrity and independence of the research function in relation to making decisions on research coverage.	We refer to our General Submissions. There are no issues regarding the publication of criteria for selection of companies for research coverage. However as argued, it should be open to offer research coverage as part of managing the client relationship with the issuer. The proposed Guidance would prevent research coverage in those cases, in particular E2(d), hence we would oppose that part of the Guidance.

(i) how it selects a company for research coverage; and		
(ii) the decision and rationale by the licensee to initiate or terminate coverage of a company;		
(b) that mandate agreements for capital raisings should not include an obligation on or inducement to the licensee to initiate research coverage following completion of the transaction or to provide an IER; and		
(c) final decisions about research coverage to be made by the research team.		
E3 We propose the following guidance on research funding:		
(a) research budgets should be determined by the senior management of the licensee with no input from corporate advisory. This includes input into budget decisions, discussions around the bonus pool for research and the allocation of resources for research;	E3Q1 Do you agree with our proposed guidance that licensees should ensure that research funding should be determined independently of corporate advisory or revenue or results generated by corporate advisory? If you do not, please give reasons for your answer.	SAFAA does not raise any issues with E3.
(b) revenue or results generated by corporate advisory should not be taken into account when allocating research expenses; and		

(c) the research team's budgeting and expense allocation should be reviewed on an annual basis by an independent oversight function such as an audit committee.		
E4 Our proposed guidance will clarify the following:		
(a) remuneration of research is to be determined solely by research management and the senior management of the licensee. Corporate advisory should not provide any input into decisions about the performance or remuneration of research analysts;	E4Q1 Do you agree with our proposed guidance? If not, please give detailed reasons for your response.	SAFAA does not raise any issues with E4.
(b) a research analyst's compensation should not be tied to corporate advisory revenues or results but should be based on quantifiable measures, such as the accuracy of the research and analysis and the results of external rating services. Other factors may include:		
(i) the correlation between the analyst's recommendations and the trading price of the companies they cover;		
(ii) ratings received from clients, independent of corporate advisory;		

(iii) the number and types of research reports produced by the research analyst;		
(iv) the research analyst's seniority, experience and management responsibilities;		
(v) the research analyst's insight and understanding of the companies and industries they cover;		
(vi) the accuracy of the research analyst's forecasts to actual reported results from the companies they cover; and		
(c) the research compensation process may also be subject to an oversight function which would be responsible for ensuring compensation decisions are made in a consistent and appropriate manner.		
E5 Our proposed guidance will specify our expectations that disclosure should include the number of shares and options (including the average acquisition price for shares and the average exercise price for options) held by:		

(a) the research analyst who prepared the research; and	E5Q1 Do you agree with our proposal? If not, please give your reasons why.	As regards (a), the existing practice is for the analyst to disclose whether they hold any of the securities mentioned in the report. We believe that this is adequate disclosure that the analyst has an interest in the subject of the research. Being required to disclose the exact number and the average acquisition price in our submission does not add anything to the disclosure. Furthermore, it makes the administrative task of drafting the disclosure unnecessarily complicated, particularly as the average acquisition price will vary if the position is added to even by a small number of shares. We do not support the additional detail of the disclosure. We also do not support the disclosure in (b). The licensee publishing research has obligations to disclose any material interest that it or any related entities have in the securities of companies mentioned in the report. However, requiring the disclosure of the holdings of the five largest holders at the licensee, where those persons had no involvement in the preparation of the research, is not soundly based, and would be an invasion of the privacy of the individuals concerned. If those individuals had not involvement in the research, then it is impossible to see how any conflict could arise, or how it could be of any relevance to the reader of the research.
(b) the five largest share and option holders at the licensee.		