



# Best Practice Guidelines for Research Integrity



**Stockbrokers  
And Financial Advisers**  

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**Association Limited**



## **BEST PRACTICE GUIDELINES FOR RESEARCH INTEGRITY**

### **STATEMENT OF SUPPORT**

The Best Practice Guidelines for Research Integrity have been adopted by the Stockbrokers And Financial Advisers Association to assist analysts and their firms in managing potential conflicts of interest which may influence research reports and investment recommendations.

Whilst recognising that the Guidelines are not mandatory, the following organisations believe that the Guidelines provide a benchmark for best practice and support their adoption by the industry.

## DISCLAIMER

These Guidelines are intended to assist in maintaining and raising standards in the securities and financial services industry by fostering ethical and effective markets and by advocating the highest levels of professional conduct, and are a general guideline only. Readers should seek professional advice relating to their particular circumstances. The Stockbrokers And Financial Advisers Association do not warrant or represent that compliance with the Suggested Guidelines will eliminate the possibility of potential conflicts of interest or guarantee the integrity of research outcome, and the Stockbrokers And Financial Advisers Association does not authorise the making of any such representation. These Guidelines do not constitute an endorsement of any participant in the industry.

The Stockbrokers And Financial Advisers Association (SAFAA) is the peak body for the stockbroking and financial advisory industry.

SAFAA has both corporate and individual practitioner members.

Corporate members comprise leading Australian retail and institutional stockbroking and financial advisory firms and investment banks.

Practitioner members comprise those employed in the stockbroking and financial advisory industry. Individuals can be Master Members (MSAFAA), or Members (MeSAFAA). Many are employed by SAFAA's Corporate Members.

Persons employed in ancillary industries, such as exchanges, regulators, or legal and accounting firms are eligible for Affiliate Members (AfSAFAA).

Corporate members rely on SAFAA for its policy and advocacy skills.

Practitioner members turn to SAFAA for specialist education and training, and to work with their peers in resolving industry issues.

The Association strives to ensure ethical, efficient and stable listed capital and debt markets.



## PREFACE

The Best Practice Guidelines for Research Integrity have been adopted by the Stockbrokers And Financial Advisers Association in consultation with industry bodies, investor groups, regulators and other key stakeholders.

The Guidelines reflect a commitment to raising standards in the securities and financial services industry by fostering ethical and effective markets and advocating the highest levels of professional conduct. They are based on the premise that all market participants have a duty to establish and maintain a corporate culture that protects and promotes the integrity of the market.

Whilst the Guidelines are intended for use by analysts and their firms, the industry recognises that in addition to their primary responsibility to keep the market fully informed, corporate issuers also have a responsibility to respect and promote the integrity of research.

Investors, too, bear responsibility for conducting sufficient research to enable them to make a confident and informed investment decision, rather than simply relying on an analyst's investment recommendation.

# **BEST PRACTICE GUIDELINES FOR RESEARCH INTEGRITY**

## **INTRODUCTION**

The role of the analyst is to promote the efficiency of the market by gathering and analysing information and providing valuable insights on companies and industry trends.

However, where an analyst's firm offers both research and other corporate and trading services, the symbiotic relationship that exists between these activities has the potential to give rise to conflicts of interests which, if not properly managed, could damage investor confidence in the integrity of the market.

## **PURPOSE**

The Best Practice Guidelines for Research Integrity have been developed to assist analysts and their firms in managing potential conflicts of interest that may affect the integrity of research and investment recommendations.

The principles set out in the Guidelines provide an ethical benchmark against which the integrity and quality of research reports and investor recommendations may be judged.

In choosing to comply with these industry-based Guidelines, analysts and firms are demonstrating their commitment to protecting and promoting investor confidence in the integrity of the market.

## **BEST PRACTICE GUIDELINES FOR RESEARCH INTEGRITY**

### **1. Putting the Interests of Investors First**

Analysts have a fundamental duty to put the interests of investors first and should not allow this duty to be influenced by their own interests or those of their firm.

Analysts should be independent and objective observers of the companies they cover and have a reasonable basis, supported by proper research and analysis, for investment recommendations they make.

### **2. Establishing Separate and Distinct Reporting Structures**

Where an analyst's firm offers both research and other corporate or trading services, it should provide separate and distinct reporting structures to ensure that the integrity of research and investment recommendations is not compromised.

Analysts should report directly to the Head of Research and should not submit research reports or investment recommendations to the firm's other corporate or trading units for approval.

Draft research reports may be distributed to companies which are the subject of the research, only for the purpose of verifying facts and only if the investment recommendation has been removed.

### **3. Having Chinese Walls to Prevent Dissemination of Information**

Firms offering research and other corporate or trading services should have in place well-defined Chinese Walls and appropriate compliance procedures to prevent the dissemination of information which may compromise the integrity of research or investment recommendations.

### **4. Disclosure of Interests**

A research report or investment recommendation should disclose, specifically and prominently:

- any economic interest that the analyst or their immediate family may have and which may influence the research report or investment recommendation
- whether any publicly-announced transaction involving the payment of a fee has taken place with a recommended corporate issuer in the previous 12 months

- a list of definitions of the terms used in the firm's recommendations and, if applicable, risk factors.

## **5. Restriction on Trading**

Firms should have policies and procedures in place to avoid potential conflicts of interest where analysts trade in the companies they cover:

- analysts should not trade a security while they are preparing research on it or for a reasonable period after issuing research on it
- analysts should not be allowed to trade in a manner inconsistent with their recommendations.

## **6. Remuneration Should not be Directly Linked to Revenue**

Analysts' remuneration should not be directly linked to revenue received through corporate activities in which the analyst has been involved.

Remuneration should be a reflection of the analyst's overall performance, including the performance of investment recommendations.

## **7. Investment Recommendations Should be Unambiguous**

Analysts' investment recommendations should be unambiguous, consistent and transparent.

## **8. Dissemination of Research**

Research, and any significant changes to investment recommendations, should be disseminated to clients in a timely manner.

## **9. Statement of Firm's Policies and Procedures**

Each firm should produce a written statement outlining its policies and procedures for managing potential conflicts of interest that may influence the integrity of research and investment recommendations.

These policies and procedures should be reviewed on a regular basis to ensure their continuing relevance.

The statement of policies and procedures should be made freely available to investors on request.

## **10. Monitoring Compliance with Firm's Policies and Procedures**

Each firm should monitor compliance with its policies and procedures for managing potential conflicts of interest that may influence the integrity of research and investment recommendations.

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