Zenith Investment Partners

ZENITH RESPONSE TO:

ASIC CONSULTATION PAPER CP 290

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PREAMBLE

Zenith Investment Partners is one of six main providers of investment research services to retail financial intermediaries in Australia. We welcome any supportive changes to the Australian investment research industry and its processes that improve the potential for Australian investors to maintain and grow their wealth and retirement savings in a safe, well regulated, transparent market. Investment research providers are a key part in this process and any moves to strengthen the regulation of research report providers is applauded. Zenith therefore welcomes the opportunity to respond to Consultation Paper 290 Sell Side Research (CP 290).

As a key player in the sector, Zenith Directors each have over twenty years' experience in retail research in Australia. As Zenith was not a participant in the initial review undertaken as part of Report 486 Sell-side research and corporate advisory, due consideration of our response is greatly appreciated.

To provide context to our responses in CP 290, a brief on the scope of Zenith's research services is provided as follows.

As at the date of this submission, Zenith maintains ongoing coverage on over 600 investment vehicles ranging from unlisted managed investment schemes to ASX listed investment products (excluding Australian Real Estate Investment Trusts).

In the course of providing this coverage, our research personnel conduct hundreds of meetings with managers and other specialists each year across the globe. Ratings go through a formal update at least annually, but are also subject to dynamic changes in response to any events which may result in Zenith changing its view at any time. Thus, the number of actual ratings changes made throughout the year will always exceed the total number of investments covered, frequently by a large margin (50% higher over the last 12 months to 30 June 2017). For more information, visit https://www.zenithpartners.com.au/regulatory-guidelines-funds-research

We have responded directly to a range of questions in CP 290. However, to assist ASIC in delivering the best possible outcome for CP 290 and the resulting Regulatory Guide 000 (RG 000), we wish to raise two key issues which we feel have not been specifically addressed.

Research Coverage

Notwithstanding the connection between CP 290/RG 000 and RG 79 Research report providers: Improving the quality of investment research (RG 79), it appears clear to Zenith that CP 290 is focusing on research on listed entities. Zenith believes it is appropriate to note that in addition to listed companies, there is obviously a wide range of ASX investment products including Listed Investment Companies (LICs), Listed Investment Trusts (LITs) and Exchange Traded Products (ETPs). Zenith believes that the nature of research involved for these products is sufficiently different from that of listed companies to warrant additional scope in RG 000.

Defining Corporate Advisory

CP 290 (and REP 486) relates to ASIC's concerns around the proper identification and handling of material, non-public information (MNPI) and the management of conflicts of interests in the context of sell-side research and corporate advisory activities. In principle, Zenith agrees with many of the proposed measures and we wish to emphasise that we already have comprehensive policies and procedures in place to deal with the identification and handling of MNPI.

However, Zenith believes that it is important to call ASIC's attention to the differences in business models which exist amongst firms which provide sell-side research. We believe these differences are material in determining the relevance of some aspects addressed in CP 290.

REP 486.20 states that “Corporate advisory activities include the provision of capital raising and advisory services to companies and are generally undertaken by investment banking, corporate finance, equity or debt capital market firms or teams within firms. Corporate advisory assists companies to raise capital (debt and equity) and undertake corporate transactions (such as mergers and acquisitions and takeovers)” (Emphasis added).

Zenith believes that additional clarity should be given around what constitutes ‘corporate advisory’ and whether or not all aspects of RG 000 should apply to research firms who are not undertaking corporate advisory activities.

While many sell-side research firms are intimately involved in capital raising activities and advisory work on corporate transactions, other firms (including Zenith) are not. As a result, Zenith believes that many of the issues raised in Section D of RG 000 will create confusion and contribute to more onerous disclosure without material benefit.

We believe that a clearer definition of corporate advisory with relevance to RG000 should be considered. Our view is that such services have three defining attributes:

- Presence of a formal mandate between a research firm and the issuing company that the research firm will undertake fund raising activities, typically with specific targets being stipulated;
- Formal agreements between a research firm and the issuing company relating to advice on corporate transactions (mergers and acquisitions etc); and
- Formal fee arrangements between a research firm and the issuing company linked to capital raising or corporate transaction outcomes.

Zenith believes that research firms that do not undertake these services as defined above should be allowed to respond accordingly. Either they may state that disclosures relating to ‘corporate advisory’ are Not Applicable to their operations, or ASIC may consider guidelines that separately address the two business models. In either case, Zenith believes that there are elements of RG 000 that should apply in conjunction with existing guidelines (RG 79, RG 181 etc)

Zenith notes that the 2012 issuance of ASIC CP 171 Strengthening the regulation of research report providers (including research houses), included the following question (B4Q5): Should research report providers be expected to report against all of the key issues in RG 79?

While Zenith responded in the affirmative on that occasion, we believe that a similar question should be posed regarding the formulation of RG 000. If so, our response to that question would be ‘no’.

Zenith believes that disclosure obligations, while necessary, are already voluminous. While the use of the ‘if not, why not’ disclosure regime by ASIC is logical, Zenith believes that it is prudent to ensure that a balance is maintained between the relevance of disclosure guidelines and the volume of reporting on issues that are not relevant.

Proposal B1 Identifying MNPI

(Note that unless otherwise indicated, all further text in *italics* is taken from CP 290)

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;*

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: (i) checking the market announcement platforms and company website; and (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.*

Feedback

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.

Zenith believes that the current guidance read together with RG. 79 are adequate in the identification of MNPI in a general context and provides some good basic examples which is helpful, however, in practice, many situations involving MNPI are less obvious and involve information that does not fit into the definition as neatly as some of the examples provided. Given the importance of managing MNPI, Zenith feel that additional guidance would be well received, in particular more detailed examples of what is and isn't considered MNPI.

We also feel that there is benefit in providing guidance on how to avoid being put into a situation where MNPI is received. At Zenith, we regularly receive confidential information from fund managers and our research analysts are trained in managing such information. However, we are working with our team to develop solid procedures which help research analysts avoid being put in situations where they receive MNPI. We feel that the optimal situation in relation to MNPI is where possible, for staff not to be subjected to information which is classed as MNPI.

We continuously refine our internal policies and procedures to improve processes in relation to MNPI and avoid situations where our research analysts are provided with MNPI. Guidance and examples from ASIC would be beneficial in terms of framing our policies and procedures around this guidance.

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.

Additional guidance on the skills, experience and training expected of licensees would be beneficial.

At Zenith, we currently provide ongoing training to staff in relation to conflicts of interest and handling MNPI. However, guidance on any relevant external training, qualifications or required skills would be useful.

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.

In the event there is no requirement to seek external training or qualifications in relation to handling MNPI, Zenith does not believe that it will result in additional costs to the business.

Proposal B2 Managing MNPI—policies and procedures

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.

Feedback

B2Q1 Do you agree with our proposed guidance? If not, why not? Please be specific in your response.

Zenith believes the current proposals when combined with those found in RG 79 are adequate.

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 comment.

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.

Zenith does not believe that it will result in additional costs to the business.

Proposal B3 Wall-crossing practices

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.

Feedback

B3Q1 Do you agree with our proposed guidance on wall-crossing procedures? If not, please give your reasons.

Zenith believes the current proposals when combined with those found in RG 79 are adequate.

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.

No comment.

B3Q3 Relative to what you are already doing to ensure that wallcrossing 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.

No comment.

Proposal B4 Research analyst declaration

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;*

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*.

Feedback

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.

Zenith believes that B4 (a) is unnecessary. Based on our own experiences, most analysts would have automatically been in contact with a company as part of the research process. Such contact may range from several months in advance to the day before publication. While understanding that disclosure on aspects of communication is vital, we believe that in this case declarations around B4 (b) and B4 (c) are more important and of greater utility.

Given the large increase in declaration material and other disclosures required by researchers, Zenith believes considerations should be given as to whether these be allowed via a website rather than on research reports themselves (refer to RG 79.35 (b)).

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.

Zenith believes the current proposals when combined with those found in RG 79 are adequate.

Proposal B5 Monitoring and review of material changes to research

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*

b. *any change to the recommendation or a material change to the price target in the research. 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. 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.

Feedback

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.

Zenith believes that a licensee should have a review and approval process for an initiation of research. However, we also believe that these aspects are covered in sufficient detail in RG 79.51 – 58.

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.

Zenith believes that a licensee should have a review and approval process for changes to recommendations (note that Zenith does not issue price targets in any of its research). Zenith has in place detailed review and approval processes in its own research methodologies.

B5Q3 Are there any other matters you think should be subject to a review and approval process? Please provide details.

All key research processes should be subject to review and approval. This includes decisions around initiation/cessation of coverage, ratings changes and release and availability of research reports and ratings. Zenith is of the opinion that the guidelines in RG 79 already sufficiently cover these issues.

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?

Zenith believes that to maintain the quality and integrity of research reports, they should be reviewed and approved by an experienced supervisor or by a group of peers (e.g. review committee) before they are distributed to clients. Zenith believes that these issues are already adequately covered in RG 79.142, 79.125 – 129.

We would note however that we do not see the ongoing involvement of compliance or another control (hereafter referred to as 'compliance') in this part of the process as feasible. This is due to the large volume of reports that research firms typically generate (refer to Sections 4 – 5 of the Preamble). Zenith believes that permanent involvement of compliance will significantly increase research costs to users and degrade timelines of reporting. Providing robust compliance frameworks are in place, Zenith believes that ongoing spot checks by compliance is a more practical measure.

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.

As previously stated, Zenith does not issue price targets in any of its research. Accordingly, we do not have a view on this issue. Refer to our answer on C1Q3 for further details.

B5Q6 Relative to what you are already doing to ensure that research is reviewed and approved, would our proposed guidance lead to you incurring any additional business costs? If so, please provide an estimate of these costs and why.

With reference to B5Q4, if Zenith was to implement a review and approval process for every research report and rating issued through a compliance team (or other control), this would result in significant additional business costs. As noted in the preamble, Zenith conducts hundreds of investment reviews annually (currently 600+). We believe the costs to Zenith associated with compliance and analyst resources required to implement the review process as outlined in B5 would be in excess of $230,000 p.a. based on hours spent.

Proposal B6 Research analyst models

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:

a. *requests will be managed by compliance or another control function;*
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.*

Feedback

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.

Zenith does not allow access to research models outside the research department. Accordingly, we do not have any feedback on this issue.

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. Refer to our answer for B6Q1.

Proposal B7 Compliance and control functions

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;*

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.*

Feedback

B7Q1 Do you agree with our proposed guidance? If not, please give detailed reasons for your answer.

With particular relevance to B7 (c) Zenith believes that these measures will prove exceedingly onerous to apply. As per our answer in B5Q4, the volume of work to be able to enact such measures to any firm with a large universe of research coverage would be considerable.

While Zenith does not undertake the type of sales and corporate advisory practices we believe are embodied in CP 290 (see preamble), the level of communication between analysts and companies is voluminous. In the six months to 30 June 2017 alone, Zenith has held over 375 research meetings around the world of which over 160 were dedicated due diligence meetings resulting in research reports being published. In addition, each of those meetings results in hundreds of follow up emails and phone calls.

While understanding that compliance and risk controls are vital, Zenith believes that for businesses that have clear compliance procedures and monitoring in place around the identification and handling of MNPI, information barriers, ongoing training, random spot checks by compliance on these issues should be sufficient.

We are interested in feedback from industry on the extension of this guidance to bond sell-side research.

Feedback

B8Q1 Should our guidance extend to bond research? If so, should there be differences in the guidance that applies to equity and the guidance that applies to debt research? If so, please provide details of the differences you would suggest.

As Zenith does not engage in bond sell side research, we have no comprehensive feedback on this question. However we see little reason as to why elements of RG 000 should not apply (excepting the issues which are raised in this document).

We propose that licensees should implement the following controls:

a. *for genuine pre-solicitation discussions, representatives from various parts of the licensee may attend;*

b. *licensees should not commit to provide research coverage on the company;*

c. *there should be no discussion of valuation information by research analysts or by others when research analysts are present;*

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;*

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 presolicitation meetings; and*

g. *compliance or another control function should undertake periodic reviews to determine the effectiveness of the licensee's arrangements.*

Feedback

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.

Zenith believes that C1 (g) is impractical. As per our answer to B7Q1. Zenith believes that "periodic reviews to determine the effectiveness of the licensee's arrangements" with reference to B7 (a – f) will entail a significant effort of time and cost. Compliance would have to by physically present at all discussions which we believe is too onerous to be effective or efficient. Zenith believes that control measures after the point of 'pre-solicitation' will be more effective.

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.

We do not believe additional guidance is required on this issue.

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.

Zenith believes that for the purposes of RG 000, the definition of sell-side research may be refined. While broadly agreeing with the wording of RG 000.27, as noted in the preamble, Zenith believes that it is important to recognise the differences in business models which exist amongst firms which provide sell-side research. This is especially important as to what constitutes corporate advisory activities.

While Zenith believes that the presence of corporate advisory activities can result in additional conflicts for researchers, we also believe that imposing additional disclosures on research firms who do not have these structural conflicts creates an unnecessary disclosure burden both on research firms and users of research. As a result, Zenith believes that many of the issues raised in Section D of RG 000 will be less relevant to its disclosures.

As stated in Section 13 of this document, Zenith believes that corporate advisory for the purposes of RG 000 has the following key traits:

- Presence of a formal mandate between a research firm and the issuing company that the research firm will undertake fund raising activities, typically with specific targets being stipulated;
- Formal agreements between a research firm and the issuing company relating to advice on corporate transactions (mergers and acquisitions etc); and
- Formal fee arrangements between a research firm and the issuing company linked to capital raising or corporate transaction outcomes.

Zenith makes the following observations in regard to its own research processes and the points above.

Zenith's research process are structured in a way so as to be clear, transparent and operated with a strong focus on observing RG 79. In particular, no assurance is given to the subject of the research regarding capital raising through Zenith's clients. Zenith's research agreements state that "*The Manager acknowledges and understands that Zenith cannot guarantee the level of interest (if any) by Zenith Clients or any other parties …*".

All investment products which receive a rating from Zenith undergo the same process in terms of client notification regarding ratings outcome, with no emphasis on one product over another (except in terms of the ratings outcome). Zenith does not directly support, promote or otherwise engage in any capital raising activities for researched investments. While we acknowledge that our ratings may indirectly provide support to investment decisions by our clients, the decision to invest remains in the hands of the client.

Zenith's fee arrangements are not linked to capital raising outcomes. In February 2012, Zenith's submission to ASIC CP 171 noted that "*Zenith receives a fixed fee for Research Reports which are prepared in accordance with ASIC Regulatory Guide 181. Zenith has no direct or indirect vested interest in the success or otherwise of any investment offer evaluated by Zenith*". It should be noted that under current regulatory guidelines (RG 79), Zenith research reports also state that "*Zenith charges an upfront flat fee to the Product Issuer, Fund Manager or other related party to produce research on funds that conform to Zenith's Research Methodology*".

Zenith believes that research firms which do undertake corporate advisory services should be potentially subject to a higher disclosure regime than those which do not. This is because Zenith believes that the potential for conflicts of interest and exposure to MNPI is higher in these cases.

If ASIC agrees that capital raising services should only be defined as those where formal mandates and/or and fee arrangements are in place in relation to raising capital, much of the proposed Section D of RG 000 need not apply to those research houses not involved in such corporate advisory activities. Such businesses may continue to operate under existing guidelines (RG 79, RG 181) and those other elements of RG 000 as required. Alternatively, such firms may respond to such items in the guidelines as 'Not Applicable'

Zenith also notes that the creation of sell side research as discussed in CP 290 / RG 000 raises the issue of Price / Valuation targets (hereafter referred to simply as price targets). Zenith points out that not all research on listed entities utilises these targets. With particular reference to ASX Listed Investments such as LICs, LITs and ETPs, Zenith believes that the use of price targets in researching these products is illogical if not largely impossible. The investment portfolios of such investments are potentially subject to rapid change due to their various investment mandates and strategies. Indeed, Zenith has observed some investment portfolios in LIC's with annual turnover of constituents of more than 800% annually. Obviously, it makes little sense to try and issue a price target on such vehicles.

Zenith believes that consideration should be given to differentiating between research business models as well as where research contains price targets. As a suggestion, sell side research could be broken down into the following catagories where such characteristics are present:

Sell Side Broker Research	Sell Side Research
• Firms involved in corporate advisory	• Firm must have no corporate advisory involvement
• Research contains price targets	• Research must contain no price targets

Zenith believes that taking a more granular approach to disclosure requirements will create a more balanced outcome whilst retaining a robust disclosure framework. Zenith suggests that ASIC may consider guidance on whether or not 'Sell Side Broker Research' and 'Sell Side Research' as listed above should be subject to all the elements of RG 000 or alternatively should operate under different regimes. Zenith believes that the most effective solution is likely to be allowing firms that meet the definition of 'Sell Side Research' in item 1.3 above to disclose that some elements of RG 000 are 'Not Applicable' to firms using that business model.

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.

In order to enact C1 (g), compliance would either have to attend all meetings or minutes be taken and monitored. Zenith does not believe that this is a feasible option (refer to B5Q6).

Proposal C2 Corporate advisory and research analyst interactions during vetting

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;*
b. *corporate advisory should not place pressure on research or otherwise seek to influence research;*
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;*
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);*
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.*

Feedback

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.

No comment.

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 per B5Q6 and B7Q1, Zenith believes that C2 (e) will prove exceedingly onerous to apply. The volume of work to be able to enact such measures to any firm with a large universe of research coverage would be considerable.

Costs to enact C2 (e – f) would be considerable. C2 (e) would necessitate compliance attending every meeting during decisions on universe coverage. We believe the costs to Zenith associated with compliance resources required to implement the review process as outlined in B5 would be in excess of $130,000 p.a. based on hours spent.

Zenith believes that for businesses that have clear compliance procedures and monitoring in place, random spot checks by compliance on these issues should be sufficient.

Proposal C3 Issuing company and research analyst interactions during transaction vetting

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.*

Feedback

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.

Zenith acknowledges that research processes will differ between firms. Overall however, Zenith believes that the task of assessing whether a company has investment merit and therefore worthy of research coverage is a task best left to those analysts who are specialists in determining a company's quality.

In particular, face to face meetings between managers and analysts is a vital part of the research process. The human elements of skill, decision making, team interaction and corporate culture is a key driver of investment outcomes. Zenith believes that prohibiting analysts from being able to observe firsthand these interactions and have the opportunity to interrogate managers will materially degrade research quality and efficiency. Zenith believes that as long as analysts operate under a robust compliance framework and understand the importance of not 'telegraphing' information or commenting on ratings outcomes, there is no reason to not allow such interaction to continue.

C3 (b – c) above will significantly increase the administrative burden on a business to no real advantage in cases where the researchers are not supplying information that involves price targets or valuations on a company.

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.

As per B5Q6, B7Q1.

Proposal C4 Corporate advisory and research analyst interaction during pitching

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;*
b. *corporate advisory and research should not be made aware of each other's opinions on valuation information or research analyst models;*
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;*
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.*

Feedback

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.

No comment given previous responses in the preamble and C1Q3.

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.

As per C4Q1.

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.

As per C4Q1.

Proposal C5 Issuing company and research analyst interactions during pitching

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;*
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;*
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;*
d. *if research staff obtain MNPI during pitching they should follow their licensee's internal protocols for managing MNPI (see proposal B1 above);*
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.*

Feedback

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.

As per C4Q1.

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.

As per C4Q1.

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.

As per C4Q1.

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.

As per C4Q1.

PROPOSAL D1 GENERAL GUIDELINES FOR IER PREPARATION

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;*

b. *an IER should include a warning that any initiating coverage value may not be consistent with any IER valuation;*

c. *research analysts should not have a policy of adopting the midpoint 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;*

d. *an IER should not be used to communicate financial and nonfinancial 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*

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).*

Feedback

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.

As previously discussed, Zenith believes that consideration must be given to different business models. D1 (e) implies that all research models involve a corporate advisory element, which is not necessarily the case. Zenith believes that in cases where a research firm is not providing 'Sell Side Broker Research' (see response to C1Q3), this requirement should not apply.

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.

No comment.

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.

No comment.

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

Zenith believes that additional clarity around the date of availability of an IER would be valuable. We view the statement "after the prospectus is made public" as potentially ambiguous. We believe that IER's should only be made available either as at:

- The date of lodgement;
- The end of the exposure period; or
- The day the offer opens.

Zenith believes a standardised approach would be beneficial so as to ensure an equitable approach to users of research. As a matter or record, Zenith only issues its research after the offer opens.

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.

Proposal D2 Research analyst interactions with corporate advisory when preparing the IER

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 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);*
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;*
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).*

Feedback

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.

No comment.

D2Q2 Relative to what you are already doing to ensure MNPI and conflicts of interest are appropriately managed during the preparation of IER, would our proposed guidance lead to you incurring any additional business costs? If so, please provide an estimate of these costs and why.

No comment.

Proposal D3 Interactions between research analysts and the issuing company and other licensees' research analysts when preparing the IER

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;*

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;*

c. *the issuing company or its advisers may not ask research analysts questions or seek information or comments from the research analyst about valuation information;*

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 or 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.*

Feedback

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.

With reference to D7 (b). Response as per B5Q6.

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.

Response as per B5Q3.

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.

Refer to B7Q1

Proposal D4 Reviewing the draft IER (fact checking)

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: (i) for a review by the licensee's compliance or another control function and/or legal advisers; or (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;

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.*

Feedback

D4Q1 Do you agree with our proposed guidance on restricting who can review the IER? If not, please provide reasons why.

Response as per B5Q6. Zenith believes that it is impractical to have compliance involved in "sending, receiving and vetting comments from the issuing company and its legal advisers". Publication of reports are highly time sensitive. Passing these elements through compliance would be inefficient and result in materially higher costs of research to our clients and their investors.

D4Q2 Do you agree with our proposed guidance on restricting the sort of information that can be reviewed? If not, please provide reasons why.

No Comment

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.

Refer to D4Q1.

Proposal D5 After publishing the IER

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;*

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 issued, nor the withdrawn IER updated, amended, reissued or replaced;*

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).*

Feedback

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.

Zenith believes that there are several issues to be addressed. Firstly, the definition of what constitutes an IER.

CP 290 implies that an IER is the only type of research available. CP290 states as follows:

The IER is typically prepared and distributed to potential institutional investors in advance of a prospectus being lodged with ASIC. It is used to inform potential investors about the company and is therefore the first detailed information that potential investors have about an investment opportunity.

An IER may include details of the issuing company's operations and management, the industry sector in which it operates and historical and projected financial information about the issuer. An IER may also include the analyst's views on the valuation of the issuing company. Valuation information is typically included in an IER and may inform parties who receive the IER about the research analyst's likely (post-IPO) initiation research valuation". [CP 290.75-76]

Zenith's research on listed companies is fluid. Initiation of coverage is not limited to Initial Public Offers (IPOs) or capital raising events. Zenith's research coverage is ongoing until such time as Zenith determines coverage is no longer appropriate (i.e. downgrading the rating to below investment grade), or the company seeks to terminate the coverage process (for further information on Zenith's research process, refer to https://www.zenithpartners.com.au/regulatory-guidelines-funds-research).

Zenith believes that D5 (a) and (b) are impractical. While taking all due care in the preparation of reports, errors of fact can and do occur. If a research firm is prohibited from being able to amend an error of fact, this impedes research quality and prevents the researcher from exercising their duty of care.

RG 79.41 states that in the context of expert or professional opinions, cases decided under the false, misleading or deceptive conduct provisions in the Australian Securities and Investments Act 2001 (ASIC Act) and the (then) Trade Practices Act 1974 (Trade Practices Act) have held that a statement of opinion by a person in their professional capacity involves an implied assertion that the opinion has a reasonable basis, is the result of the exercise of due care and skill, and is able to be relied upon (emphasis added).

Zenith believes that RG 79 already sufficiently covers issues relating to currency of research (RG 79.101, 79.105(c), 79.106). Zenith feels that if a research house is operating in accordance with these guidelines, any issues relating to D5 (a - b) should be minimal.

In relation to D5 (f), Zenith believes that clarification is required. The guideline states that "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" (emphasis added). Given that due diligence efforts

should logically proceed the generation and release of any research, Zenith is unsure as to the purpose of this guideline.

In relation to D5 (g) Zenith sees this measure as unduly restrictive. While understanding ASIC's concerns around the perception of independence, the nature of 'management roadshows' requires clarification. The content and scope of management roadshows varies widely. They are not necessarily limited to a capital raising for a particular product, nor only available to certain groups of people.

Some roadshows may be specifically targeted at researchers (either buy or sell side), advisors or investors (retail or institutional). Others may be more broadly available to any party. In addition, not all roadshows are just about a capital raising or other corporate event. Indeed, many make little reference to a specific product at all, rather showcasing the managers views on market performance, outlooks, thematics and opportunities. There can be little doubt that any roadshow, regardless of content, is ultimately a promotional exercise for the manager.

Information presented at such roadshows is frequently highly informative to researchers as well as a forum for maintaining dialogue with key individuals. Zenith believes that as long as there is no clear link between a manager and a research firm other than the research output (i.e. no sponsorship, sales support etc) and ensuring that other robust compliance measures are in place, this should be an issue for researchers to consider internally as to the appropriateness of attending rather than banning entirely.

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.

Zenith does not believe that it will result in additional costs to the firm. However, we do believe that it will limit our ability to operate effectively and efficiently.

Proposal D6 Discretionary fees

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;*
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);*
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*
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.*

Feedback

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.

No comment.

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.

No comment.

D6Q3 Do you think it would be more appropriate for discretionary fees to be prohibited? If not, please give detailed reasons why.

No comment.

PROPOSAL E1 STRUCTURE OF RESEARCH

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;*

b. *compliance arrangements should be clearly documented and communicated to staff and be subject to periodic monitoring and review by compliance;*

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*

d. *the licensee's research independence policies should be published on its website.*

Feedback

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.

No comment.

E1Q2 Do you think there needs to be more specific guidance provided on this point? If so, please give details in your response.

No comment.

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?

No comment.

Proposal E2 Decision-making on coverage

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: (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.*

Feedback

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.

No comment.

Proposal E3 Research funding

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;*

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.*

Feedback

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.

No comment.

Proposal E4 Input into research analyst remuneration

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;*

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.*

Feedback

E4Q1 Do you agree with our proposed guidance? If not, please give detailed reasons for your response.

No comment.

Proposal E5 Disclosure of interests

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*

b. the five largest share and option holders at the licensee.

Feedback

E5Q1 Do you agree with our proposal? If not, please give your reasons why.

While conscious of the importance of this particular disclosure, Zenith believes that there are better alternatives to disclosures of this level. For proposal E5 to be effective, potential investors must read it and understand the implications. Zenith believes that a more robust approach is to minimise these conflicts before they occur. In our view, an approach whereby analysts are precluded from working on companies that they hold a material position in is likely to be more robust.

Zenith's own compliance arrangements in relation to this issue as raised by RG 79.161-162 are as follows:

- At the commencement of their employment with Zenith and for the duration of their employment with Zenith, Employees must disclose details of their Personal Holdings. This information will be treated as confidential information and will be kept with their employment records and included in the Holdings Register.
- All Employees will be asked to confirm any changes to their Personal Holdings on a monthly basis by Zenith's Compliance Committee to ensure that the Holdings Register is kept up to date and accurate and as a measure to monitor unlawful trading activities.
- If an Analyst is involved in the Product Assessment Review of a Financial Product to which they have a Non-Material holding, this information must be disclosed in the Product Assessment Review report by activating the standard 'Analyst Holding' text field of the Product Assessment Review report.

For the purposes of this disclosure, "Material" means a holding greater than 5% of either:

- units on issue in a managed investment scheme;
- free-float shares on issue in a public listed company or exchange traded product; or
- an Employee's total investable wealth.

Zenith believes that a properly monitored, robust disclosure framework of a similar fashion would be more useful than requiring forcible disclosure of individual's personal information outside their employer.