



ASIC

Australian Securities & Investments Commission

CONSULTATION PAPER 290

Sell-side research

June 2017

About this paper

This consultation paper seeks feedback on our proposals to provide further guidance on managing conflicts of interest and material, non-public information (MNPI) involving sell-side research. Our proposals supplement our guidance in [Regulatory Guide 79](#) *Research report providers: Improving the quality of investment research* (RG 79).

We seek feedback on our proposals from users and providers of sell-side research such as market participants, investment banks, independent corporate advisers, buy-side investors and other interested parties.

This paper attaches a draft of the proposed Regulatory Guide 000 *Sell-side research*.

About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents.

Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
- giving practical guidance (e.g. describing the steps of a process such as applying for a licence or giving practical examples of how regulated entities may decide to meet their obligations).

Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

Document history

This paper was issued on 30 June 2017 and is based on the Corporations Act as at the date of issue.

Disclaimer

The proposals, explanations and examples in this paper do not constitute legal advice. They are also at a preliminary stage only. Our conclusions and views may change as a result of the comments we receive or as other circumstances change.

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The consultation process

You are invited to comment on the proposals in this paper, which are an indication of the approach we may take and are not our final policy.

As well as responding to the specific proposals and questions, we also ask you to describe any alternative approaches you think would achieve our objectives.

We are keen to fully understand and assess the financial and other impacts of our proposals and any alternative approaches. Therefore, we ask you to comment on:

- the likely compliance costs;
- the likely effect on competition; and
- other impacts, costs and benefits.

Where possible, we are seeking both quantitative and qualitative information.

We are also keen to hear from you on any other issues you consider important.

Your comments will help us develop our policy on managing conflicts of interest and handling material, non-public information involving sell-side research. In particular, any information about compliance costs, impacts on competition and other impacts, costs and benefits will be taken into account if we prepare a regulation impact statement: see Section F, 'Regulatory and financial impact'.

Making a submission

You may choose to remain anonymous or use an alias when making a submission. However, if you do remain anonymous we will not be able to contact you to discuss your submission should we need to.

Please note we will not treat your submission as confidential unless you specifically request that we treat the whole or part of it (such as any personal or financial information) as confidential.

Please refer to our privacy policy at www.asic.gov.au/privacy for more information about how we handle personal information, your rights to seek access to and correct personal information, and your right to complain about breaches of privacy by ASIC.

Comments should be sent by Thursday, 31 August 2017 to:

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What will happen next?

Stage 1	30 June 2017	Release of this consultation paper (CP 290)
Stage 2	31 August 2017	Comments due on CP 290
Stage 3	December 2017	Regulatory guide released

A Background to the proposals

Key points

The integrity of investment research directly affects the integrity of our financial markets and investor confidence.

After observing some poor and inconsistent practices in the way Australian financial services (AFS) licensees handle material, non-public information (MNPI) and prepare and provide sell-side research we propose to supplement RG 79 with further guidance on sell-side research.

We expect this guidance will help licensees who provide research and corporate advisory services to comply with their general obligations under the *Corporations Act 2001* (Corporations Act) to manage conflicts of interest and handle MNPI.

Background

- 1 Licensees have an obligation under s912A(aa) of the Corporations Act to have in place adequate arrangements for managing conflicts of interest. This obligation and our guidance in [Regulatory Guide 181](#) *Licensing: Managing conflicts of interest* (RG 181) apply to all licensees, including those that provide sell-side research.
- 2 This obligation underpins the expectation that research is unbiased and that it reflects the professional judgement and expertise of the research analyst. This is essential to the integrity of our financial markets and to the quality of financial advice provided to investors.
- 3 In recognition of this, in November 2004 we published RG 79. This regulatory guide was updated in December 2012 to include commissioned research. Among other things, RG 79 sets out how we expect licensees to manage conflicts of interest when providing research.
- 4 RG 79 supplemented RG 181, which was published in August 2004. RG 181 focuses on broad principles and guidance for licensees generally in managing conflicts of interest, and sets out the expectations that licensees should meet in order to comply with the conflicts management obligation: see RG 181.16.
- 5 Between September 2014 and June 2016, we conducted a review of the policies, procedures and practices of a range of licensees who are engaged in research and corporate advisory in Australia. We also looked at a sample of transactions including initial public offerings (IPOs) and secondary offerings. As part of the review, we met with a range of industry representatives including market participants, investment banks, independent

corporate advisers, overseas regulators and independent research providers to gain an understanding of market practices.

- 6 The review followed monitoring and surveillance work previously undertaken by ASIC which indicated some poor research practices in the management of MNPI and conflicts of interest involving research. The review also sought to establish whether conduct recently seen in other jurisdictions was evident in the Australian market. For example, the US Financial Industry Regulatory Authority (FINRA) identified misconduct by 10 investment banks pitching for the Toys 'R' Us IPO. FINRA found that these investment banks (eight of which had affiliates with a presence in the Australian market) had poorly managed conflicts when they used their research analysts to help solicit an IPO mandate and explicitly or impliedly offered favourable research coverage to Toys 'R' Us.
- 7 The results of the review were published in [Report 486](#) *Sell-side research and corporate advisory: Confidential information and conflicts* (REP 486) in August 2016. REP 486 references a number of local matters which raised concerns about poor management of conflicts and MNPI in the context of sell-side research. Most of the licensees in the review had policies and procedures in place to appropriately manage conflicts of interest and MNPI. However, we observed some poor practices and inconsistent application of these policies and procedures.
- Note: Inside information is defined in s1042A of the Corporations Act and means information: (a) that is not generally available; and (b) if the information were generally available, a reasonable person would expect it to have a material impact on the price or value of a financial product. For the purpose of this paper, we refer to this as material, non-public information (MNPI).
- 8 Following the release of REP 486 we met with more than 30 parties involved in the capital raising process including market participants, investment banks, independent research houses, buy-side fund managers, independent corporate advisers, lawyers and industry associations. A theme emerging from these meetings was the desire from industry for more detailed guidance from ASIC on how licensees should meet their obligations to manage conflicts and MNPI when preparing research.
- 9 Feedback from buy-side fund managers was more varied. Many discounted any valuation information in an investor education report (IER) as it was produced by the licensee promoting the transaction. Some found the sector background and the selection of the listed peer group relevant. Fund managers placed more value on the draft offering document (e.g. the pathfinder prospectus) than the IER.
- 10 Our findings in REP 486 show considerable variation in the following market practices: managing conflicts of interest, identifying and handling MNPI, and pressure for favourable coverage.

Managing conflicts of interest

- 11 We observed some poor and inconsistent practices in managing conflicts of interest. These included:
- (a) how research was structured and funded;
 - (b) the insufficient separation of research and corporate advisory activities (particularly the involvement of research in soliciting business during the capital raising process and the influence of non-research staff over research opinions); and
 - (c) decisions about share allocations in capital raising and in disclosing conflicts of interest. At some time in the future, we will conduct a further review and consult separately on share allocations.

Identifying and handling MNPI

- 12 We found that some licensees did not have appropriate arrangements to manage situations where staff members came into possession of MNPI. This included:
- (a) not adequately supervising or training staff to identify and handle MNPI; and
 - (b) inadequate information barriers.

Pressure for favourable coverage

- 13 We identified instances where pressure was placed on research analysts (either by corporate advisory staff or the company intending to raise capital or its other advisers) about their valuation or approach to valuation. This was in relation to IERs distributed to potential investors in advance of a capital raising transaction on which the licensee was also mandated to manage the transaction. Where a research analyst's objectivity is compromised leading to a research report that is not based on 'reasonable grounds' the research is likely to be misleading or deceptive within the meaning of the Corporations Act and the *Australian Securities and Investments Commission Act 2001* (ASIC Act).

Guidance

- 14 We are consulting on proposed guidance to supplement RG 79 in light of the findings set out in REP 486. Much of the poor conduct detailed in REP 486 is dealt with by RG 79. However, RG 79 only briefly deals with the specific circumstances that can give rise to conflicts in the provision by licensees of both corporate advisory and research services, and its guidance is often expressed at a high level of generality. In addition, existing guidance does

not detail the appropriate handling of MNPI. While RG 79 sets out a framework that applies to a range of research issues, including the proper management of conflicts, our proposed guidance will supplement RG 79 in its application to sell-side research. In cases of any inconsistency between RG 79 and the proposed guidance, the proposed guidance should prevail.

- 15 Our proposed guidance looks at the following key stages of a capital raising transaction (usually for an ‘IPO’): pre-solicitation, vetting, pitching and the post-mandate period, including preparation of the IER. For each stage of a capital raising transaction, we have proposed specific guidelines on what a licensee should do to ensure it manages MNPI and conflicts of interest appropriately. The guidance is set out as follows:
- (a) research analysts and MNPI (general guidelines);
 - (b) managing research conflicts during the capital raising process, including during:
 - (i) pre-solicitation;
 - (ii) transaction vetting;
 - (iii) transaction pitching;
 - (iv) the post-mandate period; and
 - (c) structuring and funding research.
- 16 We expect that the supplemented guidance will help licensees involved in sell-side research and corporate advisory to comply with their regulatory obligations.
- 17 Our proposed guidance aims to address scenarios where the objectivity and independence of a research analyst may be compromised at various points in the capital raising process.
- 18 The UK Financial Conduct Authority (FCA) has identified similar concerns with conflicts of interest and research. The FCA consulted on whether inherently conflicted ‘connected’ research should be permitted for IPOs. The FCA’s preferred position during consultation was to allow it (given its usefulness in the price discovery process for IPOs) provided it is not distributed before the publication of the transaction prospectus (or that part of the prospectus dealing with the issuer—the ‘registration document’). The FCA has also confirmed that research analysts should not meet with issuers as part of any corporate advisory transaction pitching process.
- Note: See [CP 17/5](#): *Reforming the availability of information in the UK equity IPO process* (1 March 2017).
- 19 FINRA recently updated its equity research rules. These rules already prohibited the distribution of a pre-listing IER as well as research analysts meeting with issuing companies during the pitching phase of a transaction. FINRA remained concerned about the scope for pressure to be brought to bear on an analyst’s post-transaction coverage by corporate advisory and the

difficulties in monitoring such pressure. From December 2015, FINRA's new rules have required firms to: have detailed policies on managing conflicts involving corporate advisory and research departments; prohibit corporate advisory input on research department budgets or the remuneration of individual analysts; prohibit corporate advisory and research from undertaking joint due diligence on issuing companies before the award of a mandate or jointly meeting with prospective investors in a transaction; and prohibit corporate advisory involvement in any pre-publication review of draft research.

Note: The FINRA rules are more liberal in their application to 'emerging growth companies' as defined in the *Jumpstart Our Business Startups Act (2012)* (US) (i.e. companies with gross revenues of less than US\$1 billion in their preceding fiscal year, subject to several exclusions) and to FINRA member firms that have managed 10 or fewer capital raisings in the previous five years provided less than US\$5 million was generated in revenues from those transactions in aggregate.

- 20 FINRA has also for the first time published debt research rules which took effect in February 2016. Generally, they follow FINRA's equity research rules but many of the requirements are 'turned off' for research that is only provided to wholesale investors. In Section B we seek feedback on the application of our guidance to debt research.
- 21 We welcome your feedback on each of our proposals but believe that, taken as a whole, the proposals represent a balanced package of measures addressing the inherent risks in the management of MNPI and conflicts and the results of our review discussed in REP 486. Were we to adjust any particular proposal or set of proposals, it may be necessary to adjust others to maintain a balanced framework. Accordingly, you can also provide us with wider perspectives on that framework if you feel that would be useful. Further, we welcome any general feedback on the economic impact of our proposals on the capital raising process.
- 22 In Section D, we seek feedback as to whether IERs should be permitted. In particular, are the conflicts of interest that arise from a licensee providing both the IER on a company and corporate advisory services so great it can only be managed by avoiding the conflict?
- 23 We have also attached a draft copy of our proposed regulatory guide so that industry has the benefit of reviewing what our guidance would look like if we were to adopt the proposals. However, this guide may be further revised depending on the feedback we receive.

B Research analysts and MNPI

Key points

Research analysts regularly receive information from a range of sources, including companies, third parties and other areas of the licensee.

Licensees should ensure they have controls in place to identify and manage MNPI.

Poor practices in handling MNPI can threaten market integrity, undermine investor confidence in markets and increase the risk of contraventions of the financial services law.

We are proposing guidance for licensees on how MNPI can be identified and managed in the context of sell-side research.

Background

- 24 Inside information is defined in s1042A of the Corporations Act and means information:
- (a) that is not generally available; and
 - (b) 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.
- 25 For the purpose of our proposed guidance, we refer to this as material non-public information (MNPI).
- 26 Research analysts regularly receive information from a range of sources. They need to assess whether this information is MNPI. If the information is MNPI, the research analyst needs to manage it appropriately, so it is not passed to clients or other parts of the licensee's business (such as sales).
- 27 There may be a competitive advantage in research analysts using or releasing information quickly. The speed at which this occurs increases the risk that insufficient care is taken to determine whether or not the information is MNPI.
- 28 In our proposed guidance we will be recommending that licensees implement:
- (a) specific policies, procedures and training that help staff to identify, verify and manage MNPI;
 - (b) specific approval and review processes that identify any material changes to sell-side research;
 - (c) practices for managing requests for a research analyst's model, including requests that are made by other teams of the licensee;

- (d) wall-crossing practices;
- (e) the requirement for a research analyst declaration or certification; and
- (f) a review process by compliance or another control function to identify and review certain communications and material changes to research.

Identifying MNPI

Proposal

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;
- (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.

Your 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.

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.

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.

Rationale

29 A licensee's failure to identify information as being MNPI can have serious consequences for both the integrity of our financial markets and for investor confidence.

30 For this reason, we are proposing guidance to help licensees and their staff to identify information as MNPI. Due to the nature of their role, research analysts regularly come into possession of MNPI. The proposed guidance will help licensees reduce the risk of contravening financial services laws.

Managing MNPI—policies and procedures

Proposal

- 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.

Your feedback

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

Rationale

- 31 Research analysts regularly receive information from a range of sources and need to assess whether the information is MNPI. If this information is MNPI, the research analyst needs to manage it appropriately otherwise there is a risk it could be passed on.
- 32 Poor practices in handling MNPI may have serious consequences. This situation threatens market integrity and investor confidence. It also puts the licensee at risk of a contravention of financial services law.
- 33 In our review we found that some licensees do not have appropriate arrangements to manage situations where staff, including research analysts, come into possession of MNPI. Given the serious consequences that occur when MNPI is not managed, we are proposing guidance which will help licensees involved in producing and distributing sell-side research to manage MNPI.

Wall-crossing practices

Proposal

- 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.

Your feedback

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

Rationale

- 34 A range of interactions occur between research analysts, companies and other parts of a licensee. Information barriers provide a mechanism for staff that have received or are provided with MNPI to be brought over to the private (or non-public) side of the business to appropriately manage conflicts of interest and potential contraventions of the Corporations Act.

Research analyst declaration

Proposal

- 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;
 - (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.

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.

Your 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.
- 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.

Rationale

- 35 We consider the declaration or certification will help readers of the research decide what reliance to place on the opinions expressed in the research report. These additional controls are an expansion of those described in RG 79.70, which already sets the importance of general disclosure obligations on how conflicts of interest are managed in relation to research.

Monitoring and review of material changes to research**Proposal**

- 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
 - (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.

Your 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.

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

Rationale

- 36 To maintain the quality and integrity of research, research should be reviewed and approved by an experienced supervisor or by a group of peers (RG 79.142). We have proposed additional supplementary guidance on this point as we believe that any material changes to research and to the recommendations of a research analyst must be subject to an appropriate review and approval process.

Research analyst models

Proposal

- 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:

- (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.

Your 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.

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.

Rationale

- 37 If research analyst models contain information that is not generally available (for example, annotations or updates to forecasts and valuations), the model itself may constitute MNPI.
- 38 We think there is also a risk that if a research analyst receives a request for a particular financial model they may be tipped off about a potential corporate transaction. Depending on the circumstances, the request may constitute MNPI.

Compliance and control functions

- 39 In our guidance we propose that licensees should have compliance or another control function monitor the handling of MNPI. This should be appropriate taking into account the nature, size and complexity of the licensee.

Proposal

- 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;
 - (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.

Your feedback

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

Rationale

- 40 Licensees should avoid placing unacceptable levels of reliance on staff integrity: see RG 79.119. Robust compliance and control functions are a key element to ensure that MNPI is managed appropriately.

Application to a range of financial products

- 41 RG 79 applies to research that is prepared on a range of financial products including shares and fixed income securities (e.g. bonds and hybrids). As noted in Section A, FINRA has recently issued rules about managing conflicts associated with debt research.
- 42 A common way for governments and companies to raise capital is to issue bonds. These may be traded on a financial market or (more usually) are traded over the counter between wholesale investors.
- 43 The use of research to help with the price discovery process for transactions involving the issue of bonds is less common than research involving equity issues. It has been suggested to ASIC that research on bond issuers rarely has as immediate or as significant an impact on the price of the bonds for the entity to which the research relates as equity research. We would be interested in receiving more evidence of this.
- 44 Licensees that operate both debt and equity trading and corporate advisory businesses need to manage conflicts of interest and any MNPI they receive in the course of conducting their business. For example, information about a debt issue by a listed company may comprise MNPI. Licensees should follow the procedures set out in proposal B2 above for handling MNPI.

Proposal

- B8** We are interested in feedback from industry on the extension of this guidance to bond sell-side research.

Your 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.

C Managing research conflicts during the capital raising process—pre-mandate

Key points

RG 79 sets out our expectation that licensees that provide research will have appropriate controls to manage conflicts of interest.

RG 79 also expresses our expectation that a licensee's business model and organisational structure should include information barriers and segregation of business units to protect the objectivity and independence of the licensee's research function: see RG 79.120–RG 79.128.

Our proposed guidance will supplement the guidance in RG 79 by detailing controls that licensees can implement to assist them in satisfying relevant obligations in the Corporations Act and ASIC Act.

Background

- 45 Financial markets play a critical role in the Australian economy, enabling a company to raise capital from investors and facilitating the pricing and allocation of risk. To operate effectively, markets need to be fair and efficient, and investors must have trust and confidence in their operation.
- 46 A company can raise equity capital using a range of methods. These include initial offers (for example, IPOs) and secondary or follow-on offers (including placements, rights issues, share purchase plans and dividend reinvestment plans). The scope for research to play a role in different types of capital raisings will vary.
- 47 Research facilitates orderly and efficient capital markets by providing information to investors to help them make investment decisions. It is important to the integrity of financial markets and investor confidence that research is unbiased and reflects the professional judgement and expertise of the research analyst.
- 48 Research should be based on verifiable facts and objective analysis, not on the interests of the licensee, the research analyst, the issuing company or others. A statement of opinion by a person in their professional capacity involves an implied assertion that it is the result of the exercise of due care and skill, has a reasonable basis, and can be relied upon: see RG 79.41.
- 49 Research that is not based on reasonable grounds may be dishonest, misleading or deceptive, or result in false or misleading representations: s1041E, 1041H and 1041G of the Corporations Act. See RG 79.89–RG 79.91. Providers of research should also be mindful of the prohibition against misleading conduct under s12DF of the ASIC Act.

- 50 Not having appropriate controls and measures in place to manage conflicts of interest creates the risk that research will not be based on reasonable grounds or that it will contain MNPI. In RG 79 we provide broad guidance on the following issues in relation to managing conflicts of interest:
- (a) adopting an appropriate business model and ensuring the organisation is structured to minimise and manage real and potential conflicts associated with internal research processes. This includes either avoiding business model conflicts or implementing robust processes and controls to effectively manage them; and
 - (b) having adequate controls in place to manage conflicts, including avoiding conflicts that cannot otherwise be managed (see RG 79.120).
- 51 RG 79 gives an example of a conflict where a licensee provides other services to an entity that is the subject of the research. Our proposed guidance will provide additional clarity on how a licensee can manage this conflict when preparing sell-side research in circumstances where a licensee also has or seeks a capital raising mandate.
- 52 In the period before a mandate for a capital raising transaction is entered, there are a number of stages that occur. We classify these as: pre-solicitation, vetting and pitching. Our guidance will clarify the appropriate controls that a licensee should have for each stage.

Pre-solicitation

- 53 Independent of pursuing a capital raising transaction, a company may also meet with the licensee's research and corporate advisory teams to have a general discussion about the company's operations, growth plans and capital requirements. These meetings also provide the company with the opportunity to market itself to the licensee and to assess the licensee's interest in providing services to it. These meetings may be held without a specific capital raising transaction in mind. We refer to this as 'pre-solicitation'.
- 54 During pre-solicitation, the company may wish to discuss a potential capital raising transaction which may comprise MNPI. It is important that licensees are aware of the risks that can occur if the discussions or interactions look to involve MNPI.
- 55 Once a licensee is aware that a company has a firm intention to raise capital in the near term, even if corporate advisers have not been appointed and significant uncertainty remains about the transaction (type of capital, quantum, timing or pricing), we consider that, in these circumstances, the pre-solicitation period has ended.

Proposal

- 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;
 - (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 pre-solicitation meetings; and
 - (g) compliance or another control function should undertake periodic reviews to determine the effectiveness of the licensee's arrangements.

Note: Licensees need to determine what is appropriate in light of the nature, scale and complexity of their business. For example, this may include monitoring and periodic testing of emails and electronic messages to and from research, sales and corporate advisory.

Your 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.
- 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.
- 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.
- 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.

Rationale

- 56 In REP 486 we reported that some licensees did not have appropriate policies and procedures for managing conflicts of interest. One of our key observations was that research analysts may be subjected to inappropriate pressure or influence and that this could compromise the integrity and independence of their research. We also observed that in some circumstances the licensee did not have appropriate policies and procedures to identify and manage MNPI.
- 57 The circumstances where this may occur include pre-solicitation. We recognise the importance of quality, independent research in maintaining the integrity of our markets and investor confidence.
- 58 The proposed guidance aims to reduce the risk of a contravention of financial services law occurring.

Transaction vetting

- 59 Licensees become aware of potential capital raising transactions through a range of means. These may include receiving a request for a proposal or being contacted directly by a company or its adviser. A licensee may also make an unsolicited approach to a company seeking a capital raising mandate.
- 60 Before deciding to submit a proposal for a mandate to the issuing company, a licensee would typically undergo an internal process to determine whether it should submit a proposal. We refer to this process as ‘transaction vetting’.
- 61 Each licensee will have their own internal processes for determining what level of transaction vetting they undertake before submitting a proposal. For example, the process may involve meeting with the company, internal due diligence inquiries and discussions or, subject to appropriate controls, input from the licensee’s research team. Refer to proposals C2 and C3 below.
- 62 Many licensees consider a research analyst’s input on a company or potential transaction particularly valuable. Research analysts are sector specialists and are well placed to help in the transaction vetting process. This needs to be managed to ensure that feedback from research analysts is not seen as advance notice of the research analyst’s valuation or likely approach to valuation of the issuing company.
- 63 Research analysts can give advice on a range of factors. These may include the market’s likely interest in and appetite for the company; an assessment of the company’s operations, its board and management; the company’s likely listed peer group (that is, listed entities that the research analyst believes are suitable valuation benchmarks for the company); and comment on risks to the company or the sector it operates in.

Corporate advisory and research analyst interactions during vetting

64 Research analysts may be asked to provide their views or opinion on a company or transaction as part of the licensee's internal approval process in deciding to pitch on a transaction. As transaction vetting indicates a potential transaction, there is also potential for pressure to be placed on the research analyst to provide favourable views on the company or potential transaction. There is also potential for the research analyst's views to be used inappropriately by their corporate advisory colleagues in circumstances where a research analyst is likely to be providing an independent opinion on the company to the market in the future.

Proposal

- 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;
 - (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.

Your 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.

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.

Issuing company and research analyst interactions during transaction vetting

65 If research analysts meet with an issuing company or its advisers during transaction vetting there is a risk they may be asked to comment on valuation information. Issuing companies may consider the research analyst's views on valuation information in making a decision about which licensee to mandate. They may also seek to influence the research analyst's approach to valuation. This can place pressure on research analysts and affect their independence.

Proposal

- 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.

Your 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.

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.

Rationale

- 66 We expect that our guidance will provide more clarity to licensees on how to best manage their conflicts of interests and MNPI in transaction vetting. We are concerned that if this is not managed appropriately, research analysts may be pressured to support a view on a company's value that is proposed by their corporate advisory colleagues.
- 67 Furthermore, if corporate advisory staff communicate a research analyst's views (either directly or indirectly) to the company in the expectation that this will lead to the licensee being awarded the mandate, this may create expectations on the company's part that any subsequent research by the analyst will be consistent with these views. Research analysts may feel pressured not to disappoint any such expectations.

Transaction pitching

- 68 When a licensee decides to seek a mandate for a capital raising transaction, a pitch is prepared. Pitches can occur in a number of forms, including a formal presentation in response to a request for proposal (RFP), an unsolicited presentation or meeting with the company, the provision of a mandate letter with or without a presentation, or a phone call. We refer to this stage of the transaction as 'pitching'.
- 69 The same risks associated with pre-solicitation and transaction vetting may occur during the pitching stage of the transaction. Research analysts may feel pressured to disclose valuation information. The pressure to provide these views can affect the subsequent objectivity and independence of the research analyst and the research they produce.

Corporate advisory and research analyst interaction during pitching

Proposal

- 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;

- (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.

Your 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.

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.

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.

Rationale

- 70 If a research analyst meets with its corporate advisory colleagues during pitching there is a risk that the objectivity or independence of the research analyst may be compromised.

Issuing company and research analyst interactions during pitching

Proposal

- 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;
 - (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.

Your 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.
- 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.

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.

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.

Rationale

- 71 Direct contact between a research analyst and the issuing company and between the research analyst and a licensee's corporate advisory team during the pitching stage can compromise the objectivity and independence of the research analyst.
- 72 Issuing companies are likely to want to test the views of a licensee's research analysts on valuation information, including how it compares to the valuation information proposed by the licensee's corporate advisory team. We are concerned that without appropriate controls during pitching, there is considerable risk that research analysts' views could be compromised in support of the licensee's corporate advisory team's efforts to secure a role. For instance, the issuing company may ask a research analyst to comment on valuation information about the company or its peers which the issuing company may then take into account in deciding to award a role in a capital raising transaction. An express or implied promise of favourable research may also be used by the licensee's corporate advisory team to help it secure a role. We consider this undermines the role of the research analyst as a provider of independent analysis.

D The post-mandate period and IERs

Key points

RG 79 broadly sets out our expectations that licensees should take reasonable steps to ensure that conflicts of interest do not compromise the integrity of the general advice they give in their research reports.

We want to supplement RG 79 to clarify the types of controls a licensee should implement to manage conflicts of interest and avoid mishandling of MNPI when preparing and producing the IER.

Background

- 73 Once an issuing company has selected a licensee or licensees for a capital raising transaction the licensee starts work on the transaction. This might include preparing the offering documentation, due diligence, preparing and conducting marketing and investor roadshows, seeking bids from investors, and allocating shares to investors. We refer to this as the ‘post-mandate’ period. The risk of conflicts of interest arising and the potential impact on research independence and integrity as set out in paragraphs 49 to 52 of this paper, also apply here.
- 74 The role of research analysts in the post-mandate period may include preparing the IER and helping to market this research to potential investors. Market practice sometimes also involves research analysts participating in the due diligence process, attending site visits and presenting their views of the company to their licensee’s internal committees as part of their approval process (e.g. investment or underwriting committees).
- 75 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.
- 76 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.

Request for general feedback—whether IERs should be avoided

- 77 For each set of new proposals, we have asked stakeholders to provide feedback. However, we also seek more general feedback on whether the conflicts inherent in preparing and distributing research in support of an IPO are so great that they can only be managed through avoidance. That is, no IER should be prepared or, if it is, no valuation information should be contained in it. See feedback questions D1Q1–D1Q5.
- 78 If distribution of the IER is delayed until after the publication of the prospectus or is restricted so there is no valuation information, then investors will be more focused on the prospectus which has more comprehensive information and the investor protections of Div 4 of Pt 6D.2 of the Corporations Act in relation to that information. After the publication of the prospectus, research analysts that are unconnected to the transaction may also be in a position to publish timely, alternative and independent research.
- 79 Acknowledging that a draft prospectus is usually only provided to prospective institutional investors quite late in the IPO process, on balance, we are of the view that the early availability of IERs plays a useful role in the price discovery of IPOs. We consider the inherent conflicts can be managed through conformance with more detailed regulatory guidance. We are, however, open to contrary views.

Preparing the IER

- 80 Our proposed guidance for managing conflicts of interest and MNPI in relation to IER preparation is divided into the following categories:
- (a) general guidelines for IER preparation;
 - (b) research analyst interactions with corporate advisory when preparing the IER;
 - (c) research analyst interactions with the issuing companies and other licensees' analysts when preparing the IER;
 - (d) reviewing the IER;
 - (e) publication of the IER; and
 - (f) discretionary fees.

General guidelines for IER preparation

- 81 Valuation information included in an IER may inform parties who receive the IER about the research analyst's likely (post-IPO) initiation research valuation.

- 82 Where there is a close and predictable relationship between the IER and initiating coverage company valuations, advance notice of the initiation research valuation through an IER may comprise MNPI. This is because IERs may be used as a vehicle to distribute information about the research analyst's opinion in upcoming, post-listing, initiating coverage to select institutional investors.
- 83 We are also concerned that the IER can be used to communicate material information on an issuing company that is not public and which is not subsequently included in the prospectus.
- 84 Analysts are likely to interact with an issuing company and its other advisers when preparing the IER. As these interactions may indicate the analyst's likely views on the company, there is a heightened risk of pressure on the licensee to ensure that the analyst is supportive of the transaction.

Proposal

- 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;
 - (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 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;
 - (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
 - (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).

Your 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.
- 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.

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.

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.

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.

Research analyst interactions with corporate advisory when preparing the IER

85 Once a capital raising mandate is agreed, the research analysts will begin preparing their IER by gathering information on the issuing company such as the market in which it operates and its competitors. Simultaneously, their corporate advisory colleagues will begin their own inquiries.

86 There may be significant overlap in the information that corporate advisory and research analysts will be gathering. However, their inquiries should be independent until the IER is distributed. This minimises the risk of the research analyst's independence being compromised or being placed under pressure from the licensee's corporate advisory staff who will be concerned that any research prepared is supportive of the issuing company.

Proposal

- 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 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).

Your 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.

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.

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

- 87 An issuing company will want research which supports the company and its views on its valuation. Where multiple licensees are appointed as joint lead managers (JLMs), the issuing company would prefer that each of the licensee's research analysts has a similar view on valuation information relating to the issuing company.
- 88 Licensees need to have robust, monitored controls in place and take active steps to insulate their research analysts from any influence of the issuing company and its other advisers (including the other JLMs) on the research analyst's IER. This includes ensuring that their research analysts do not interact (directly or indirectly) with the research analysts employed by another licensee to prepare research on the issuing company.

Proposal

- 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;

- (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.

Your 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.

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.

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.

Reviewing the draft IER (fact checking)

- 89 In RG 79.141 we emphasise that licensees should ensure their research analysts do not communicate either the research report or information about its contents outside the research team before distribution to clients. However, this does not mean that a research analyst cannot check the factual accuracy of parts of the research with the issuing company.
- 90 There needs to be a balance between ensuring the factual accuracy of the IER and avoiding the risk of research analysts being pressured to change their views in a draft IER before its distribution to investors. We wish to provide more detailed guidance about fact checking draft IERs.

Proposal

- 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:
 - (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.

Your feedback

- D4Q1 Do you agree with our proposed guidance on restricting who can review the IER? If not, please provide reasons why.
- D4Q2 Do you agree with our proposed guidance on restricting the sort of information that can be reviewed? If not, please provide reasons why.

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.

After publishing the IER

- 91 When the IER has been widely distributed to potential investors, the licensee's sales staff and research analysts will typically meet potential investors to discuss the IER. It is important that during these meetings research analysts are not inhibited when discussing their IER with prospective investors by the presence of corporate advisory staff or representatives of the issuing company or its other advisers.
- 92 Once a draft prospectus is published, issuing companies will often hold a series of presentations (referred to as 'management roadshow' meetings) with potential investors. Given the promotional aspects of these presentations, it would not be appropriate for research analysts to attend as it would compromise their independence if they are seen, or perceived, to be part of the selling syndicate.

Proposal

- 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;
 - (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).

Your 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.

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.

Rationale for our proposed IER guidance

- 93 We found that despite our guidance in RG 79 and RG 181, instances of poor and inconsistent industry practices in managing conflicts of interest in relation to IERs continue. These practices include placing pressure on research analysts to provide favourable research. Such behaviour may:
- (a) compromise the integrity of the information contained in the IER;
 - (b) result in licensees breaching their other obligations such as, but not limited to, the duty to act efficiently, honestly and fairly; and
 - (c) result in the final report being potentially misleading or deceptive.
- 94 The FCA raised similar concerns about the risk of conflicts of interest occurring as a result of pressure placed on research analysts: see CP17/5. The FCA's proposals are more extensive than our current proposals. They include pushing back the publication of the IER until after the prospectus has been published. In several other markets, such as the United States, an IER is not permitted at all.
- 95 While our current proposals do not go as far as the FCA proposals or FINRA rules, our guidance is intended to clarify our expectations of how licensees manage conflicts of interest and handle MNPI when providing research services during a capital raising period.
- 96 If we subsequently find that poor management of conflicts continues to compromise the integrity of IERs, we will likely revisit the issue of whether licensees mandated on a capital raising transaction should distribute IERs.

Discretionary fees

- 97 A discretionary incentive fee is often paid by the issuing company to licensees for managing the transaction. The amount is generally determined after the release of the IER following the completion of the transaction.
- 98 The prospect of these fees may place pressure on a research analyst to produce an IER that is consistent with the issuing company's expectations.

Proposal

- 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;
 - (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.

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

Rationale

- 99 If a discretionary fee is payable after the release of the IER, there is an inherent conflict of interest as the prospect of the fees could apply pressure to the research analyst to produce an IER that is consistent with the issuing company's expectations. Such fees can create inappropriate incentives and create an environment for a range of poor conduct by licensees in order to secure the fee. The mere disclosure of discretionary fees to investors is unlikely to be sufficient to mitigate risks of conflicts.
- 100 To ensure the integrity and independence of research, we think it is important that a licensee has mechanisms in place to ensure this does not occur.

E Structure and funding of research

Key points

The structure and funding of research teams may result in a lack of research independence. In RG 79 we gave an overview of our expectations of how business model conflicts (whether direct or indirect) should be avoided unless there are robust processes and controls in place and meaningful disclosure.

Research may be compromised where research funding is linked to corporate advisory revenues or where research analyst remuneration is linked to their contribution to corporate advisory revenue.

Our new guidance will emphasise the principles in RG 79 and provide further clarity around the controls that need to be implemented to ensure that the structure of business models and the funding of research teams do not compromise research independence.

Background

- 101 With declining sales commissions, it is difficult for some licensees to fund their research team from sales revenues. This has led to corporate advisory revenue being used by many licensees to subsidise the research team's costs.
- 102 To obtain a return on their investment in research, licensees may also look for synergies between research, sales and corporate advisory. The IER is an example of these synergies.
- 103 This may generate conflicts between the interests of the licensees and their corporate clients, and the interests of investors in receiving unbiased research.

Markets in Financial Instruments Directive II

- 104 Some of the parties we engaged with on REP 486 indicated that the 'unbundling' of research costs required in Markets in Financial Instruments Directive II (MiFID II), which is scheduled to take effect from 3 January 2018, will have an impact on how:
- (a) licensees with European affiliates and clients fund research; and
 - (b) the level of use of research by fund managers.
- 105 We have no plans currently to implement similar requirements in this market but we welcome feedback on the relevance and 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.

Structure of research

- 106 As noted in RG 79, the business model and organisational structure of a licensee may result in a lack of research independence. We expect that licensees should adopt an appropriate structure, depending on the nature, scale and complexity of their business, and that they should have appropriate controls in place.
- 107 In our proposed guidance, we will continue to emphasise the principles in RG 79; that is, research analysts must be segregated (physically and technologically) from staff performing corporate advisory or sales functions and that research analysts should not be supervised by staff from other functions (including corporate advisory and sales). However, we will also supplement these principles with further clarity on the controls that licensees should implement to satisfy their obligations.

Proposal

- 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;
 - (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.

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

Rationale

- 108 The structure of a licensee can affect the independence of research and the extent to which a user can rely, with confidence, on the integrity of that research. A licensee should implement controls, such as those proposed, to preserve the objectivity and independence of the research process and outcome.

Decision-making on coverage

- 109 Decisions about research coverage should be made by the research team and not be subject to input or influence by other parts of the licensee. This would include corporate advisory or staff holding an investment in the company the subject of the report. It is also important that certain decisions are appropriately disclosed: see RG 79.51–RG 79.58.

Proposal

- 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:
 - (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.

Your 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.

Rationale

- 110 To ensure that research is genuinely objective and independent, and to maintain its integrity, research staff should not be subject to influence or input on decisions about research coverage. Coverage disclosure supports transparency and provides important context to investors in deciding whether and to what extent they should rely on research.

Research funding

- 111 RG 79.143 sets out our expectations that decisions about remuneration of research staff should not be made by staff who are directly connected with another business unit (such as corporate advisory). We want to ensure that this is also reflected in the funding of research teams.
- 112 Given the subsidisation of research by corporate advisory, corporate advisory staff may seek to be involved in deliberations on research team budgets. This poses the risk that research teams may feel pressured to support corporate advisory transactions or potential transactions with positive research on the subject company.

Proposal

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;
- (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.

Your 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.

Rationale

- 113 Research assists investors in making investment decisions. It is therefore important to the integrity of financial markets that research is unbiased and independent.
- 114 To maintain the independence of the research function, it is important that the budget, expense allowance and resource allocation of the research function is established without the involvement of corporate advisory. We think this will help licensees to ensure that the quality, integrity and reliability of research are not compromised due to funding dependencies and structural reporting lines.

Input into research analyst remuneration

115 While a research analyst's compensation can be governed by the revenue or results of the licensee as a whole, it should not be tied to corporate advisory revenues or results. RG 79.143 sets out our expectations that a research analyst's remuneration should not be connected with another business unit, such as corporate advisory. Our proposed supplementary guidance will clarify the controls that licensees should implement to strengthen the independence of their research team.

Proposal

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;
- (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.

Your feedback

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

Rationale

116 To ensure the integrity of our financial markets, research must reflect the unbiased, professional judgement of the research analyst.

117 Research may be compromised if a research analyst's remuneration is linked to their contribution to corporate advisory revenue. If corporate advisory

staff provide input into the performance evaluation or remuneration (including the size of any bonus) of a research analyst it creates the risk that research analysts will feel pressured to support transactions on which corporate advisory is mandated or seeks a mandate through favourable research on the subject company.

Disclosure of interests

118 Disclosure of interests in research should include prominent, specific and meaningful information about a licensee's (and its associates') conflicts. Our proposed guidance will continue to emphasise existing principles (see RG 79.155–RG 79.163), but we will provide further detail on what the disclosure should entail.

Proposal

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
- (b) the five largest share and option holders at the licensee.

Your feedback

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

Rationale

119 Users of research should be given enough information about conflicts of interest relating to the research to form a realistic view about it and whether to rely on it. These disclosures need to be specific, prominent and meaningful.

F Regulatory and financial impact

- 120 In developing the proposals in this paper, we have carefully considered their regulatory and financial impact. On the information currently available to us we think they will strike an appropriate balance between:
- (a) maintaining fair and efficient markets; and
 - (b) maintaining investor confidence.
- 121 Before settling on a final policy, we will comply with the Australian Government's regulatory impact analysis (RIA) requirements by:
- (a) considering all feasible options, including examining the likely impacts of the range of options which could meet our policy objectives;
 - (b) if regulatory options are under consideration, notifying the Office of Best Practice Regulation (OBPR); and
 - (c) if our proposed option has more than minor or machinery impact on business or the not-for-profit sector, preparing a regulation impact statement (RIS).
- 122 All RISs are submitted to the OBPR for approval before we make any final decision. Without an approved RIS, ASIC will not give relief or make any other form of regulation, including issuing a regulatory guide that contains regulation.
- 123 To ensure that we are in a position to properly complete any required RIS, please give us as much information as you can about our proposals or any alternative approaches, including:
- (a) the likely compliance costs;
 - (b) the likely effect on competition; and
 - (c) other impacts, costs and benefits.
- See 'The consultation process', p. 4.

Key terms

Term	Meaning in this document
AFS licence	An Australian financial services licence under s913B of the Corporations Act that authorises a person who carries out a financial services business to provide financial services Note: This is a definition contained in s761A of the Corporations Act.
AFS licensee or licensee	A person who holds an Australian financial services licence under s913B of the Corporations Act Note: This is a definition contained in s761A of the Corporations Act.
ASIC	Australian Securities and Investments Commission
ASIC Act	<i>Australian Securities and Investments Commission Act 2001</i>
Corporations Act	<i>Corporations Act 2001</i> , including regulations made for the purposes of that Act
enterprise or total value	A reference to an entity's ungeared value expressed as a total valuation for the entity and not on a per share basis
financial product	Has the meaning given in s761A of the Corporations Act
financial services law	Has the meaning given in s761A of the Corporations Act
inside information	Has the meaning given in s1042A of the Corporations Act
insider trading	Conduct prohibited under s1043A of the Corporations Act which includes a person who is in possession of inside information (the insider): <ul style="list-style-type: none"> • acquiring or disposing of securities or procuring another person to do so; and • communicating the inside information to another person if the insider knows, or ought reasonably to know, that the other person would be likely to acquire or dispose of securities or would procure another person to do so
institution	A professional investor (as defined in s9 of the Corporations Act)
investor education report or IER	Reports prepared by a licensee mandated to advise on a capital raising transaction (usually an IPO) and released before the lodgement of a prospectus with ASIC
IPO	Initial public offering
issuing company	A company undertaking a capital raising transaction, its directors, employees and shareholders
JLM	Joint lead manager

Term	Meaning in this document
market participant	A participant within the meaning of s761A of the Corporations Act, in relation to a financial market
MNPI	Material, non-public information
non-public side	A person who works on the private side of a licensee. That is, they are permanently wall-crossed and sit behind a 'Chinese' wall. On occasion, a staff member from the public side of the licensee may receive MNPI which requires them to be wall-crossed and sit on the non-public side of the licensee until the MNPI has become generally available
placement	A capital raising by a listed company under s708 of the Corporations Act
public side	A person who works on the sales and trading side of the business
REP 393	An ASIC report (in this example numbered 393)
research report provider	As defined in RG 79.27, an AFS licensee that provides research reports to other persons (clients). This includes situations where the AFS licensee causes or authorises another person (e.g. an authorised representative of the AFS licensee) to provide research reports to other persons (clients)
RFP	A request for proposal
RG 181	An ASIC regulatory guide (in this example numbered 181)
s912A	A section of the Corporations Act (in this example numbered 912A), unless otherwise specified
supervisory analyst	A person responsible for the review and approval of sell-side research
valuation information	Includes information relating to the valuation or likely valuation of a company or asset. This includes the valuation methodology and reason for its selection (including alternatives considered), the peer group comparable listed companies, discount rates and growth assumptions, financial information (including forecasts) relating to the company, the indicative valuation calculations and range, the price target or recommendation
wall-crossed	A person from the public side of an organisation will be 'wall-crossed' if they become aware of MNPI

List of proposals and questions

Proposal	Your feedback
<p>B1 Our proposed guidance:</p> <ul style="list-style-type: none"> (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: <ul style="list-style-type: none"> (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. 	<p>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.</p> <p>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.</p> <p>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.</p>
<p>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.</p>	<p>B2Q1 Do you agree with our proposed guidance? If not, why not? Please be specific in your response.</p> <p>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.</p> <p>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.</p>

Proposal	Your feedback
<p>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.</p>	<p>B3Q1 Do you agree with our proposed guidance on wall-crossing procedures? If not, please give your reasons.</p> <p>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.</p> <p>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.</p>
<p>B4 Our proposed guidance requires research analysts to provide a declaration or certification for sell-side research:</p> <ul style="list-style-type: none"> (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. <p>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.</p>	<p>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.</p> <p>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.</p>

Proposal	Your feedback
<p>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:</p> <ul style="list-style-type: none"> (a) initiation of research; and (b) any change to the recommendation or a material change to the price target in the research. <p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>B5Q3 Are there any other matters you think should be subject to a review and approval process? Please provide details.</p> <p>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?</p> <p>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.</p> <p>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.</p>

Proposal	Your feedback
<p>B6 Our proposed guidance sets out our expectation that licensees will have a process to deal with requests for research analysts' financial models.</p> <p>Our expectation of this process is that:</p> <ul style="list-style-type: none"> (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. 	<p>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.</p> <p>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.</p>

Proposal	Your feedback
<p>B7 Our proposed guidance is as follows:</p> <ul style="list-style-type: none"> (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. 	<p>B7Q1 Do you agree with our proposed guidance? If not, please give detailed reasons for your answer.</p>
<p>B8 We are interested in feedback from industry on the extension of this guidance to bond sell-side research.</p>	<p>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.</p>

Proposal	Your feedback
<p>C1 We propose that licensees should implement the following controls:</p> <ul style="list-style-type: none"> (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 pre-solicitation meetings; and (g) compliance or another control function should undertake periodic reviews to determine the effectiveness of the licensee's arrangements. 	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>

Proposal	Your feedback
<p>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:</p> <ul style="list-style-type: none"> (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. 	<p>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.</p> <p>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.</p>

Proposal	Your feedback
<p>C3 We propose the following guidance on how research analysts should interact with the issuing company during transaction vetting:</p> <ul style="list-style-type: none"> (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. 	<p>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.</p> <p>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.</p>

Proposal	Your feedback
<p>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:</p> <ul style="list-style-type: none"> (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. 	<p>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.</p> <p>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.</p> <p>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.</p>

Proposal	Your feedback
<p>C5 We are proposing the following guidance on research analysts' interactions with the issuing company during pitching:</p> <ul style="list-style-type: none"> (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. 	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>

Proposal	Your feedback
<p>D1 We are proposing the following guidance in relation to general IER preparation:</p> <ul style="list-style-type: none"> (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 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; (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 (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). 	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>

Proposal	Your feedback
<p>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:</p> <ul style="list-style-type: none"> (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). 	<p>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.</p> <p>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.</p>

Proposal	Your feedback
<p>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:</p> <ul style="list-style-type: none"> (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 analysts 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 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. 	<p>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.</p> <p>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.</p> <p>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.</p>

Proposal	Your feedback
<p>D4 We propose the following guidance for checking draft IERs:</p> <ul style="list-style-type: none"> (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: <ul style="list-style-type: none"> (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. 	<p>D4Q1 Do you agree with our proposed guidance on restricting who can review the IER? If not, please provide reasons why.</p> <p>D4Q2 Do you agree with our proposed guidance on restricting the sort of information that can be reviewed? If not, please provide reasons why.</p> <p>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.</p>

Proposal	Your feedback
<p>D5 We propose the following guidance in relation to the IER after its publication:</p> <ul style="list-style-type: none"> (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 reissued, 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). 	<p>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.</p> <p>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.</p>

Proposal	Your feedback
<p>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:</p> <p>(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;</p> <p>(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);</p> <p>(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</p> <p>(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.</p>	<p>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.</p> <p>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.</p> <p>D6Q3 Do you think it would be more appropriate for discretionary fees to be prohibited? If not, please give detailed reasons why</p>

Proposal	Your feedback
<p>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:</p> <ul style="list-style-type: none"> (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. 	<p>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.</p> <p>E1Q2 Do you think there needs to be more specific guidance provided on this point? If so, please give details in your response.</p> <p>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?</p>
<p>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:</p> <ul style="list-style-type: none"> (a) a licensee to publish on its website: <ul style="list-style-type: none"> (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. 	<p>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.</p>

Proposal	Your feedback
<p>E3 We propose the following guidance on research funding:</p> <ul style="list-style-type: none"> (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. 	<p>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.</p>

Proposal	Your feedback
<p>E4 Our proposed guidance will clarify the following:</p> <ul style="list-style-type: none"> (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: <ul style="list-style-type: none"> (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. 	<p>E4Q1 Do you agree with our proposed guidance? If not, please give detailed reasons for your response.</p>
<p>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:</p> <ul style="list-style-type: none"> (a) the research analyst who prepared the research; and (b) the five largest share and option holders at the licensee. 	<p>E5Q1 Do you agree with our proposal? If not, please give your reasons why.</p>