

From the Desk of Director Marija Pajeska



Association of Securities & Derivatives Advisers of Australia

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Market Supervision
Australian Securities and Investments Commission

By email: sell.side.research@asic.gov.au

Response to ASIC Consultation Paper 290 – Sell-side research

The Association of Securities and Derivatives Advisers of Australia (ASDAA) appreciates the opportunity to provide these comments to ASIC in respect of ASIC Consultation Paper 290 – Sell-side research.

ASDAA represents the interests of its members, who are from the Securities and Derivatives advisory profession. Its members are comprised of individuals who are either directors, or employees, of small to medium sized firms which hold an Australian Financial Services Licence (AFSL), but are not a Participant Member of the Australian Stock Exchange.

Firstly, we would like to address a matter that has not been raised in the consultation paper and yet we feel warrants some comment. ASIC has titled this consultation paper and the corresponding Regulatory Guide as Sell-side research. We fail to see the logic behind the title and don't feel that it makes sense or bears any relevance to the definition included in RG 000.27. The material and research included in RG 000.27 refers to corporate research and as such we propose that ASIC rename the Regulatory Guide to Corporate Research. We note that ASIC, in the consultation paper and proposed Regulatory Guide refers to Corporate Advisory staff and representatives as the selling syndicate and that the message it is trying to get across is that the role of the Research Analyst should be independent and not influenced by the Corporate Advisory staff and representatives. Giving this Regulatory Guide the name sell-side research goes against all the guidance given by ASIC as it comes across as research issued by the selling syndicate and not a Research Analyst that is independent (ie. one that has not been influenced by the Corporate Advisory staff and representatives). ASIC should consider a title which is more appropriate and meaningful, such as Corporate Research.

Secondly, we recognise that the majority, if not all, of ASIC's guidance deals with the interaction of Research Analysts and the Corporate Advisory Team that works for the same licensee that they work for. What has not been considered to the full extent are the conflicts of interest that exist between Research Analysts

interacting with a Corporate Advisory Team which is external to their licensee and the conflicts interest that exist between a Corporate Advisory Team interacting with Research Analysts which are external to their licensee and the how such interactions can influence the research issued by a Research Analyst or the commitments provided to the Issuer. ASIC needs to consider whether there is cause to extend its guidance to such scenarios.

Our specific comments to each of ASIC's proposals in the Consultation Paper are detailed in Annexure A of this letter.

ASDAA appreciates the opportunity to provide this Submission to ASIC on these significant proposals. We would be happy to discuss any issues arising from our submissions on this issue, or to provide any further material that may assist. Should you require any further information, please contact Brad Smoling, Director of Communications, on (07) 5532 3930 or email brad@asdaa.com.au.

Yours Sincerely



Marija Pajeska
Compliance Director

Annexure A: Response to ASIC Questions

Identifying MNPI

B1 proposal: ASIC 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 ASIC’s expectation that licensees will have policies and procedures to identify MNPI. These could include advising staff to verify whether information has been 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 ASIC expects the relevant policies and procedures to be available to all staff and to be supported by training.

	ASIC Question	Response
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.	Yes
B1Q2	Should we provide more detailed guidance on the training we expect licensees to conduct for their staff to identify MNPI? If so, please describe.	No, training should remain flexible so it is easy for a Licensee to implement within its existing systems.
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.	Most licensees we work with have existing policies and procedures that cover these matters, however they may need to allocate some time and resources to formalizing those processes.

Managing MNPI – policies and procedures

B2 proposal: ASIC’s proposed guidance sets out its expectations that licensees will have policies and procedures in relation to MNPI which address the licensees identification and what staff should do when they receive MNPI.

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

ASIC Question		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.	No, the measures defined in the regulatory guide appear to be designed such that they are easily adaptable by any licensee.
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.	Most licensees we work with already include similar measures in their policies and procedures. They would need to allocate time and resources to review and update existing policies and procedures.

Wall-crossing practices

B3 proposal: ASIC's proposed guidance sets out its expectation that licensees must implement, maintain and monitor wall-crossing procedures. ASIC expects the procedures to include a requirement for a written acknowledgement by the research analyst that they have been wall-crossed. ASIC also expects 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.

ASIC Question		Response
B3Q1	Do you agree with ASIC's proposed guidance on wall-crossing procedures? If not, please give your reasons.	Yes
B3Q2	Do you think ASIC's proposed guidance sufficiently sets out its 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.	The guidance itself appears to be reasonable in light of ASIC's expectation. However, ASIC needs to give some consideration on the practical application of such procedures by small licensees, ie. the feasibility of including a provision which allows for the procedures to be scaled based on nature, size and complexity of the licensee's business.
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.	Most licensees we work with are small in size and generally do not have formal wall crossing procedures so they would need to allocate time and resources (of which they may have limited access to) to drafting and implementing formal wall crossing procedures.

Research analyst declaration

B4 proposal: ASIC’s 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.

	ASIC Question	Response
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.	Yes, we do agree with the provision of a certification or declaration by the research analyst, however such certification/ declaration should form part of the internal records of the licensee and it should be sufficient to include in the Disclaimer a simple summary of the certification/ declaration provided.
B4Q3	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.	The proposed content of the certification/ declaration appears reasonable.

Monitoring and review of material changes to research

B5 proposal: 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. ASIC’s proposed guidance sets out its 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.*

ASIC expects the review to be undertaken by a supervisory analyst (or compliance or another control function) with appropriate knowledge and experience. ASIC also expects 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.

ASIC's proposed guidance sets out its 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.

ASIC Question		Response
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.	Yes
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.	We believe that it would be more beneficial to have a review and approval process if there are material changes to the recommendations, price target or research. Sometimes changes may arise to a recommendation, which are immaterial and in those circumstances a review and approval process may not be warranted.
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?	The objective should be to ensure the integrity and independence of the research function and where a licensee is small they may not have a separate person performing the duties of a supervisory analyst, compliance or another control function. Therefore, this requirement should be scalable based on the nature, size and complexity of the licensee's business.
B5Q5	Should ASIC 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.	No, ASIC should allow industry to develop some standards and then assess those in a few years to determine if further guidance is required.
B5Q6	Relative to what you are already doing to ensure that research is reviewed and approved, would ASIC's proposed guidance lead to you incurring any additional business costs? If so, please provide an estimate of these costs and why.	Most licensees we work with are small in size and generally do not have formal procedures in place for monitoring research. They would need to allocate time and resources to draft and implement formal procedures. Further, they would need to assess how they would implement an independent review and approval process taking into consideration the limited human resources they have access to.

Research analyst models

B6 proposal: ASIC proposed guidance sets out its expectation that licensees will have a process to deal with requests for research analysts' financial models. ASIC's 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.

ASIC Question		Response
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.	Yes provided that it allows for the process to be scalable based on the nature, size and complexity of the licensee's business. ASIC needs to ensure that the guidance can be applied by small licensees without incurring unreasonable costs and overheads.
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.	

Compliance and control function

B7 proposal: ASIC 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.

ASIC Question		Response
B7Q1	Do you agree with our proposed guidance? If not, please give detailed reasons for your answer.	Yes provided that it allows for the process to be scalable based on the nature, size and complexity of the licensee's business. ASIC needs to ensure that the guidance can be applied by small licensees without incurring unreasonable costs and overheads.

Application to a range of financial products

B8 proposal: ASIC is interested in feedback from industry on the extension of this guidance to bond sell-side research.

	ASIC Question	Response
B8Q2	<p>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>	<p>Yes, as in the past reliance has been placed on information provided by Credit Agencies which has proven not to be helpful or at times reliable.</p> <p>We note that most bonds are exchange traded products and therefore should be subject to the same measures as other exchange traded products.</p> <p>The guidance should be different and include factors which are relevant to debt markets and should be designed to take into consideration that bonds are not as liquid as equities and as such can be difficult to trade.</p>

Pre-solicitation

C1 proposal: ASIC proposes 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.*

ASIC Question		Response
C1Q1	Do you agree with ASIC's 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>Yes on the condition that it includes the ability for a licensee to determine what is appropriate in light of the nature, scale and complexity of the its business.</p> <p>We think that the definition is appropriate however the title is not. Taking into consideration the information that is generally contained and the objective of this type of research a more appropriate title would be 'Corporate Research'.</p> <p>Most licensees we work with are small in size and generally do not have formal procedures in place in this regard. They would need to allocate time and resources to draft and implement formal procedures.</p>
C1Q2	Do you think ASIC's proposed guidance sufficiently explains its 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 ASIC's definition of 'sell-side research' for the purposes of its 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 ASIC's proposed guidance lead to you incurring any additional business costs? If so, please provide an estimate of these costs and why.	

Transaction vetting

Corporate advisory and research analyst interactions during vetting

- C2 proposal: ASIC's 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.

	ASIC Question	Response
C2Q1	Do you agree with ASIC's 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.	Yes provided that it allows for the process to be scalable based on the nature, size and complexity of the licensee's business. ASIC needs to ensure that the guidance can be applied by small licensees without incurring unreasonable costs and overheads.
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.	Most licensees we work with are small in size and generally do not have formal procedures in place in this regard. They would need to allocate time and resources to draft and implement formal procedures.

Issuing company and research analyst interactions during vetting

- C3 proposal: ASIC proposes 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.

	ASIC Question	Response
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.	Yes provided that it allows for the process to be scalable based on the nature, size and complexity of the licensee's business. ASIC needs to ensure that the guidance can be applied by small licensees without incurring unreasonable costs and overheads.
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.	Most licensees we work with are small in size and generally do not have formal procedures in place in this regard. They would need to allocate time and resources to draft and implement formal procedures.

Transaction pitching

Corporate advisory and research analyst interactions during vetting

- C4 proposal: ASIC is 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, ASIC proposes:
- (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.

ASIC Question		Response
C4Q1	Do you agree with ASIC's 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.	Should ASIC allow Corporate Advisory staff to interact with Research Analysts during Transaction pitching, we agree with ASIC's guidance, provided that it allows for the process to be scalable based on the nature, size and complexity of the licensee's business. ASIC needs to ensure that the guidance can be applied by small licensees without incurring unreasonable costs and overheads.
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.	If it is allowed it should only be allowed in the presence of compliance or another control function. The primary reason being is that during such interactions, banter and jesting is a covert communication tool which is used to exchange information which is not spoken of specifically. By having compliance or another control function present this should act as a deterrent for such behavior.
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.	Yes

Issuing company and research analyst interactions during vetting

- C5 proposal: ASIC is 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.

	ASIC Question	Response
C5Q1	Do you agree with ASIC's 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.	Should ASIC allow and Issuing Company to interact with Research Analysts during Transaction pitching, we agree with ASIC's guidance provided that it allows for the process to be scalable based on the nature, size and complexity of the licensee's business. ASIC needs to ensure that the guidance can be applied by small licensees without incurring unreasonable costs and overheads.
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.	If it is allowed it should only be allowed in the presence of compliance or another control function. The primary reason being is that during such interactions, banter and jesting is a covert communication tool which is used to exchange information which is not spoken of specifically. By having compliance or another control function present this should act as a deterrent for such behavior. A very good research analyst would source their information from what is publicly available anyway, so therefore does not necessarily need to speak to the issuing company.
C5Q3	Do you think ASIC's 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.	Yes
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.	Most licensees we work with are small in size and generally do not have formal procedures in place in this regard. They would need to allocate time and resources to draft and implement formal procedures.

General guidelines for IER preparation

D1 proposal: ASIC is 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).*

	ASIC Question	Response
D1Q1	Do you agree with ASIC's proposal? If you do not, please give detailed reasons for your answer. In your response, please provide alternative controls or measures.	Yes provided that it allows for the process to be scalable based on the nature, size and complexity of the licensee's business. ASIC needs to ensure that the guidance can be applied by small licensees without incurring unreasonable costs and overheads.
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.	It depends on when the IER is issued. If valuation data is included in an IER which is issued prior to the prospectus being made public then the valuation data is theoretical and speculative. If valuation data is included in an IER which is issued after the prospectus is made public then the valuation data is more useful and relevant.
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.	Information provided in an IER should include: <ul style="list-style-type: none"> • Company description, including key personnel; • Key expenditure by the company or key investment highlights; • Share price summary, ie. shares on issue, whether there are options or not, share price range and top shareholders; • Disclosures by research firm; • Peer comparison based on sector analysis; • Any specific project details company is undertaking; and • Sector sentiment.

ASIC Question		Response
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.	Yes. The main purpose of this guidance is to ensure that potential investors receive useful independent research. If the IER is published after the prospectus is made public then shareholders and potential investors can review the information and compare to live trading data.
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.	Valuation data included in an IER which is issued prior to the prospectus being made public is theoretical and speculative and therefore not as useful. Valuation data included in an IER which is issued after the prospectus is made public is more useful and relevant as it can be compared to live trade data.

Research analyst interactions with corporate advisory when preparing the IER

D2 proposal: ASIC proposes to continue 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).

ASIC Question		Response
D2Q1	Do you agree with ASIC's 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.	Yes provided that it allows for the process to be scalable based on the nature, size and complexity of the licensee's business. ASIC needs to ensure that the guidance can be applied by small licensees without incurring unreasonable costs and overheads.
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.	Most licensees we work with are small in size and generally do not have formal procedures in place in this regard. They would need to allocate time and resources to draft and implement formal procedures.

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

D3 proposal: ASIC proposes 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.*

	ASIC Question	Response
D3Q1	Do you agree with ASIC's 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.	Yes provided that it allows for the process to be scalable based on the nature, size and complexity of the licensee's business. ASIC needs to ensure that the guidance can be applied by small licensees without incurring unreasonable costs and overheads.
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.	No, the guidance should make reference to a risk based approach to be used by the licensee to determine whether compliance or another control function should be attending any of the meetings between the research analyst and the issuing company.
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.	Most licensees we work with are small in size and generally do not have formal procedures in place in this regard. They would need to allocate time and resources to draft and implement formal procedures.

Reviewing the draft IER (fact checking)

D4 proposal: ASIC proposes 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.*

ASIC Question		Response
D4Q1	Do you agree with our proposed guidance on restricting who can review the IER? If not, please provide reasons why.	Yes
D4Q2	Do you agree with our proposed guidance on restricting the sort of information that can be reviewed? If not, please provide reasons why.	Yes
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.	Most licensees we work with are small in size and generally do not have formal procedures in place in this regard. They would need to allocate time and resources to draft and implement formal procedures.

After publishing the draft IER

D5 proposal: ASIC proposes 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).*

ASIC Question		Response
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.	Yes

ASIC Question		Response
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.	Most licensees we work with are small in size and generally do not have formal procedures in place in this regard. They would need to allocate time and resources to draft and implement formal procedures.

Discretionary fees

- D6 proposal: ASIC proposes 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.*

ASIC Question		Response
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.	The objective should be to ensure that the discretionary fees received by a licensee and payable to a Research Analyst do not breach any conflicted remuneration conditions. In terms of managing conflicts of interest, disclosure of fees and where appropriate clients agreeing to the payment of fees to the Research Analyst should be used as tools to manage conflicts of interest.
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.	

Structure of research

E1 proposal: ASIC proposes to continue to set out its 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, its 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.*

	ASIC Question	Response
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.	Yes. Further, ASIC should provide further guidance in relation to what is deemed independent research. This is even more important now taking into consideration the ASIC’s Media Release 17-206MR where ASIC has stated ‘...that words such as ‘independently owned’, ‘non-aligned’ and ‘non-institutionally owned’, and other similar words or expressions, can be used only if a financial adviser satisfies the conditions set out in s923A. This means that if a financial adviser does not receive any commissions or volume-based payments, or other gifts or benefits and has no conflicts of interest or influence from any product issuer, then they can describe themselves as being ‘independently owned’.
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?	We have no specific view on the impact of MiFID II

Decision-making on coverage

E2 proposal: ASIC is proposing supplementary guidance to clarify the types of controls licensees should implement to manage conflicts of interest when making decisions to provide research coverage. ASIC’s 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.

	ASIC Question	Response
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.	Mostly. How a licensee selects a company to research is not information clients would generally take into consideration. Requiring this to form part of the licensee's internal policies should be sufficient. Of more importance to clients is the decision and rationale by the licensee to initiate or terminate coverage which should form part of the research report. It gives substance to the report and would be information that clients would generally consider.

Research funding

E3 proposal: ASIC proposes 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.

	ASIC Question	Response
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.	Yes

Input into research analyst remuneration

E4 proposal: ASIC's 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.

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

Disclosure of interests

E5 proposal: ASIC's 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.

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