Best practice guidelines for research reports

The need to ensure that research reports are objective and independent has become a global issue. The Securities Institute has, in co-operation with other relevant associations, responded to this issue by developing a set of Best Practice Guidelines for Independent Research.

Recent high-tech collapses around the world have given rise to allegations that analysts' research reports and trading recommendations lack independence and objectivity.

In the US this led to wider allegations of conflicts of interest, where analysts were accused of making positive recommendations on IPO stocks in which they had a personal interest and selling securities short while maintaining a buy recommendation, thus violating both their firm's policies and the federal securities laws.

Although allegations of this nature have not reached the same level of intensity in Australia, questions have been raised in the media about the symbiotic relationship between research and the firm's other corporate activities, and whether analysts use ambiguous language in recommendations to avoid offending the firm's corporate clients.

There is widespread concern in the industry that perceived conflicts of interest, whether potential or actual, could irretrievably damage investor confidence in the integrity of the market.

As a result, the Securities Institute has consulted with other key industry bodies, regulators, investor groups and market participants over the development of industry-based Best Practice Guidelines for Independent Research to encourage industry participants to develop a corporate culture that complies with regulatory requirements while observing the highest standards of professional conduct.

A perception of potential or actual conflicts of interest can occur when there is:

- a lack of separate and distinct reporting structures for research and other corporate activities;
- analysts' remuneration being linked to revenue received from other corporate activities in which the analyst may have played an integral part;
- analysts buying and selling stocks that they cover;
- the erosion of Chinese walls erected to restrict the dissemination of information within the organisation;
- failure to disclose specifically and prominently any relationship or interests that may influence a research report or trading recommendation; and,
- inconsistency and ambiguity in trading recommendations.

The guidelines being developed to address these issues are premised on the fact that analysts and their corporate employers have a duty to establish and maintain a corporate culture that promotes and protects the integrity of the market.

They also acknowledge the need for external corporate management to respect and promote the independence and objectivity of analysts, and for retail investors to conduct sufficient research themselves as to enable them to make informed investment decisions.

Once the guidelines are finalised, the Institute will seek to have them widely adopted as confirmation of a commitment to promoting independent research. J

One-Day Symposium

On 19 November 2001, the Institute will hold a one-day symposium in Sydney to discuss the role analysts play in the market and whether their independence and objectivity is being unduly influenced by the symbiotic relationship between research and other arms of the firm.

We are please to have as our international guest speaker, Mr Thomas A. Bowman, CEO of the Association for Investment Management and Research (AIMR), an international non-profit organisation based in the United States, which shares our concerns to protect the integrity of the market. Mr Bowman recently addressed the Congressional Committee on Capital Markets on the issue of analysts' independence and objectivity.

Further information on the symposium can be obtained from our website at www.securities.com.au J