

PART II

Statutory Notifications (S. R. O)

GOVERNMENT OF PAKISTAN

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

NOTIFICATION

Islamabad, the 27th July, 2015

S. R. O. 709 (I) 2015. In exercise of powers conferred under clause (q) of sub-section (2) of section 169 of the Securities Act, 2015 (Act No. III of 2015), the Securities and Exchange Commission of Pakistan hereby makes the following regulations, the same being previously published in the Official Gazette vide S.R.O. 232 (I)/2015 dated March 17, 2015 and also placed on its website as required sub-section (4) of the said Act, namely:-

1. Short title and commencement.- (1) These Regulations shall be called the Research Analyst Regulations, 2015.

(2) They shall come into force at once.

2. Definitions.-

- a) "Act" means the Securities Act, 2015 (Act No III of 2015);
- b) "Close relative" shall mean the spouse(s) and lineal ascendant(s) and descendant(s) of the Research Analyst;
- c) "Commission" means the Securities and Exchange Commission of Pakistan established under section 3 of the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997);
- d) "Independent Research Analyst" means a person performing the functions of Research Analyst who is not engaged in any other regulated securities activity;
- e) "Public Appearance" means any participation in a conference call, seminar, forum (including interactive and non-interactive electronic forum), radio or television or internet or web or print media broadcast, authoring a print media article or other public speaking activity in which a Research Analyst, or an officer, director, or employee of a Research Entity or Independent Research Analyst, makes a recommendation or offers an opinion, concerning listed securities or a public offer;
- f) "Research Analyst" means a person, by whatever name called, who is involved in the preparation, writing and/or publication of a Research Report or the substance of a Research Report concerning securities that are listed or to be listed on a stock exchange registered in Pakistan;

g) **“Research Entity”** means a company which provides services of issuance of a Research Report in its own name through the Research Analysts employed by it, and includes any other entity associated with the securities markets in any manner, also engaged in the issuance of Research Report and also provides following services:

- i). acting as a securities adviser;
- ii). acting as an underwriter;
- iii). offering brokerage services;
- iv). participating in a selling or an offering for the issuer or otherwise acting in furtherance of a public offer of the issuer;
- v). acting as an adviser in a merger or acquisition;
- vi). providing or arranging venture capital or equity or debt;
- vii). serving as placement agent for the issuer or otherwise acting in furtherance of a private offering of the issuer; and
- viii). any other services as specified by the Commission.

h) **“Research Report”** includes a written communication, in any form, which includes:

- i) a Price Target – the fundamental value of a listed security or a public offer derived by the Research Analyst; or
- ii) a “buy/sell/hold” recommendation or an analysis or opinion concerning a listed security or a public offer,

providing information reasonably sufficient upon which to base an investment decision, but does not include the following communications:

- i). comments on general trends in the securities market;
- ii). commentaries on economic, political or market conditions;
- iii). periodic reports or other communications prepared for unit holders of mutual funds or collective investment schemes;
- iv). internal communications that are not given to current or prospective clients;
- v). communications that constitute offer documents or prospectus that are circulated under a specific law;
- vi). statistical summaries of financial data of the companies;
- vii). technical analysis relating to the demand and supply in a sector or the index; and
- viii). any other communication which the Commission may specify from time to time.

i) **“Subject Company”** includes the issuer or company whose public offer or securities are the subject of a Research Report or a Public Appearance.

j) **“Third Party Research Report”** means a Research Report produced by any international research house located outside Pakistan.

All other words and expressions used but not defined in these regulations shall have the same meanings as assigned to them under the Act.

3. Qualification, experience and certification requirement.- (1) A Research Analyst including an Independent Research Analyst, shall have the following minimum qualifications:

- (a) A professional qualification in accounting and finance or a graduate degree in finance, accountancy, business management, commerce, economics, capital market and financial services provided by a university recognized by the Higher Education Commission of Pakistan; or

- (b) two years of relevant experience which includes working in the research department of a company operating in the financial sector or capital market or experience in activities relating to securities or fund or asset or portfolio management; or
- (c) any known specialized certification other than mentioned in regulation (2) below, covering areas of financial and capital markets.

(2) In addition to the above, individuals employed as Research Analyst by the Research Entity or Independent Research Analyst, as the case may be, shall obtain such mandatory certification(s) for Research Analysts as specified by the Commission from time to time.

4. Establishing Policies and Procedures.- (1) The Independent Research Analyst and Research Entity shall have written internal policies and control procedures governing the following matters:

- (i) trading activities of Research Analyst is subject to a formal approval process;
 - (ii) restricting dealing or trading by itself (in case of an Independent Research Analyst), and Research Analyst and their close relatives, in the securities of the Subject Company, within seven days before and five days after the publication of such Research Report;
 - (iii) public disclosure, along-with proper rationale, of any dealing or trading by itself or the Research Analyst, in a manner contrary to its given recommendation;
 - (vi) addressing actual or potential conflict of interest arising from dealings or trading in securities of the Subject Company by the Research Analyst and Research Entity or their officers, directors or employees, and participation of the Research Analyst in business activities designed to solicit non-research business such as sales pitches or road shows or corporate advisory transactions;
 - (v) promoting objective and reliable research that reflects the unbiased and independent view of the Research Analyst; and
 - (vi) preventing the use of the Research Report to manipulate the securities market.
- (2) The Research Entity shall have in place appropriate mechanisms to ensure independence of its research activities from its other business activities.

5. Restrictions on Research Analyst Compensation and Conduct of Business etc.- (1) The Research Entity shall ensure that compensation of the Research Analyst is neither determined nor based on any other service(s) that the Research Entity is offering. This includes bonus, salary or any other form of compensation.

(2) An individual employed as Research Analyst by the Research Entity shall not be subject to the supervision or control of any employee of its non-research departments, and no personnel engaged in providing non-research services may have any influence or control over the compensatory evaluation of Research Analyst.

(3) The Research Analyst/Research Entity shall not provide any promise or assurance of favorable review in its Research Report to a company or industry or sector or group of companies or business group as consideration to commence or influence a business relationship or for the receipt of compensation or other benefits.

(4) The Research Entity shall publically disclose compensation and reporting structure of the Research Analyst they employ.

6. Limitations on Publication of Research Reports and Restrictions on Public Appearances by Research Analyst.- (1) The Research Analyst/Research Entity shall not submit a Research Report to the Subject Company before its publication:

Provided that some sections of the Research Report may be submitted to the Subject Company before its publication for review as necessary only to verify the factual accuracy of information in those sections.

(2) The Research Entity shall not issue Research Reports and it or its Research Analysts, officers or directors shall not make Public Appearance(s) regarding a Subject Company for which the Research Entity acted as a corporate advisor, underwriter or lead manager in a public offer from the date of its appointment till a period of 25 days from the date of completion of such offering.

7. Content in Research Reports.- (1) The Independent Research Analyst, Research Entity and Research Analyst shall have adequate documentary basis, supported by research, for preparing a Research Report.

(2) The Research Analyst shall ensure that facts in the Research Reports are based on reliable information and the source of such information is disclosed. Further the Research Analyst shall define the terms used in making recommendations and these terms should be used consistently.

(3) The Research Analyst shall disclose in the Research Report the valuation methods used to determine the Price Target, if any, that has a reasonable basis and shall be accompanied by a disclosure concerning the risk that may impede achievement of the Price Target.

(4) The Research Analyst that employs a rating system must clearly define in each Research Report the meaning of each rating in the system, including the time horizon and any benchmarks on which a rating is based.

8. Disclosures in Research Reports.- (1) If the Research Entity acts as a market maker in the securities of a Subject Company, the fact shall be disclosed.

(2) The Independent Research Analyst, the Research Entity and the individual employed by them as Research Analyst shall disclose:

(i) if it or any of its officers, directors, associates or a close relative has a financial interest in the securities of the Subject Company and the nature of such interest, provided such interest (actual/beneficial) aggregates to an amount exceeding 1% of the value of the securities of the Subject Company at the time of issuance of the Research Report;

(ii) if it or any of its officers, directors, associates or a close relative is currently serving or has served in the past three years as a director or officer of the Subject Company;

(iii) if it or any of its officers, directors, associates or a close relative received compensation from the Subject Company in the previous 12 months;

(iv) if the Subject Company currently is, or during the 12-month period preceding the date of publication or distribution of the Research Report, was, a client of the Research Entity;

(v) if the Research Entity has managed or co-managed a public offering or any takeover, buyback or delisting offer of securities for the Subject Company in the past 12 months and/or received compensation for corporate advisory services, brokerage services or underwriting services from the Subject Company in the past 12 months;

(vi) if the Research Entity expects to receive or intends to seek compensation for corporate advisory services, brokerage services or underwriting services from the Subject Company in the next three months;

(vii) if the Research Analyst is issuing Research Report on any of its associated companies; and

(viii) any other material conflict of interest of the Research Analyst/Research Entity which has the ability to influence the content of a Research Report, that the Research Analyst/ Research Entity knows or has reason to know at the time of the publication or distribution of a Research Report.

(3) All material disclosures under these regulations shall also be made by a Research Analyst and employees, officers or directors of an Independent Research Analyst/Research Entity in Public Appearance(s).

(4) The disclosures given above shall not be required to be made to the extent that they would reveal material non-public information regarding specific potential corporate advisory, brokerage or underwriting service transactions of the Subject Company.

9. Distribution of Research Reports.- (1) A Research Report shall not be distributed selectively to internal trading personnel or a particular client or class of clients in advance of other clients that are entitled to receive the Research Report. Further, the Independent Research Analyst and Research Entity shall publically disclose their policies and procedures for disseminating Research Report.

(2) Any person located outside Pakistan engaged in issuance of Research Report in respect of securities listed or proposed to be listed on a stock exchange in Pakistan shall enter into an agreement with an Independent Research Analyst or a Research Entity.

(3) An Independent Research Analyst/Research Entity who distributes any Third Party Research Report shall review the Third Party Research Report for any untrue statement of material fact or any false or misleading information.

(4) An Independent Research Analyst/Research Entity who distributes any Third Party Research Report shall disclose any material conflict of interest of such third party research provider or it shall provide a web address that directs a recipient to the relevant disclosures.

10. General Responsibilities.- (1) The Research Analyst, Independent Research Analyst and Research Entity shall act in a fiduciary capacity towards its clients and shall disclose all conflicts of interests as and when they arise and suitably address the same.

(2) The disclosures under these regulations shall be complete, timely, clear, concise, specific and made in a prominent manner so that investors obtain the full benefit of the information provided.

(3) Independent Research Analyst and Research Entity as the case may be, shall also intimate the Commission for the purposes of record, before commencement of its business.

11. Maintenance of Records.- (1) The Independent Research Analyst and Research Entity shall maintain the following records:

- (i) Research Reports prepared;
- (ii) Written research recommendations provided;
- (iii) Rationale for arriving at research recommendations;
- (iv) Record of Public Appearances.

(2) All records shall be maintained either in physical or electronic form and preserved for a minimum period of five years.

12. Compliance and Enforcement Mechanism for the Research Analyst/Research Entity.- An Independent Research Analyst and Research Entity must, as the case may be,-

- (a) establish compliance procedures on a regular basis to ensure that the procedures reflect current laws and provide adequate guidance to its employees, officers and directors about what is permissible conduct;
- (b) continuously monitor and audit the effectiveness of compliance procedures and keep its employees, officers and directors updated with any changes in these procedures; and
- (c) implement appropriate disciplinary sanctions for itself and its employees, officers and directors in case of violations.

13. Liability for action in case of default. Independent Research Analyst, Research Entity and Research Analyst who contravenes any of the provisions of the Act or any regulations or circulars issued thereunder shall be dealt with in the manner provided under the Act.

No. SMD/SE/2(255)2015

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27/7/15

(Bushra Aslam)
Secretary to the Commission