

## Analyst Conflicts of Interest – Paragraph 16 of the Code of Conduct

	<i>Question</i>	<i>Answer</i>	<i>Posting Date</i>
<b>General and Scope of Application</b>			
1.	Would the guidelines apply to a securities dealer's representative (or account executive) that may provide investment advice to clients as part of the representative's dealing function?	<p>The guidelines do not apply to a licensed securities dealer's representative (or a registered institution's relevant individual) giving investment advice or comments incidental to his dealing function. In addition, personal (one-to-one) investment advice and research conducted solely for a firm's internal consumption are also not covered by the guidelines.</p> <p>However, the provision of analyses or comments on securities by dealer representatives/relevant individuals in the mass media would be subject to the provisions of Paragraph 16 of the Code of Conduct.</p>	3 November 2004
2.	Would the guidelines apply to research produced elsewhere but circulated in Hong Kong? What about firms and analysts located outside Hong Kong who offer investment research on the Internet accessible to Hong Kong investors?	The guidelines, as part of the Code of Conduct, apply to licensed/registered persons only. They cover research reports produced elsewhere on securities listed in Hong Kong (and research that has an influence on such securities) but issued/published by licensed/registered persons. The guidelines do not apply to any supporting clerical staff of firms who is only involved in the mechanical preparation of the research or otherwise does not have any influence over the substance of research reports.	3 November 2004

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		Section 115 of the SFO aside, licensed persons located outside Hong Kong who issue relevant investment research to Hong Kong investors via the Internet are also subject to the guidelines.	
3.	Are non-licensed/non-registered commentators or financial journalists providing commentaries through the mass media subject to the guidelines?	<p>Non-licensed/non-registered persons are not subject to the guidelines. However, any members of the public should be aware that their conduct in relation to securities in the market is subject to the market misconduct provisions under the SFO.</p> <p>Commentators or journalists are also subject to their media organisations' internal guidelines (where applicable) on the issue.</p>	3 November 2004
4.	Is investment research that is exchanged between different offices within a group considered "internal consumption" and not subject to the guidelines?	Investment research produced by a firm's analysts solely for the firm's or its group companies' internal consumption and not for distribution to clients is not subject to the guidelines.	3 November 2004
5.	Are analysts of fund management companies, who may attend client meetings and provide research information to clients, subject to the guidelines?	Research on collective investment schemes is excluded from the scope of the guidelines. All analysts publishing investment research or advice on specific securities are subject to the guidelines other than in the circumstances of giving personal (one-to-one) investment advice to clients.	3 November 2004

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6.	Would investment research on a listed corporation's bonds be subject to the guidelines, as arguably such research may have an indirect influence over the listed corporation's stock price?	Research on debt securities is excluded.	3 November 2004
7.	Are licensed/registered persons required to apply for the exemptions or exclusions provided in Paragraph 16 of the Code of Conduct?	No applications are required for the exemptions or exclusions stated in Paragraph 16.	3 November 2004
<b>Financial Interests</b>			
8.	Would an analyst covering a listed financial institution be considered to have a relevant financial interest if the analyst has been granted a credit facility which he may use to purchase securities?	A credit facility provided at arm's length by itself is not considered a financial interest for the purposes of the guidelines. However, should the credit facility be drawdown to purchase securities in relation to the listed financial institution, ownership of those securities will separately constitute a financial interest.	3 November 2004
9.	Would firms be held liable if their analysts fail to make the relevant disclosures in the research reports?	Firms are expected to establish appropriate procedures to require and enable their analysts to report/disclose the relevant disclosures. The management is expected to ensure that these procedures are enforced.	3 November 2004
<b>Analysts Not to Solicit Investment Banking Business</b>			
10.	While analysts cannot take part in sales pitches and deal road shows, can they passively attend these functions?	Analysts should not participate in business activities designed to solicit investment banking business. Therefore, they should not be members	3 November 2004

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		of the teams that conduct sales pitches or deal road shows.	
<b>Analysts Appearing in the Mass Media</b>			
11.	What are the disclosure requirements when an analyst provides comments on securities in the mass media in his personal capacity?	<p>The analyst should, at the time of providing the comments, disclose:</p> <ul style="list-style-type: none"> <li>(i) his name;</li> <li>(ii) his licence status; and</li> <li>(iii) where he and/or his associate has a financial interest in relation to the listed corporation, the fact of having such an interest.</li> </ul> <p>The analyst should provide the above information to the journalist, editor or programme controller. Nevertheless, this requirement should be applied in a pragmatic manner. In the circumstances that the analyst appears in a broadcast programme, for example, the analyst may only need to disclose items (i) and (ii) once at the beginning of the programme. Item (iii) should be disclosed when he comments on relevant specific stocks during the programme.</p>	3 November 2004
12.	Will an analyst be held responsible if he had made the relevant disclosures to the journalist in an interview but the disclosures were not published by the media organization?	Where relevant disclosures had been made by analysts and/or firms, they will not be held responsible if their investment research or recommendation is published or otherwise reproduced in whole or in part by the mass media	3 November 2004

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		without the relevant disclosures.	
<b>Methods and Prominence of Disclosure</b>			
13.	The guidelines provide that the relevant disclosures should be clear, given adequate prominence and made in a method that is commensurate with the medium through which the investment research is delivered. Would disclosures made in the back page of an investment research report be considered sufficiently prominent?	Relevant disclosures (in a font size generally not smaller than that used in the body of the report) made in the back page of a report should generally be sufficient. They should also be made using plain language. It is a good practice to indicate the availability and location of disclosures in the front page of the report.	3 November 2004
<b>Disclosure of Third Party Benefits</b>			
14.	The guidelines provide that analysts should disclose in the research report any third party benefit received in connection with the investment research. Would inconsequential benefits like transportation for company visits and snacks at company briefings be considered third party benefits that should be disclosed?	While these “benefits” (i.e. transportation for company visits and snacks at company briefings having a value below a certain reasonable monetary threshold) may not constitute discloseable third party benefits, firms should establish appropriate disclosure/non-acceptance policies encompassing monetary thresholds in this regard.	3 November 2004