

**Draft of the Securities and Exchange Commission (Research Analysis)
Rules, 2012**

In exercise of the power conferred by section 33 of the Securities and Exchange Ordinance, 1969 (XVII of 1969), the Securities and Exchange Commission makes, with prior publication, the following Rules, namely:-

1. Short Title.- These rules may be called the Securities and Exchange Commission (Research Analysis) Rules, 2012.

2. Definitions.- (1) In these Rules, unless there is anything repugnant in the subject or context-

- a) 'Commission' means the Securities and Exchange Commission.
- b) "Company" means a company as defined in the Companies Act, 1994 (Act of 18 of 1994)
- c) "Ordinance" means Securities and Exchange Ordinance, 1969 (Ordinance No XVII of 1969)
- d) "Research Analyst" is a person employed by a stock dealer/ broker or merchant banker, asset management company, investment adviser or independent research firm who analyses and evaluates investment in securities and then prepares written reports reflecting the analyst's research, often including a "buy", "sell" or "hold" recommendation.
- e) "Merchant Banker" means a merchant banker as defined in the wwwKDwi uJR I G. tPÄ Kugkb (gv tPÄU e'vsKvi I tcvU t d w j I g'v t b R vi) weagvj v, 1996
- f) "Stock-Dealer/Stock-Broker" means a stock-dealer or stock-broker of an exchange who is registered with the Securities and Exchange Commission under the wwwKDwi uJR I G. tPÄ Kugkb (÷K wWj vi, ÷K t e t K vi I Ab t g w i Z cÜZ w b w a) weagvj v, 2000
- g) "Asset Management Company" means an asset management company who is registered with the Securities and Exchange Commission under the wwwKDwi uJR I G. tPÄ Kugkb (w g D P i q v j d i Ü) weagvj v, 2001
- h) "Investment Adviser" means an investment adviser as defined in the Securities and Exchange Ordinance, 1969.
- i) "Independent Research Firm" means a boutiques that is a legal entity and not linked with any Merchant Banker, Asset Management

Company, Stock Dealer/Stock Broker, Investment Adviser and sell its research to others on a subscription or other basis.

(2) Words and expressions used herein and not defined, but defined in the Securities and Exchange Ordinance, 1969 (XVII of 1969), the Companies Act, 1994 (XVIII of 1994) shall have the same meanings respectively assigned to them in the said Ordinance, Acts, Rules and Regulations.

3. Institutions Eligible for publishing Research Report.- The following institutions are eligible for publishing research report-

- 1) Merchant Bankers
- 2) Stock-dealer/Stock-broker
- 3) Asset Management Companies
- 4) Investment Advisers
- 5) Independent Research Firms

Provided that every eligible institute shall have a separate research team consists of at least 3 (three) members including a Head of Research.

Also provided that Independent Research Firm shall have at least 3 (three) Research Analysts under the supervision of Managing Director/Chief Executive Officer (CEO)/ Head of Research.

Also on launching of its operation, every independent research firm shall intimate the Commission as per the Annexure-A.

4. Qualification of Research Analyst.-(1) Any person seeking to become research analyst must possess relevant academic/ professional qualification such as CFA/ CPA/ CA/ CMA/ MBA/ Masters in Economics or Accounting or Finance.

(2) At least 3 (three) years experience in the capital market/ financial market related organization.

Provided that anybody who does not possess the mentioned academic qualification but has 5 (five) years working experience in a capital

market/financial market related organization shall also be eligible to be a research analyst.

- (3) Head of Research must have required qualification in sub-rule (1) and at least 5 (five) years working experience in capital market/financial market related organization.

5. Disclosure of conflict of Interest.- The company and the analyst must disclose the following-

- (1) Whether (s)he had any merchant banking/ investment banking relationship in last 12 (twelve) months and also any potential relationship in next 12 (twelve) months.
- (2) Whether the analyst and his/her employer are engaged with any kind of relationship with the company is being researched, which will generate them any fee or financial interest.
- (3) Whether the analyst and his/her employer hold any position in that particular stock at the time of publishing the report.
- (4) Research staff, analysts and, research supervisor as well as the company employing them must disclose any other conflict of interest that may be applicable.
- (5) A securities firm must disclose in its research reports if it or its affiliates managed or co-managed a public offering of equity securities for the subject company in the past 12 (twelve) months. Additionally, the firm must disclose if it received compensation for any merchant banking/ investment banking services from the subject company in the past 12 (twelve) months.
- (6) The front page of a research report must either include the disclosures required or must refer to the page(s) in the report on which each disclose is found.

6. Restrictions.- (1) The analysts and his/her employer and their clients have to ensure that they do not hold any position in a stock at the time of publishing the report.

- (2) The analyst and his/her employer cannot trade in the securities of the company whose report they are preparing for 30 (thirty) days before and 5 (five) days after the launching/publishing the report.

- (3) Compensation of analysts, including salary, bonus, any other form of compensation, may not be tied to specific merchant banking/ investment banking transactions.
- (4) A firm is prohibited from offering or threatening to withhold a favorable report or a specific price target to obtain merchant banking/ investment banking business or compensation from a company.
- (5) The research analysts shall not participate with merchant bankers/ investment bankers in generating investment banking business.

7. Research Standard.- Every research publishing firm should have the following research standards-

(A) Diligence and Reasonable Basis:

Research staff must-

- 1) Exercise diligence, independence and thoroughness in analyzing investible securities and making investment recommendations.
- 2) Have a reasonable and adequate basis supported by appropriate research and investigation, for any investment analysis, recommendation or action.
- 3) Make reasonable and diligent efforts to avoid any material misrepresentation in any research report or investment recommendation.

(B) Communication with clients and prospective clients

Research staff must-

- 1) Disclose to clients and prospective clients the basic format and general principles of the investment processes used to analyze investments and must promptly disclose any changes that might materially affect those processes.
- 2) Use reasonable judgment in identifying which factors are important to their investment analysis, recommendation or action and include those factors in communication with clients and prospective clients.
- 3) Distinguish between fact and opinion in the presentation of investment analysis and recommendations.

(C) Record Retention

Research staff must develop and maintain appropriate records/facts to support their investment analysis, recommendations and other related communication with clients and prospective clients.

Provided that if any research analyst publish any report without reasonable and adequate basis supported by research and investigation, aiming to manipulate the market, s(he) along with the employer will be jointly and severally liable and punishable under the applicable securities law of the country.

8. Other disclosures.-(A) Every research report shall contain at least the following in addition to the analysis and evaluation of a particular stock:

- 1) Credentials of Research Firm
- 2) Short Bio-Data of Head of Research and Research Analysts who are working with firm along with photographs.

(B) Disclosure during analysis in public appearances:

During public appearance, such as television-radio interview, and other print and electronic media, analysts must disclose if they (or member of their family and household) or their firm hold a position in shares of the company being discussed.

9. Power of the Commission to issue Order/Directive.- The Commission, in the public interest, at any time, can issue order/directive regarding these rules.

10. Indemnity.- Notwithstanding anything of these rules is contrary to other rules, regulations and/or notifications, these rules shall prevail.

Annexure-A

Information Memorandum of Independent Research Firm

- (1) Name of the Organization
- (2) Certificate of Incorporation – No. and Date
- (3) Commencement of Business
- (4) Office Address
- (5) paid up capital of the company
- (6) Details of Sponsors/ Directors Shareholding pattern
- (7) Details of infrastructure facilities
- (8) Name of the MD/ CEO
- (9) Credentials of MD/CEO and other analyst
- (10) Research Process
- (11) Code of conduct of Research staff

Documents to be enclosed:

- (1) Memorandum and Articles of Association
- (2) Certificate of Incorporation

- (3) Certificate of Commencement
- (4) Copy of Trade License
- (5) Tax Identification Number Certificate
- (6) Certified copy of list of Directors
- (7) Certified copy of Paid up Capital