



# **RESEARCH ANALYST – REGULATIONS & AUDIT ASPECTS.**

**FACILITATOR  
UDAY TARDALKAR**

# **WEARING MANY HATS & FOCUS BY AUDITOR**

**BROKER -ENTITY**

**DEPOSITOY PARTICIPANT**

**PORTFOLIO MANAGER**

**DISTRIBUTOR**

**IPO BROKE**

**MUTUAL FUND  
STRUCTURED PRODUCTS**

**INVESTMENT ADVISOR**

**MERCHANT  
BANKER**

**COMMODITY SPOT & DERIVATIVE BROKER**





## RATIONALE & OBJECT

Why Regulator is asking a person to register as Research Analyst?

- One influencing investment decisions.
- Price rigging in the past.
- History of cases Analysts trapping investors.
- Ensure the competency of the persons influencing the market.



**Research Analyst”- Includes those entities and persons making recommendations in public media.**

**Scope:**

**The requirements for the dealing and trading of securities in the subject company by the research analyst to:**

- 1. Address actual or potential conflict of interest;**
- 2. Promoting objective and reliable research that reflects the unbiased view of research analyst;**
- 3. Preventing the use to manipulate the securities market.**
- 4. Ensure independence of its research activities from its other business activities.**



## **Disclosure from Research Analyst**

- (1) Views expressed in research report accurately reflect his personal views about any or all of the subject securities or issuers referred to in this research report,
- (2) No part of his compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in research report by companies.
- (3) He has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.



## **Monitoring Personal trading activities**

- Submission of quarterly Demat statement including dependant relatives .
- Prior approval of compliance officer.
- Trading account with the employer.



- **RA shall not deal or trade in securities that recommend or follow within thirty days before and five days after the publication of a research report.**
- **RA shall not deal or trade directly or indirectly in securities under review in a manner contrary to the recommendations made.**

**RA shall not purchase or receive securities of the issuer before the issuer's IPO, if the issuer is principally engaged in the same types of business as companies that the research analyst follows or recommends**

**Except:**

**Significant news /event concerning a company**  
**Change in financial position of RA**



- **Not to participate for sales pitches and deal in road shows.**
- **Not to engage in any communication with a current or prospective client in the presence of personnel from investment banking or merchant banking or brokerage services divisions or company management about an investment banking services transaction.**
- **Similarly Investment banking or merchant banking or brokerage services division's personnel shall not direct the analyst to engage in sales or marketing and shall not direct the research analyst to engage in any communication with a current or prospective client about such division's transaction.**
- **Not be applicable if the analyst is engaging in investor education activities including publication of pre-deal research and briefing the views of the research analyst on the transaction to the sales or marketing personnel**





**Limitations on publication of research report, public appearance and conduct of business, etc by the research analyst It shall be ensured**

**•Not to publish or distribute research report or research analysis or make public appearance in which he has acted as a manager or co-manager at any time falling within a period of:**

**(a) Forty days immediately following the day on which the securities are priced if the offering is an IPO or**

**(b) Ten days immediately following the day on which the securities are priced if the offering is a FPO:**

**Provided that the above is done within such forty day and ten day periods, subject to prior approval of the Compliance officer enumerating proper reasons.**



- Not to publish or distribute a research report or make public appearance regarding that issuer before expiry of twenty five days from the date of the offering if we have participated or are participating as an underwriter of an issuer's IPO.
- Not publish or distribute a research report or make a public appearance concerning that company within fifteen days prior to date of entering into and fifteen days after the expiration/waiver/termination of a lock-up agreement or any other agreement if the same is restricted or prohibited:

Provided that the above is done within such forty day and ten day periods, subject to prior written approval of the Compliance officer enumerating proper reasons



- The research team shall maintain adequate documentary basis, supported by research, for preparing a research report and the same shall be made available to the internal auditor or the compliance officer on demand.**
- Not to provide any promise or assurance of favorable review to commence or influence a business relationship or for the receipt of compensation or other benefits.**
- Not issue a research report that is not consistent with the views made by the research analyst.**



## **Whistle Blowing by Exchange in the market**

**BSE/ NSE -5300/1800**

**Z GROUP**

**Shift to T 2 T**

**Delisting**

**Turnover %**



Recommendations in public media: Includes its research analyst, director or all employees making public appearance :

- State the registration status and details of financial interest in the subject company, if he makes public appearance.
- If any person including a director or employee of an investment adviser or fund manager, makes public appearance or makes a recommendation or offers an opinion concerning securities or public offers through public media- All the provisions pertaining to limitation of trading and compensation applicable
- Must disclose his name, registration status and details of financial interest in the subject company at the time of
  - 1.making such recommendation or offering such opinion in personal capacity;
  - 2.responding to queries from audiences or journalists in personal capacity;
  - 3.communicating the research report or substance of the research report through the public media



“Research report” - Written or electronic communication

Research analysis

Research recommendation

An opinion concerning securities

Public offer,

Providing a basis for investment decision.

Exclusions:

(i) comments on general trends in the securities market;

(ii) discussions on the broad-based indices;

(iii) commentaries on economic, political or market conditions;

(iv) periodic reports ,communications for Unit holders

Alternative investment fund or Portfolio Managers and

Investment Advisers;

(v) internal communications .



"significant news or event" means any news or event which is expected to have a material impact on, or that reflects a material change to, the subject company's earnings, operations or financial condition, other than unpublished .

price sensitive information, as specified in the internal policies and procedures of the research analyst or research entity .

TATA GROUP-  
WINDOW CONCEPT  
FPO



MANAGEMENT OF CONFLICTS OF INTEREST AND DISCLOSURE  
REQUIREMENTS Establishing Internal policies and procedures. –Role of  
Auditors in deriving relationship with group companies.

(1) Research analyst or research entity shall have written internal policies and control procedures governing the dealing and trading by any research analyst for

- (i) addressing actual or potential conflict of interest arising from such dealings or trading of securities of subject company;
- (ii) promoting objective and reliable research that reflects the unbiased view of research analyst; and
- (iii) preventing the use of research report or research analysis to manipulate the securities market.

(2) Research analyst or research entity shall have in place appropriate mechanisms to ensure independence of its research activities from its other business activities.





## Limitations on trading by research analysts.

(1) Personal trading activities of the individuals employed as research analyst by research entity shall be monitored, recorded and wherever necessary, shall be subject to a formal approval process.

(2) Not to deal or trade in securities that the research analyst recommends or follows within thirty days before and five days after the publication of a research report.

(3) Not to deal or trade directly or indirectly in securities that he reviews in a manner contrary to his given recommendation.

(4) Not to purchase or receive securities of the issuer before the issuer's initial public offering, if the issuer is principally engaged in the same types of business as companies that the research analyst follows or recommends



## Compensation of research analysts.

- (1) Research entity shall not pay any bonus, salary or other form of compensation to any individual employed as research analyst that is determined or based on any specific merchant banking or investment banking or brokerage services transaction.
- (2) The compensation of all individuals employed as research analyst shall be reviewed, documented and approved annually by board of directors/committee appointed by board of directors of the research entity, which does not consist of representation from its merchant banking or investment banking or brokerage services divisions.



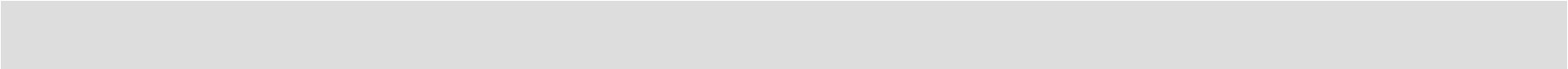
(3) The board of directors/committee appointed by board of directors of the research entity approving or reviewing the compensation of individual employed as research analyst shall not take into account such individual's contribution to the research entity's investment banking or merchant banking or brokerage services business.

(4) An individual employed as research analyst by research entity shall not be subject to the supervision or control of any employee of the merchant banking or investment banking or brokerage services divisions of that research entity.



## **POINTS to DIG**

### **PROHIBITS MANIPULATIVE, FRAUDULENT AND UNFAIR TRADE PRACTICES**

- **Encouraging client to deal in securities solely with the object of enhancing brokerage or commission**
  - **Misleading advertisement or containing information in a distorted manner or which may influence the decision of the investors**
  - **Planting false or misleading news which may induce sale or purchase of securities**
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Research analyst Disclosures-With regard to ownership and material conflicts of interest:

(a) whether the research analyst or research entity or his associate or his relative has any financial interest in the subject company and the nature of such financial interest;

(b) whether the research analyst or research entity or its associates or relatives, have actual/beneficial ownership of one per cent. or more

securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;

(c) whether the research analyst or research entity or his associate or his relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance



(a) whether it or its associates have received any compensation from the subject company in the past twelve months;

(b) whether it or its associates have managed or co-managed public offering of securities for the subject company in the past twelve months;

(c) whether it or its associates have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months;

(d) whether it or its associates have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months;

(e) whether it or its associates have received any compensation or other benefits from the subject company or third party in connection with the research report



**Mispricing has been linked to Corporate Governance :The information disseminators or the corporate entities.**

**Mispricing is low on an average for good governance companies .**

**Stock prices of good governance companies are closer to their intrinsic value .**

**However, during event announcement periods, the results do not hold. Good governance companies are highly mispriced during event announcements.**



**Good governance companies : Highly overpriced during sale of assets/preferential allotment .**

**Level of over/under pricing is not that high for merger/takeover and dividend announcements.**

**More private information before the announcement of sale of assets and preferential allotment events for good governance Companies.**

**The volatility in the private information period during sale of assets period is higher for good governance companies. Thus, sale of assets, which is not a widely addressed event in the literature, is an important event while measuring corporate governance.**





THANK YOU