

Bangladesh Securities and Exchange Commission (Research Analysis) Rules, 2013



বাংলাদেশ গেজেট

অতিরিক্ত সংখ্যা

কর্তৃপক্ষ কর্তৃক প্রকাশিত

বৃহস্পতিবার, আগস্ট ২২, ২০১৩

[বেসরকারী ব্যক্তি এবং কর্পোরেশন কর্তৃক অর্থের বিনিময়ে জারীকৃত বিজ্ঞাপন ও নোটিশসমূহ]

Bangladesh Securities and Exchange Commission

Notification

24 July 2013

No. SEC/CMRRCD/2012/225/149/Admin/50:—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 Bangladesh Securities and Exchange Commission (Research Analysis) Rules, 2013.
2. **Definitions.-** (1) In these Rules, unless there is anything repugnant in the subject or context-
 - a) ‘Commission’ means the Bangladesh 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 or asset management company or investment adviser or independent research firm who analyses and evaluates investment in securities and then prepares written reports including investment

recommendation through rating system reflecting the analyst's research.

- e) "Merchant Banker" means a merchant banker as defined in the সিকিউরিটিজ ও এক্সচেঞ্জ কমিশন (মার্চেন্ট ব্যাংকার ও পোর্টফোলিও ম্যানেজার) বিধিমালা, ১৯৯৬
- 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 সিকিউরিটিজ ও এক্সচেঞ্জ কমিশন (স্টক ডিলার, স্টক ব্রোকার ও অনুমোদিত প্রতিনিধি) বিধিমালা, ২০০০
- g) "Asset Management Company" means an asset management company who is registered with the Securities and Exchange Commission under the সিকিউরিটিজ ও এক্সচেঞ্জ কমিশন (মিউচুয়াল ফান্ড) বিধিমালা, ২০০১
- h) "Investment Adviser" means an investment adviser as defined in the Securities and Exchange Ordinance, 1969.
- i) "Independent Research Firm" means a boutique 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 সিকিউরিটিজ ও এক্সচেঞ্জ কমিশন আইন, ১৯৯৩ (১৯৯৩ সালের ১৫ নং আইন), the Rules and Regulations made under the said Ordinance and Act, and 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.

Further provided that Investment Advisers and Independent Research Firms shall obtain registration certificate from Bangladesh Securities and Exchange Commission.

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/ CS/ MBA/ MBM/ Masters in Economics or Accounting or Finance or Management or Marketing / Certificate from BICM in relevant field.

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

Provided that anybody having Master's degree in other discipline along with foreign training and 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 Research Firm/Analyst must make full and fair disclosure of all matters that could reasonably be expected to impair their independence and objectivity or interfere with respective duties to their clients and prospective clients. The company and the analyst must ensure that such disclosure are prominent, are delivered in plain language, and communicated in an effective manner to clients and prospective clients. Such disclosure must include but not limited to the followings-

- 1) Whether (s)he had any merchant banking/ investment banking relationship with the company being researched in last 12 (twelve) months and also any potential relationship in next 12 (twelve) months. If so, disclosure must include name of the company being researched, relationship nature and date of appointment.
 - 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, his/her dependents and his/her employer hold any position in that particular stock at the time of publishing the report. If so, disclosure must include number of common shares holding including latest date of acquisition.
 - 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) any other actual, material conflict of interest of which s(he) or it knows or has reason to know at the time of publication of the research report or at the time of the public appearance.
 - 5) Research Firm/Analyst 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 disclosure is found.
- 6. Restrictions.-** 1) The research firm/analyst and his/her dependents/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. The research firm shall not publish a research report and shall not make a public appearance regarding a subject company for which it acts as issue manager, co-issue manager or underwriter of an initial public offering for 30 calendar days following the first date on which the security will be offered to the public.

2) Compensation of analysts, including salary, bonus, any other form of compensation, Shall not be tied to specific merchant banking/ investment banking transactions.

3) The research firm/analyst shall be 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.

4) The research firm/analyst shall not participate with merchant bankers/ investment bankers in generating investment banking business.

7. Research Standard.- Every Research Firm/analysts should have the following research standards-

(A) Diligence and Reasonable Basis:

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:

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.
- 4) Disclose the valuation method used to determine the price target and a disclosure concerning risks that may impede achievement of the price target.

(C) Record Retention:

Develop and maintain appropriate records/facts **for** at least 7 (seven) years to support their investment analysis, recommendations and other related communication with clients and prospective clients.

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

(D) Independence and Objectivity:

Use reasonable care and judgment to achieve and maintain independence and objectivity in research activities. Research analyst must not offer, solicit or accept any gift, benefit, compensation, or consideration that reasonably could be expected to compromise his/her own or another's independence and objectivity.

(E) Material Nonpublic Information:

Research Analyst who possesses material nonpublic information that could affect the value of an investment must not act or cause others to act on the information.

(F) Loyalty, Prudence, and Care:

Research Analyst must act for the benefit of their clients' interests before their employers' and their own interest.

(G) Fair Dealing:

Deal fairly with all clients when providing investment analysis, making investment recommendations. Research report must be disseminated after trading hour of the stock exchange(s) in

such a manner that all clients have a fair opportunity to act on every recommendation.

(H) Conflict of Interest:

Best practice is to avoid conflict of interest between all the related parties. When conflicts cannot be reasonably avoided, disclosure must be provided as mentioned in Rule 5.

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.

(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 dependents) or their firm hold a position in shares of the company being discussed.

9. The contents of a research report should, *inter alia*, include the following -

- 1) Investment rationale
- 2) Methodology
- 3) Investment risk
- 4) Investment recommendations
- 5) Target Price
- 6) Absolute and relative valuation based on forecasted financials.

10. Research Analyst's meeting with the company being researched:

Research Analyst must conduct meeting with the management of the listed company being researched. The company being researched must facilitate the meeting and provide necessary information and documents.

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

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

By order of Bangladesh Securities and Exchange Commission

Prof. Dr. M. Khairul Hossain
Chairman.