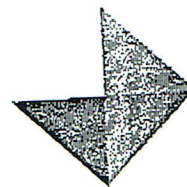


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Edelman

Banks are urged to take analysts out of sales loop

Global watchdog says stock researchers should be banned from road shows

Reuters in Lagonissi, Greece

A global market watchdog group has called for a ban on investment analysts taking part in road shows and other sales pitches.

The International Organisation of Securities Commissions (Iosco), seeking to set a standard for regulators worldwide for ensuring unbiased research, proposed severing any links between analysts' pay and any investment banking deals.

Analysts also should not report to their investment banking division or need prior approval for their reports, it said.

The group's recommendations were eagerly awaited by the financial industry following a landmark US\$1.4 billion settlement in the United States between 10 investment banks and regulators over allegations of misleading stock research.

Roel Campos, a member of the US Securities Exchange Commission who had overseen the preparation of the principles, said it was up to national watchdogs to decide whether they would implement them in their regulations.

"These do not present a recipe

for regulation. In an area like this it is very important to have a benchmark and these [principles] will serve that," Mr Campos said after a two-day meeting in Lagonissi, near Athens.

Rick Levitt, a research manager at European investment bank Dresdner Kleinwort Wasserstein, said Iosco's suggestions chimed with the line US and British regulators were taking and with internal guidelines at his bank.

"Everybody is singing from the same hymn sheet," he said. "If the United States and Britain and Iosco are all broadly in line on the question of analysts attending pitches, it's likely that most other regulators will end up with similar prescriptions," Mr Levitt said.

Asked whether implementing the principles would create extra costs for banks, Mr Campos said: "There may be some costs involved, but these should be seen as an investment, assuring the public that these principles are in place. These will increase confidence, promoting the business over time."

Iosco also called for barring analysts' employers from promising corporate clients favourable re-



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search coverage or ratings in return for business and a ban on trading by analysts and their employers in securities and derivatives before publishing research that would affect them.

The organisation produced a similar set of principles for credit rating agencies, highlighting the need to preserve their independence and freedom from economic and political pressures. "Fairly or not, rating agencies have been in the spotlight in the wake of recent high-profile corporate scandals. The statement of principles offers a set of high-level approaches to buttress credit rating agencies' analytical independence," said David Knott, the chairman of Iosco's technical committee.

The group said rating agencies

"There may be some costs, but these should be seen as an investment, assuring the public these principles are in place"

Roel Campos
US Securities Exchange Commission

should avoid any actions that might compromise their independence and objectivity, make disclosure and transparency their objectives and preserve the confidentiality of information submitted by reviewed issuers.

Europe's market regulators have signalled they are looking to guiding principles rather than US-style rules to avoid conflicts of interest, putting the onus on the banks to keep research unbiased.

In April, US settlement banks agreed to contribute towards setting up legally independent research firms and to separate research and corporate advisory business so that analysts are not involved in both.

The clampdown followed allegations that some analysts publicly told investors to buy shares in companies they privately derided.

Jamie Stewart, the head of research at British brokerage Eden Group, said the principles did not go far enough.

"Analysis should be rendered out to regulated independent researchers who by definition will not have any connection to bankers looking for investment banking business," Mr Stewart said.

"With the best will in the world it will be impossible for investment banks to live up to these rules; there will still be leakage."

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Eden Group
Ind. Research.

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A MATTER OF PRINCIPLES

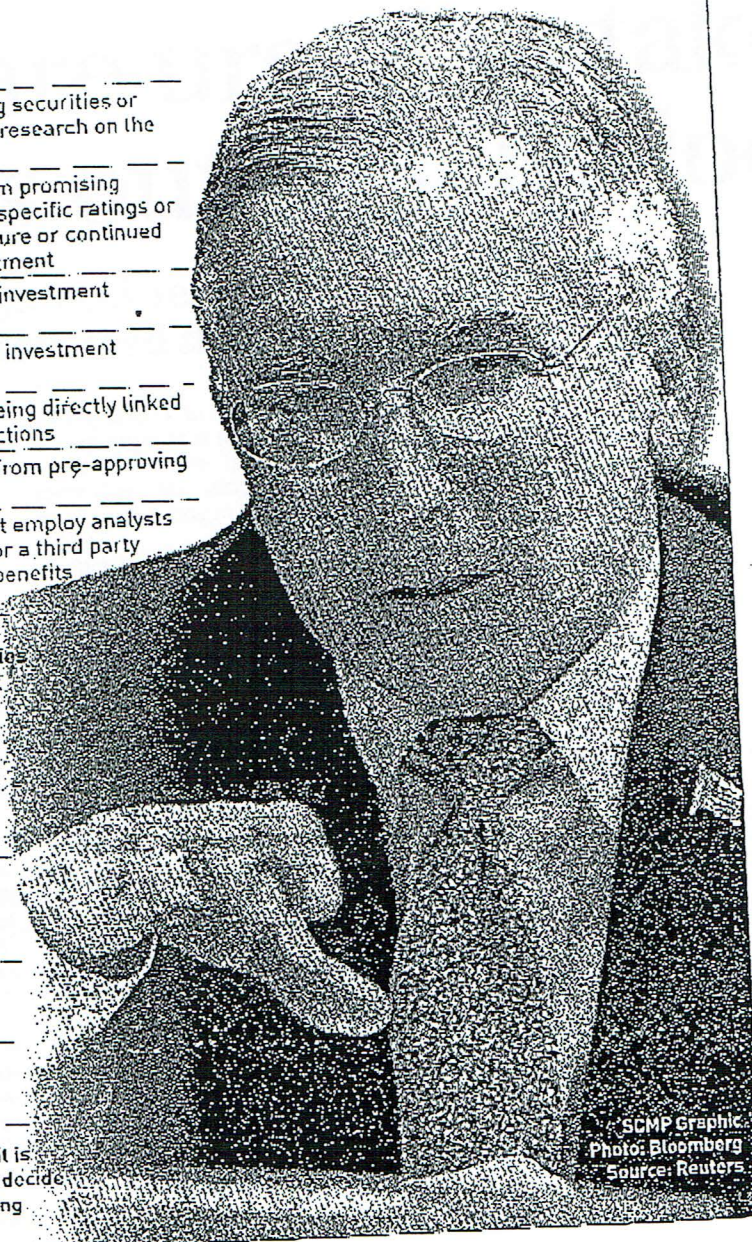
Principles to guide analysts' research

- Prohibit analysts and firms from trading securities or related derivatives ahead of publishing research on the issue of those securities
- Prohibit firms that employ analysts from promising issuers favourable research coverage, specific ratings or specific target prices in return for a future or continued business relationship, service or investment
- Prohibit analysts from participating in investment banking sales pitches and road shows
- Prohibit analysts from reporting to the investment banking side of the business
- Prohibit analyst compensation from being directly linked to specific investment banking transactions
- Prohibit the investment banking arm from pre-approving analyst reports or recommendations
- Require that analysts or the firms that employ analysts publicly disclose whether the issuer or a third party provided any compensation or other benefits in connection with a research report

Principles to guide credit rating agencies

- Agencies must be independent and free from any economic or political pressures and from any conflict of interests arising due to an agency's ownership structure, financial activities or employees' financial interests
- Rating agencies should avoid procedures or activities that may compromise their independence and objectivity
- They should make disclosure and transparency an objective in their activities
- They should keep in confidence private information communicated to them by any issuer

SEC commissioner Roel Campos says it is up to national securities watchdogs to decide whether they will implement the guiding principles in their regulations.



SCMP Graphic
Photo: Bloomberg
Source: Reuters

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