

Code of Conduct for Analysts

PRELIMINARY DRAFT

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I. Introduction

This Code of Conduct establishes requirements that “analysts” must follow when preparing/publishing investment research reports or making recommendations. These requirements represent the minimum policy and procedural requirements that analysts, and firms who employ analysts must have in place to minimize potential conflicts of interest. In the code, the expression “analyst” means all legal and natural persons on whom this code is applicable.

Disclosure required in abidance of this code must be clear, comprehensive and prominent. Boilerplate disclosure is not sufficient.

This code of conduct has been primarily derived from the code set out by the CFA Institute.

II. Definitions

“Advisory capacity” means providing advice to an issuer/company in return for remuneration or under a contract, other than advice with respect to trading and related services.

“Analyst” means a person who is primarily responsible for, contributes to, or is connected with, preparation of the substance of written reports/presentations, public appearances, or the basis for a recommendation, for distribution to clients or prospective clients of the firm or the investing public. An analyst can be a partner, director, officer, employee or an agent of a financial institution, independent research firm, brokerage firm, fund management house or institutional investor, as long as the research and/or recommendation prepared is disseminated to clients or investing public.

“Covered employees” means firm employee who:

1. conducts research, writes research reports, and/or makes investment recommendations; or assists in the research process;
2. takes investment action on behalf of clients or the firm, or who comes in contact with investment recommendations or decisions during the decision-making process;
3. may benefit, personally or professionally, from influencing research reports or recommendations.

“Equity related security” means a security whose performance is based on the performance of an underlying equity security or a basket of income producing assets. Securities classified as an equity related security include, without limitation, convertible securities and income trust units.

“Firm” means an individual broker/brokerage firm/company that employs analysts, or buys research from independent researchers and publishes reports/presentations prepared by analysts under its name.

“Investment banking service” includes without limitation, corporate finance activities, such as, acting as an underwriter in an offering for the issuer/company, acting as a financial adviser in a merger or acquisition; providing venture capital, lines of credit, or serving as a placement agent for the issuer/company.

“Immediate family members” include spouse and children, brothers, sisters and lineal ascendants, descendants and individual(s) whose principal residence is the same as the principal residence of the subject person.

“Investment advisory relationship” means Asset management relationship that entails entire, shared, or partial investment discretion over client funds.

“Issuer/company” means a company whose securities are the subject of a research report or recommendation

“Public appearance” means participation in a seminar; open forum (including an interactive electronic forum); radio, television, or other media interview; or other public speaking activity in which a research analyst or investment manager makes a recommendation or offers an opinion.

“Quiet period” means period during which covered employees are prohibited from issuing research reports or recommendations on, and publicly speaking about, a specific subject company.

“Remuneration” means any good, service or other benefit, monetary or otherwise, that could be provided to or received by an analyst.

“Research report” means written or electronic communication that firm sell or distribute to clients or the general public, which presents information about a corporate

issuer and may express an opinion or make a recommendation about the investment potential of the corporate issuer's equity securities.

“Restricted period” mean a period of time during which a firm prohibits its covered employees from trading specified securities.

“Supervisory analyst” means an officer of the firm issuing/selling research designated as being responsible for reviewing research reports to assess and maintain quality and integrity of research reports.

III. Requirements

I Applicability

- 1.1 This code applies to analysts and firms who employ analysts, including financial institutions, independent research firms, and brokerage firms, that employ investment professionals to research issuers and make recommendations about these issuers' securities and disseminate/sell these recommendations or reports to clients or investing public, and supervisory analysts. An analyst can be a partner, director, officer, employee or an agent of such firms/companies.

2 Minimum Professional Qualification

- 2.1 Individuals engaged in the analysis process should possess relevant academic and professional qualifications along with relevant work experience.
- 2.2 Analysts holding graduate degrees should possess a minimum of 3 years, and analyst holding masters degrees must possess 2 years of experience working as an analyst to be able to prepare and sign off research reports, or in the case of experience of less than one year, reports should be jointly signed by Head of Research.
- 2.3 Analysts have a continuing duty to maintain professional knowledge and skills consistent with latest procedures, practices, legislations and financial techniques.
- 2.4 Analyst should abide by the Code of Ethics and the Standards of Professional Conduct of the CFA Institute, or any other Professional accounting body they may be associated with, e.g. ICMAP, ICAP etc

3 Conflict of Interest policy:

- 3.1 In order to minimize conflicts faced by analysts, all parties on whom this code applies shall have written conflict of interest policies and procedures, incorporating at minimum the guidelines enclosed as Annexure I.

- 3.2 Covered employees should be regularly trained on their responsibilities under the Policy and be required to attest annually in writing to their understanding of and adherence to it.

4 Reasonable and Adequate Basis

- 4.1 Firms should develop detailed, written guidance for analysts, supervisory analysts, and review committees that establish due diligence procedures for judging whether or not there is a reasonable and adequate basis for a particular recommendation.
- 4.2 When recommending a purchase, sale, or change in recommendation, firms should provide, or offer to provide, supporting information to investing clients.
- 4.3 When making a recommendation, firm should disclose the current market price of the security in question.

5 Disclosure requirements

Each firm/analyst shall prominently disclose in any research report:

5.1 Relationship with issuer/company

Any information regarding its, or its analyst's business with or relationship with any issuer/company which is the subject of the report which might reasonably be expected to indicate a potential conflict of interest on the part of the firm or the analyst in making a recommendation with regard to the issuer/company. Such information include, but is not limited to:

- a) **Ownership of Issuer's/ Company's Securities:** Whether, as of the end of the month immediately preceding the date of issuance of the research report or the end of the second most recent month if the issue date is less than 10 calendar days after the end of the most recent month, the firm and its affiliates collectively beneficially own 1% or more of any class of the issuer's/ company's equity securities
- b) **Trading Positions and Involvement in Preparation of Report:** Whether the analyst or any associate of the analyst or the supervisory analyst responsible for the report or recommendation or any individual directly involved in the

- preparation of the report hold or are short any of the issuer's/company's securities directly or through derivatives,
- c) **Services to Issuer/Company:** Whether any partner, director, immediate family member or officer of a firm or any analyst involved in the preparation of a report on the issuer/company has, during the preceding 12 months provided services to the issuer/company for remuneration other than normal course investment advisory or trade execution services.
 - d) **Investment Banking Services:** Whether the firm has provided investment banking services for the issuer/company during the 12 months preceding the date of issuance of the research report or recommendation, and if it is seeking, has, or recently has had an investment banking relationship with the company under review
 - e) **Previous Income from Investment Banking:** Firm must disclose in research reports if in the previous 12 months the analyst responsible for preparing the report received compensation based upon the Member's/broker's investment banking revenues
 - f) **Market Making:** Whether the firm is making a market in a non-equity, equity or equity related security of the subject issuer/company.

5.2 **Basis of research**

- 5.2.1 All relevant basis and assumptions for research must be clearly disclosed in research reports.
- 5.2.2 All the sources of information used in the research must be clearly disclosed.

5.3 **Investment Rating System**

- 5.3.1 The system for rating investment opportunities as per their risk and return profile and how each recommendation fits within the system shall be clearly disclosed
- 5.3.2 **Meaning of Ratings:** Each analyst shall define in the research report the meaning of each rating used in the rating system. The definition of each rating must be consistent with its plain meaning.

5.4 Change of Valuation/Recommendation:

5.4.1 Any change in the valuation of a company and a subsequent change in the analyst's recommendation on it must be supplemented by previous valuation/recommendation and a rationale for changing it.

5.5 Location of disclosures

5.5.1 All of the disclosures mentioned above must be prominently published in research reports.

6 Public Comment/ (Media/External Communications Policy)

6.1 All parties on whom this code applies must have a written media policy. This policy should incorporate at minimum the guidelines mentioned in Annexure II.

7 Distribution of Third Party Reports

7.1 Where a research report prepared by an independent third party is distributed to clients under the firm's name, the firm must disclose any items which would be required to be disclosed as per Annexure III. This requirement does not apply if the firm simply provides to clients access to the independent third party research reports or provides independent third party research at the request of clients. However, where this requirement does not apply, firms must disclose the name of the third party and ensure abidance to the Intellectual Property Laws of Pakistan.

8 Relationship with issuer/company and issuance of reports

8.1 No one to whom this code applies shall issue a research report prepared by an analyst if the analyst/immediate family member or any associate of the analyst serves as an officer, director or employee of the issuer/company or serves in any advisory capacity to the issuer/company in the last 6 months.

8.2 Prior to publication of their reports, Analysts may request the analyzed company to review, for factual accuracy only, those portions of an Analyst's research report

that do not contain or disclose conclusions, recommendations, valuations, price targets or analysis of the company.

9 Disclosure of Research Dissemination Policies:

- 9.1 Any one to whom this code applies and who distributes research reports to clients or prospective clients in its own name must have written policies and procedures regarding disclosure of research, which must be clearly distributed through its website or by other means. Location of these policies must be clearly mentioned in research reports. These policies must be prepared while incorporating at minimum the guidelines in Annexure III.

10 Prohibition of trading with knowledge of research report:

- 10.1 Each firm who distributes research reports to clients or prospective clients shall have policies and procedures reasonably designed to prohibit any trading by its associated companies, subsidiaries, partners, directors, officers, employees or agents resulting in an increase, a decrease, or liquidation of a position in a listed security, or a derivative instrument based principally on a listed or quoted security, with knowledge of or in anticipation of the distribution of a research report, a new recommendation or a change in a recommendation relating to a security that could reasonably be expected to have an effect on the price of the security.

11 Trading in securities on which reports are published:

- 11.1 Permitting research analysts and other covered employees to invest and trade in the securities of subject companies and industries may better align their personal interests with the interests of investing clients provided that precautions are taken to ensure that the interests of investing clients are always placed before the interests of the employee, members of their immediate families, and the firm.
- 11.2 Firms that permit covered employees and members of their immediate families to invest and trade in the securities, of subject companies should require notification

to and approval by, the compliance or legal department in advance of all trades of securities in subject companies in the industry or industries assigned to that covered employee.

- 11.3 Firms should have specific policies and procedures that adequately prevent “front running” of investing client trades. These procedures should include restricted periods before and after issuing a research report. Restricted periods of at least 30 calendar days before and 5 calendar days after report issuance are recommended.
- 11.4 When research analysts are permitted to invest and trade in the securities of the companies they cover, it is critical that firms prohibit them from trading contrary to the published recommendations of the firm on these companies. There is one instance in which research analysts may be permitted to sell contrary to their recommendation. This is the case where the analyst would suffer “extreme financial hardship” if he or she could not liquidate these securities.
- 11.5 Firms should require covered employees to provide to the firm or its compliance or legal department a complete list of all personal investments in which they or members of their immediate families have a financial interest. This list should be provided on a regular basis, but at least annually.
- 11.6 It is recommended that covered employees be required to hold securities for a minimum of 60 calendar days, except in the case of extreme financial hardship.

12 Compensation for Investment banking Services:

- 12.1 No firm may pay any bonus, salary or other form of compensation to an analyst that is directly based upon one or more specific investment banking services transactions.

13 No Influence from Investment Banking/Corporate Finance:

- 13.1 Each firm shall have policies and procedures in place reasonably to prevent recommendations in research reports from being influenced by the investment banking/corporate finance department or the issuer/company. Such policies and procedures shall, at minimum:

- limit comments from the investment banking/corporate finance department to pertinent sections of the research reports and correction of factual errors;
- prevent the investment banking/corporate finance department from receiving advance notice of ratings or rating changes on covered companies; and
- Establish systems to control and keep records of the flow of information between analysts and investment banking/corporate finance departments regarding issuers/companies that are the subject of current or prospective research reports.

13.2 Firms should implement quiet periods for initial public offerings (IPOs) and secondary offerings of securities. Quiet periods should be of sufficient length to ensure that research reports and recommendations will not be based on inside information gained by the research analyst through investment banking sources. Quiet periods of 30 calendar days from issuance for IPOs and at least 10 calendar days from issuance for secondary offerings are recommended.

13.3 It is recommended that firms prohibit research analysts from participating in marketing activities, including “roadshows,” for IPOs and secondary offerings in order to further the integrity of the ensuing quiet period.

14 Promising Favorable Research:

14.1 No one to whom this code applies may directly or indirectly offer favorable research, a specific rating or a specific price target, a delay in changing a rating or price target or threaten to change research, a rating or a price target of an issuer/company as consideration or inducement for the receipt of business or compensation from an issuer/company.

15 Prohibition of Publishing Research Report if member /broker is a IPO lead/co-lead:

15.1 No firm may issue a research report for an equity or equity related security regarding an issuer/company for which the firm acted as manager or co-manager of:

- an initial public offering of equity or equity related securities, for 40 calendar days following the date of the offering; or
- a secondary offering of equity or equity related securities, for 10 calendar days following the date of the offering;

16 Issuance of multiple reports:

16.1 When a firm distributes a research report covering multiple issuers/companies, such a report must indicate where the respective disclosures regarding each or all companies/issuers can be found.

17 Timeliness of Reports:

17.1 Firm has a fiduciary responsibility to investing clients to provide them with adequate and timely information on issuer/company. To this end, firm should require research reports to be issued and recommendations or ratings to be confirmed or updated on a regular basis.

18 Suspension or discontinuation of coverage:

19 Firms must issue notice of their intention to suspend or discontinue coverage of an issuer/company. When coverage of an issuer/company is being discontinued, firm should issue a “final” report that includes a recommendation. However, no issuance is required when the Code of Conduct itself bars a firm to publish a report on a company/issuer, for a particular time, due to conflicts of interest.

20 Annual Certification:

20.1 The head of research department or the supervisory analyst must obtain from analysts and submit to the firm an annual certification, which states that analysts are familiar with and have complied to the Code of Conduct for Analysts in preparation of research reports, ensuring elimination of conflicts of interests, in giving views to media and in observing highest standards of professional integrity.

21 Supervisory analyst’s relationship to Issuer/company:

21.1 Where a supervisory analyst of a firm serves as an officer or director of an issuer/company in the past 3 months, then the firm must not provide research on the issuer/company.

22 Compliance and Enforcement

22.1 Firm should disseminate a list of activities that would be considered violations and resulting disciplinary sanctions to all employees.

22.2 Firm should also disseminate a list of activities that would be considered violations and resulting disciplinary sanctions to all clients (both investing and corporate) and prospective clients.

23 Investor Education:

23.1 Analyst shall strive for investor education at personal, firm and association level

23.2 Analyst shall maintain website giving at least following information:

- Definition of the terms they use in reports and recommendations.
- A breakdown comparison (in percentage or proportion terms) of the number of the different types of recommendations (e.g., “buy”, “hold”, or “sell”) they make over a given time period;
- A comparison of the target price forecasted in the past versus the actual price of a covered security over a period of time from the date of the forecast.

IV. Penalties

Penalties that can be imposed by the Commission for breach of this code of conduct will range from a notational amount of Rs. 5,000 to a maximum of Rs.1, 000,000, based on the nature of gravity of the breach as per the judgment of the Commission.

V. Annexure I: Conflict of Interests

A) Policies regarding Conflicts of Interests must aim at achieving the highest level of professional integrity. These policies must at minimum incorporate the procedures and guidelines regarding the following points:

- i) Identification and avoidance, prevention or management of personal and corporate conflicts of interest.
- ii) Disclosure of all conflicts of interest in a timely, clear, and prominent manner.
- iii) Personal investments and trading activities of its employees and their immediate family members.
- iv) Observance of “quiet periods” before and after securities offerings are underwritten or managed, and prohibition of publishing research reports during these periods.
- v) Assigning research responsibilities to an analyst regarding an issuer/company, a transaction or an instrument in which the analyst has a sizeable financial interest

B) To ensure objectivity and independence in research, policies regarding the reporting lines of analysts must incorporate at minimum the following guidelines:

- i) Analysts shall report independently to the Head of research, who in turn should report to the CEO.
- ii) Analysts shall establish robust information barriers – Chinese Walls - between employees engaged in Analysis and other activities in order to limit the potential for conflicts of interest and prevent individuals performing other activities from attempting to influence Analysts’ research.
- iii) Analyst reports or recommendations shall not be subject to pre-approval from employees performing other functions/activities undertaken by the firm.
- iv) Analyst shall not participate in investment banking and/or other sales pitches and road shows except presenting their own research reports.

C) Policies regarding compensation of analysts must include the following guidelines at minimum:

- i. Analyst remuneration shall be mainly based on Analyst's recommendation performances.
- ii. Analyst compensation shall not have formula-based component or links with the results of other activities undertaken by the firm.
- iii. Analyst shall not accept any payment or any other benefits from the analyzed company that could impair his judgment/advice; however, analyst can accept corporate giveaways etc which are immaterial. Level of materiality will be set by the specific firm.

VI. Annexure II: Media Policy

A) Policies regarding comments in the media must include the following guidelines at minimum:

- i) At a minimum, firms that permit covered employees to present and discuss research and recommendations in public or open forums have a responsibility to ensure that the audience of such presentations has sufficient information to make informed judgments about the objectivity of the research and recommendations.
- ii) Where an analyst makes a public comment (which shall include an interview) about the merits of an issuer/company or its securities, a reference must be made to the existence of any relevant research report already issued and all disclosures as per the Code of Conduct must be made. An analyst must only comment on the merits of issuers/companies on which he/she has published a research report. Moreover, an analyst must disclose when they are not an expert on a specific company and are called to comment on the company.
- iii) Analyst shall not disclose through media channels any research reports, or part of them, or material non-public information, which could influence the price of a stock, unless already made public.
- iv) Firms should also recognize that their employees have a responsibility to provide sufficient information to the audience to assess the suitability of the investment in light of their specific circumstances and constraints.
- v) Covered employees who make public appearances should be prepared to make full disclosure of all conflicts of interest, either their own or their firms', about which they could reasonably be expected to know.
- vi) Firms should require research analysts who participate in public appearances to make the following disclosures to the interviewer or the audience as appropriate: (1) whether the research analyst knows (or has reason to know) whether the subject company is an investment banking or other corporate finance client of the firm; and (2) whether the

research analyst has participated, or is participating, in marketing activities for the subject company.

VII. Annexure III: Research Dissemination

B) Policies regarding the dissemination of reports shall include the following guidelines at minimum:

- i) Be written in clear and easy to understand language.
- ii) Contain definition of the terms used in reports and recommendations.
- iii) Not contain guarantees of investment performance and promissory statements.
- iv) Be supported by reasonable facts and inputs while all external sources of information should be referenced.
- v) Contain name of the analyst, professional credentials, and contact details.
- vi) Contain frequency of report publication and information on how to obtain future reports.
- vii) Contain history of recommendations of the analyzed company over last two years.
- viii) Contain a breakdown comparison (in percentage or proportion terms) of the number of the different types of recommendations (e.g., “buy”, “hold”, or “sell”) along with explanation of why one is replaced for the other.
- ix) Contain a comparison of the target price forecasted in the past versus the actual price of a covered security over a period of time from the date of the forecast.
- x) Analyst must distinguish between fact and opinion in the presentation of the financial analysis and recommendations and must ensure that the information contained in their reports is clear and complete, and in no way is misleading or deceptive.

C) Policies about Research Distribution

- i) There should not be any priority distribution list.
- ii) All the clients regardless of their size / business volume must be sent the research reports at the same time.