



GUIDELINE NO. CMU/G-2/2020/9

**GUIDELINE ON HANDLING OF CONFLICT OF INTEREST UPON
PROMOTING RESEARCH REPORTS**

1. INTRODUCTION AND APPLICABILITY

1.1 This Guideline is issued pursuant to section 32 of the Autoriti Monetari Brunei Darussalam Order, 2010.

1.2 The objective of this Guideline is to provide guidance to –

a) CMSL and CMSRL holders; and

b) Exempt Persons,

that conduct the regulated activity of giving or offering investment advice and who produce or disseminate research reports to any investor or potential investor concerning securities or issuers of securities, whether in electronic, print or other form.

1.3 Section 161(4)(a) of the SMO requires CMSL holders to have organisational arrangements in place to, among other things, identify clearly and manage the potential adverse consequences of any conflicts of interest. Regulation 34(1)(e) and 34(2)(b) of the SMR further elaborates on the organisational requirements with respect to management of conflicts of interest. This Guideline sets out the manner for persons in paragraph 1.2 to ensure effective controls and management of conflict of interest when producing or disseminating research reports.

1.4 This Guideline is not exhaustive and subject to revision from time to time as deemed necessary by the Authority.

1.5 This Guideline is to be read together with the SMO, the Guideline on Conducting the Regulated Activity of Giving or Offering Investment Advice (Guideline No. CMU/G-6/2019/1) and any regulations, notices, directives and guidelines made thereunder.

1.6 This Guideline takes effect on 24 December 2020.

2. DEFINITION OF THE TERMS

2.1 The terms used in this Guideline shall have the following meanings, except where the context otherwise requires –

Term	Definition
“Authorised Person”	means a CMSL holder, CMSRL holder and/or Exempt Person referred to in paragraph 1.2;
“Authority”	means Autoriti Monetari Brunei Darussalam;
“back office function”	means any administrative or operational function other than a regulated activity as specified under Part II of the Schedule in the SMO;
“CMSL”	means capital markets services licence;
“CMSRL”	means capital markets services representative’s licence;
“Exempt Person”	means a person who is exempted from holding a CMSL or a CMSRL to provide investment advice under section 159(1)(f) and 158(2)(b) of the SMO respectively;
“non-public information”	means information which has not been made public and includes – <ol style="list-style-type: none">a) information relating, directly or indirectly, to one or more issuers of securities or to one or more securities and which, if it were made public, would likely have a significant effect on the prices of those securities or on the price of related securities;b) in relation to derivatives on commodities, information relating, directly or indirectly, to one or more such

derivatives and which are traded in accordance with accepted market practices on those markets;

- c) in relation to persons responsible for the execution of orders concerning securities, information which is conveyed by a client to such person and information related to the client's pending orders;

"research report" means a report or other document containing research or other information recommending or suggesting investment strategy as defined in the SMO;

"related corporation" means a corporation that is deemed to be related to the first-mentioned corporation by virtue of section 129A of the Companies Act (Cap. 39);

"SMO" means the Securities Markets Order, 2013 and any regulations or other subsidiary legislation made thereunder; and

"SMR" means the Securities Markets Regulations, 2015.

2.2 Unless expressly defined herein, expressions used or where the context requires, has the same meaning as in the SMO.

3. HANDLING CONFLICTS OF INTEREST UPON PROMOTING RESEARCH REPORTS

- 3.1 An Authorised Person should have in place appropriate control procedures to ensure the independence of its financial analyst(s) from any other business functions that performs other regulated activities such as dealing in investments or any back office function that may affect its independence.
- 3.2 An Authorised Person that has a related corporation, either within or outside of Brunei Darussalam, that separately conducts research activities should have in place appropriate control procedures that is designed according to the nature, scale and complexity and range of regulated activities of the business, to ensure the independence of its business activities from its related corporation.
- 3.3 The control procedures stated in paragraphs 3.1 and 3.2 should include the establishment and implementation of written policies and processes to effectively identify, manage and address conflicts of interest which may affect the impartiality of its research reports. This is to ensure that the quality of the research report is not compromised.
- 3.4 The written policies and processes stated in paragraph 3.3 should address –
- a) potential conflicts that may arise from, but not limited to, the following –
 - (i) trading activities and private, personal and financial interests of the Authorised Person and its financial analysts;
 - (ii) reporting lines and monetary benefits (including salary and bonuses) or other benefits receivable in respect of research reports; and
 - (iii) influence from business relationships of the Authorised Person and other external parties; and
 - b) standards of disclosure.

- 3.5 Senior management of an Authorised Person should approve and endorse the written policies and processes referred to in paragraph 3.3 and the Authorised Person should monitor the effectiveness of its written policies and processes for any unethical conduct and market abuse.
- 3.6 With reference to paragraph 3.4(a)(i), an Authorised Person or its financial analysts should not allow their private or personal interests, including financial interests or interests arising from their trading activities, to influence the impartiality of any research report produced. The Authorised Person should establish, implement and enforce policies and procedures on –
- a) personal trading by its financial analysts, as well as all its employees who have access to non-public information. This should include monitoring and recording the employees personal trading activities and where necessary subjecting those activities to a formal approval process;
 - b) its employees with access to non-public information contained within its research reports or, where applicable, the research reports of its related corporation that mandates a “blackout period” for trading of securities relating to a research report before and after the issuance of that research report. In particular, the policies and procedures should ensure that the employees do not circumvent any trading restrictions by encouraging or arranging for others to trade in those securities during the “blackout period”; and
 - c) ensuring that any outgoing employees are not in possession of non-public information and any working papers, supporting documents and other documents relating to any research report obtained during the employees’ employment.
- 3.7 In relation to paragraph 3.6(b) above and for the avoidance of doubt, in assessing what may constitute a blackout period, the Authorised Person may take into consideration whether during such a period the employees would have had a reasonable opportunity to act on the non-public information contained in the research report.

3.8 With reference to paragraph 3.4(a)(ii) and (iii), an Authorised Person that conducts research activities through its financial analysts or have a related corporation that separately conducts research activities should not offer benefits in respect to research activities. An Authorised Person should have in place –

- a) structured reporting lines, where there should be separate reporting lines between the function responsible for research activities (specifically any financial analysts, Authorised Person and other employees within such a function) from other business functions of the Authorised Person or the business functions of any related corporation. This applies in particular to any dealing function, corporate finance advisory function and any other business function that may create, or could potentially create, conflicts of interest;
- b) structured remuneration packages for its financial analysts and/or the financial analysts of its related corporation designed to avoid any bias in their research reports. Bonuses, salaries or other forms of benefits should not be based on any dealing or corporate finance advisory transactions; and
- c) policies and processes to manage or eliminate the undue influence of any issuers, institutional investors or any other external parties on its financial analysts or its related corporation(s). This includes ensuring that its financial analysts or its related corporation(s), who participate in or have access to non-public information on any corporate finance advisory or underwriting transactions in relation to an offer of securities, are not involved in the publication of any research report on those securities until the completion of the transaction. In this regard, any pre-deal research report that is produced by an Authorised Person, its financial analysts or its related corporation(s) should be clearly identified and labelled as a marketing communication and non-independent research report.

3.9 With reference to paragraph 3.4(b), an Authorised Person, its financial analysts or its related corporation(s) should disclose any interest in the subject of the research report that may create, or could potentially create, conflicts of interest or could affect their ability to offer an independent and unbiased research report. This includes, but is not limited to, the following –

- a) if the Authorised Person, its financial analysts, its related corporation or any other person connected to them have a financial interest or make a market in the securities that are covered within the research report;
- b) if any of the Authorised Person's or its related corporation's employees or any other person connected to them serve on the board of the issuer or are in positions of trust with respect to the issuer covered within the research report;
- c) if there exist any corporate finance advisory relationship between the Authorised Person, its related corporation or any other person connected to them and issuers of the securities that are covered in any research reports over the past 12 months;
- d) if there is any benefit received by the Authorised Person, its financial analysts or its related corporation in connection with the production of a research report. This should include the identity of the party who provided the benefit, and the nature of such benefit, including the form in which such benefit is made.

3.10 An Authorised Person or its related corporation should disseminate research reports to all interested parties simultaneously to ensure that no one party would receive, or be deemed to receive, preferential service.

3.11 An Authorised Person should maintain proper records on its financial analysts' research reports including its working papers, supporting documents and other documents relating to the basis of the research reports. These records should be maintained for a period of not less than seven (7) years from the date of publication of the research report.

- 3.12 In addition to the policies, procedures and processes that are being established and implemented, an Authorised Person is encouraged to provide transparency to its existing and potential clients on the separation of cost for research reports and its cost for execution of trades. In such cases, an Authorised Person should ensure that they have a transparent method for cost disclosure to facilitate fair allocation of costs.

**MANAGING DIRECTOR
AUTORITI MONETARI BRUNEI DARUSSALAM**

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