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For Immediate Release

PRESS RELEASE

The Technical Committee of the International Organization of Securities Commissions (IOSCO) today issued a Statement of Principles to guide securities regulators and others in addressing the conflicts of interest securities analysts may face.

The IOSCO Statement notes that securities analysts play an important role in global securities markets by helping investors make sense of information about publicly traded companies. However, securities analysts employed by full-service broker-dealers and investment firms — so-called "sell-side" analysts — have recently come under criticism in many countries because of conflicts of interest they may face that can color their research and recommendations.

In announcing the publication of the principles for addressing analyst conflicts of interest, US Securities and Exchange Commissioner Roel C. Campos, who led the group tasked with developing the Principles, stated, "IOSCO members understand that investor confidence is fundamental to strong, healthy financial markets. When investors come to believe that analysts offering supposedly independent research are really little more than marketers for investment banks, this confidence suffers. Through implementation of these Principles in ways tailored to specific markets and legal systems, safeguards can be established against conflicts of interest corrupting sell-side research, thereby protecting both investors and the fairness and efficiency of our securities markets."

The Statement of Principles sets out high-level objectives that the IOSCO Technical Committee believes form the basis for a robust, comprehensive regulatory structure for identifying problematic practices regarding securities analysts, and either eliminating these practices or mitigating the effects these practices may have on market integrity. Significantly, these Principles are combined with a set of "Core Measures" that Technical Committee members agree are critical to achieving these high-level objectives and necessary to properly address the conflicts of interest securities analysts may face.

The core measures that the Technical Committee believes are necessary to give effect to the principles include:

- Prohibiting analysts from trading securities or related derivatives ahead of publishing research on the issuer of those securities;

- Prohibiting firms that employ analysts from improperly trading securities or related derivatives ahead of the analyst publishing research on the issuer of those securities;

- Prohibiting firms that employ analysts from promising issuers favorable research coverage, specific ratings, or specific target prices in return for a future or continued business relationship, service or investment;

- Prohibiting analysts from participating in investment banking sales pitches and road shows.

- Prohibiting analysts from reporting to the investment banking function;

- Prohibiting analyst compensation from being directly linked to specific investment banking transactions;

- Prohibiting the investment banking function from pre-approving analyst reports or recommendations (except in circumstances subject to oversight by compliance or legal personnel where investment banking personnel review a research report for factual accuracy prior to publication).

- Requiring that analysts, or the firms that employ analysts, publicly disclose whether the issuer or other third party provided any compensation or other benefit in connection with a research report;

The Statement of Principles also contains examples of other measures that various Technical Committee members have taken and which other jurisdictions may wish to consider.

Australian Securities and Investment Commission Chairman David Knott, Chairman of the IOSCO Technical Committee, stated: “The Statement of Principles offers an overview of the types of conflicts of interest securities analysts face in an increasingly global marketplace, and a comprehensive yet flexible framework for addressing these conflicts. The Technical Committee fully believes the Statement of Principles will lead to greater investor protection, convergence in the regulatory approaches taken to address the conflicts of interest, and improved confidence in securities markets where these Principles are put into practice.”

Alongside the Statement of Principles, the Technical Committee today also published its “Report on Analyst Conflicts of Interest.” The Report follows a detailed cross-border study conducted by the Technical Committee’s Project Team on Securities Analysts, and describes the types of conflicts of interest that face sell-side analysts in various IOSCO jurisdictions, along with ways governments, self-regulatory organizations, industry associations and investment firms have gone about addressing these conflicts.

The Technical Committee believes that its Principles will prove useful not just to securities regulators and governments, but also self-regulatory organizations, industry associations that have member codes of conduct, and investment firms themselves, which are encouraged to adopt their own robust internal procedures to protect against conflicts of interest affecting analyst research.

IOSCO is a worldwide forum for securities regulators that promotes cooperation and high standards of regulation in order to maintain fair, efficient and sound markets. IOSCO currently includes 168 members from more than 100 jurisdictions. The IOSCO Technical Committee comprises 15 securities regulators from larger, more internationalized markets that meet to review major regulatory issues related to international securities and futures transactions and to coordinate practical responses to these concerns.

A copy of the Statement of Principles for Addressing Sell-Side Securities Analyst Conflicts of Interest and the IOSCO Report on Securities Analysts can be accessed via the IOSCO Internet website (www.iosco.org) or obtained from the IOSCO General Secretariat.

For more information contact:

Mr. Philippe Richard
Secretary General
IOSCO

Tel: (3491) 417 55 49
Fax: (3491) 555 93 68
Email: mail@oicv.iosco.org

OVERVIEW OF IOSCO TECHNICAL COMMITTEE
STATEMENT OF PRINCIPLES REGARDING
SELL-SIDE SECURITIES ANALYST CONFLICTS OF INTEREST

Principle 1: Mechanisms should exist so that analysts' trading activities or financial interests do not prejudice their research and recommendations.

Principle 2.1: Mechanisms should exist so that analysts' research and recommendations are not prejudiced by the trading activities or financial interests of the firms that employ them.

Principle 2.2: Mechanisms should exist so that analysts' research and recommendations are not prejudiced by the business relationships of the firms that employ them.

Principle 3: Reporting lines for analysts and their compensation arrangements should be structured to eliminate or severely limit actual and potential conflicts of interest.

Principle 4: Firms that employ analysts should establish written internal procedures or controls to identify and eliminate, manage or disclose actual and potential analyst conflicts of interest.

Principle 5: The undue influence of issuers, institutional investors and other outside parties upon analysts should be eliminated or managed.

Principle 6: Disclosures of actual and potential conflicts of interest should be complete, timely, clear, concise, specific and prominent.

Principle 7: Analysts should be held to high integrity standards.

Principle 8: Investor education should play an important role in managing analyst conflicts of interest.