

The Security Analysts Association of Japan

Position Paper on the Appearance of Analysts in Information Put Out by Companies They Follow

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SAAJ Professional Ethics Committee

Introduction

With the increased social recognition of securities analysts, analysts are often asked to appear in information put out by the companies¹ they follow. In such cases, the question arises as to whether or not it is appropriate for them to readily accept such requests. Actually, there was recently a case where an SAAJ member appeared in an advertisement of a company he followed, which an SAAJ Board member called into question from the viewpoint of professional ethics. Following is an SAAJ Professional Ethics Committee position paper that addresses the subject.

1. Guiding Principles

Whether an analyst's appearance in information put out by a company is proper or not depends on the type of information, role of the analyst, etc., and thus varies from case to case. It is therefore difficult to set a uniform standard comprehensively covering every situation that may occur, and also not so appropriate considering that analysts should exercise self-responsibility. Accordingly, while SAAJ members themselves should determine the propriety of their appearing in a company's information, it is important to consider the following guiding principles:

- (1) Appearance should not impair the fairness and objectivity of security analysis² by an analyst.
- (2) Appearance should not impair the credibility of analysts in general by causing investors to doubt the fairness and objectivity of security analysis by any one analyst.
- (3) Appearance should not provide a message that may mislead recipients of information such as consumers.

¹ “**Information put out by companies**” includes corporate advertisements, public relation/investor relation activities, and any material put out by companies (including in-house newsletters) including those in electronic format.

² In *SAAJ Standards of Professional Conduct for Security Analysts* (Section 1. Definition), “**security analysis**” is defined as: the provision of investment information, investment recommendations, or investment management based on the analysis of a variety of information relating to security investments and the evaluation of investment value.

2. When SAAJ Members Appear in Advertisements of a Company They Follow Recommending Trading in or Purchasing Products of the Company

In light of the guiding principles above, SAAJ members should not appear in advertisements of a company they follow recommending trading or purchasing its products (though such conduct itself may not directly violate SAAJ Articles and Standards of Professional Conduct) for the following reasons:

- The fundamental premise in maintaining the fairness and objectivity of security analysis is that analysts evaluate every company from a fair and independent standpoint. An analyst appearing in the advertisements of a company making comments in favor of its products/services or recommending trading in or purchase of its products would be contrary to such premise, perhaps causing investors to doubt the fairness and objectivity of security analysis by the analyst concerned.
- The purpose of security analysis by analysts and that of corporate advertisements is different in nature although there is a common element in the sense that both are related to evaluation of a company by investors and recipients of advertisements such as consumers. The purpose of security analysis is rather to provide investors with all material facts about a company, both good and bad, as a result of which analysts may make sell recommendations with respect to a company's stock. On the other hand, that of advertisements is to encourage consumers to trade in or purchase products of a company. Accordingly, it is very difficult for analysts to analyze a company and at the same time appear in its advertisements without avoiding conflict, and such conduct may result in distorting the objectivity of security analysis.
- Appearing in advertisements of a company endorsing trading in and purchase of its products is completely different from security analysis. Hence, if an analyst appeared in advertisements under the title of analyst, it might appear that the appearance is supported by thorough research and analysis by the analyst with respect to the company, which is misleading to recipients of advertisements.

An analyst's appearance in advertisements of a company the analyst follows recommending trading in and purchase of its products itself may not directly violate SAAJ Articles and Standards of Professional Conduct as mentioned before. However, when it is found that such conduct actually impaired the fairness and objectivity of security analysis, it is possible that the conduct would violate SAAJ Standards of Professional Conduct, and, when it is found that conduct significantly adversely affected the credibility of SAAJ members, it might be judged that the following provision of SAAJ Articles was violated: Members shall maintain integrity and dignity and shall not engage in any conduct that may impair their reputation and honor.

Note: Even when, in corporate advertisements, analysts do not directly make comments on the company, if such appearance gives the impression the analyst is recommending trading in or purchase of the company's products, then such conduct should be dealt with as above.

3. Situation Other Than Addressed under 2.

When the purpose of an analyst's appearance in information put out by a company is not to recommend trading in or purchase of its products but to contribute to disclosure of information such as facts and management situation/policy with respect to a company, utilizing the analyst's professional ability, then, in accordance with the guiding principles, there might be cases in which such appearance would not deem to be improper. However, even in such a case (i.e. if not improper), appearance itself might make investors think that the analyst has a special relationship with the company. Hence, in contemplating such conduct, an analyst should give highest priority to investors and exercise due diligence so that the objectivity and fairness of security analysis vis-à-vis the company concerned is not called into question. In addition, in order to maintain independence and objectivity, it is inappropriate for analysts to receive any compensation.

4. Additional Consideration

As there might be various cases as mentioned under 1. above, SAAJ members are expected to exercise proper judgment considering the guiding principles and views described above. When members are requested to appear in information put out by companies they follow, in order to arrive at a judgment that is as objective as possible, members should seek views/comments of their supervisors in the research department and of third parties including compliance department.