

IIROC NOTICE

Rules Notice
Notice of Approval/Implementation
Dealer Member Rules

Please distribute internally to:
Legal and Compliance
Institutional
Operations
Research
Retail

Contact:
Robert Keller
Policy Counsel, Member Regulation Policy
416-943-5891
rkeller@iiroc.ca

13-0220
August 29, 2013

Disclosure Requirements for Research Reports

Introduction

This Rules Notice provides notice of approval by the applicable securities regulatory authorities of amendments (the “Amendments”) to Requirement 15 of Dealer Member Rule 3400, which permits Dealer Members to direct readers to the disclosures required under Rule 3400 (“Rule 3400 Disclosures”) where the research report is delivered by electronic means. The amendments will take effect upon the issuance of this Notice.

Objectives of the amendments

The objective of the amendments is to create a regulatory framework that facilitates the practical and effective disclosure of required information through the use of technology and in a way that promotes the protection of the investing public.



Summary of the amendments

Like the previous rule, amended Requirement 15 of Rule 3400 will still:

- require Dealer Members to include the Rule 3400 Disclosures in the body of a research report that is paper-based and covers less than six issuers; and
- permit Dealer Members to direct readers to where the Rule 3400 Disclosures can be found in a report that covers six or more issuers.

In addition, the amended rule provides that where a Dealer Member distributes a research report electronically, the report may direct readers to access the Rule 3400 Disclosures by electronic means from within the research report, such as through the provision of a hyperlink, regardless of the number of issuers covered in the report.

Guidance

As was the case under the previous rule, the amended rule permits a Dealer Member to include the Rule 3400 Disclosures in the body of a research report that covers six or more issuers.

Where the Rule 3400 Disclosures are not included in the body of a research report, the Dealer Member must direct readers to where the Rule 3400 Disclosures may be found. This direction can be provided through various means, including, but not limited to:

- a hyperlink;
- a toll-free number to call; and
- a postal address to which a person may write to request the Rule 3400 Disclosures.

If a hyperlink is used in a research report covering six or more issuers that is paper-based, an additional method of direction must also be provided (e.g. a toll-free number to call or a postal address to write to). This will ensure that clients who do not have access to the internet will nevertheless be able to obtain the Rule 3400 Disclosures.

A copy of the amendments is attached as Attachment A.

Response to public comments received

The amendments were published for comment with the issuance of IIROC Rules Notice 12-0385 on December 20, 2012. IIROC staff has considered all of the comments received and thank the commenters for their submissions. A summary of the comments received and IIROC staff's responses is included as Attachment B.

No further revisions have been made to the rules since IIROC Rules Notice 12-0385 was published for public comment, and therefore, the amendments have not been published for a further comment period.



Implementation plan

The amendments are effective immediately.

Attachments

- Attachment A - Requirement 15 of Dealer Member Rule 3400
- Attachment B - Summary of public comments received and IIROC staff responses

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

**DISCLOSURE REQUIREMENTS IN RESEARCH REPORTS
AMENDMENTS**

1. Requirement 15 of Dealer Member Rule 3400 is repealed in its entirety and replaced as follows:

“15. When a Dealer Member distributes:

- (i) a research report covering six or more issuers, the report may direct the reader to where the disclosures required under Rule 3400 may be found;
or
- (ii) a research report electronically, the report may direct the reader to where the disclosures required under Rule 3400 may be accessed by electronic means, such as through the use of a hyperlink.”

August 29, 2013

Re: IIROC response to comments on the proposed disclosure requirements for research reports

We are publishing this letter in response to the comment letters received on the proposed amendments to Requirement 15 (“Proposed Amendments”) of Dealer Member Rule 3400 (“Rule 3400”) allowing Dealer Members to direct readers to the disclosures required under Rule 3400 (“Rule 3400 Disclosures”) where the research report is delivered by electronic means.

We received 2 comment submissions in response to the request for comments. We thank all of the commenters for their submissions.

The comments have been summarized and the response by IIROC staff follows below.

1. The Proposed Amendments are necessary to (a) ensure the practical and effective disclosure of required information, and (b) to align IIROC requirements with relevant U.S. Financial Industry Regulatory Authority (“FINRA”) requirements and guidance. [RBC Dominion Securities Inc. and Jacob Securities Inc.]

IIROC staff response

We agree with the commenters. The Proposed Amendments create a regulatory framework that facilitates the practical and effective disclosure of required information through the use of technology in a way that promotes the protection of the investing public. Furthermore, by aligning IIROC requirements with FINRA requirements, Dealer Members who distribute research reports both in Canada and the U.S. will be able to streamline their practices, which will allow them to provide more timely and efficient service to clients and operate more cost effectively.

2. IIROC should remove the requirement to include a toll-free number to call or a postal address to write to in order to obtain the required disclosures in written research reports that contain less than 6 issuers since investors can use the internet to get any disclosures they need if motivated to do so. [Jacob Securities Inc.]



IIROC staff response

IIROC staff believes that the Rule 3400 Disclosures must not be exclusively available through electronic means when distributing a paper-based research report. This will allow clients who do not have access to the internet to still access the Rule 3400 Disclosures by other means. Furthermore, the language used in IIROC Notice 12-0385, which requires Dealer Members to include a toll-free number or postal address to write to for the Rule 3400 Disclosure, should not have been stated in mandatory terms, but rather as suggested methods by which Dealer Members can meet their Rule 3400 disclosure requirements. This is reflected in revisions to the relevant language in the implementation/approval notice that we are issuing.

3. Electronic text template disclosures have a risk of not individualizing and capturing unique disclosure that may pertain to a particular issuer or report.
[Jacob Securities Inc.]

IIROC staff response

Dealer Member Rule 3400 states that the Rule 3400 Disclosures must be clear, comprehensive and prominent, and that boilerplate disclosure is not sufficient. It is a Dealer Member's responsibility to ensure that, when publishing paper-based or electronic research reports, the Dealer Member is meeting these regulatory disclosure requirements.