

RULE 3400

RESEARCH RESTRICTIONS AND DISCLOSURE REQUIREMENTS

Introduction

This Rule establishes requirements that analysts must follow when publishing research reports or making recommendations. These requirements represent the minimum procedural requirements that Dealer Members must have in place to minimize potential conflicts of interest. The Disclosure required under Rule 3400 must be clear, comprehensive and prominent. Boilerplate disclosure is not sufficient.

These requirements are based on the recommendations of the Securities Industry Committee on Analyst Standards with input from both industry and non-industry groups.

Definitions

“**advisory capacity**” means providing advice to an issuer in return for [remuneration](#), other than advice with respect to trading and related services.

“**analyst**” means any partner, director, officer, employee or agent of a Dealer Member who is held out to the public as an analyst or whose responsibilities to the Dealer Member include the preparation of any written report for distribution to clients or prospective clients of the Dealer Member which includes a recommendation with respect to a security.

“**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.

“**investment banking service**” includes, without limitation, acting as an underwriter in an offering for the issuer; 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.

“**research report**” means any written or electronic communication that the Dealer Member has distributed or will distribute to its clients or the general public, which contains an analyst's recommendation concerning the purchase, sale or holding of a security (but shall exclude all government [debt](#) and government guaranteed [debt](#)).

“**remuneration**” means any good, service or other benefit, monetary or otherwise, that could be provided to or received by an [analyst](#).

“**supervisory analyst**” means an officer of the Dealer Member designated as being responsible for research.

Requirements

1. Each Dealer Member shall have written conflict of interest policies and procedures, in order to minimize conflicts faced by analysts. All such policies must be approved by and filed with the Corporation.
2. Each Dealer Member shall prominently disclose in any [research report](#):
 - (a) any information regarding its, or its analyst's business with or relationship with any issuer which is the subject of the report which might reasonably be expected to indicate a potential conflict of interest on the part of the Dealer Member or the [analyst](#) in making a

recommendation with regard to the issuer. Such information includes, but is not limited to:

- (i) 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 Dealer Member and its affiliates collectively beneficially own 1% or more of any class of the issuer's equity securities,
 - (ii) whether the [analyst](#) or any associate of the [analyst](#) responsible for the report or recommendation or any individuals directly involved in the preparation of the report hold or are short any of the issuer's securities directly or through derivatives,
 - (iii) whether any partner, director or officer of a Dealer Member or any [analyst](#) involved in the preparation of a report on the issuer has, during the preceding 12 months provided services to the issuer for [remuneration](#) other than normal course investment advisory or trade execution services,
 - (iv) whether the Dealer Member firm has provided investment banking services for the issuer during the 12 months preceding the date of issuance of the [research report](#) or recommendation,
 - (v) the name of any partner, director, officer, employee or agent of the Dealer Member who is an officer, [director](#) or employee of the issuer, or who serves in any [advisory capacity](#) to the issuer, and
 - (vi) whether the Dealer Member is making a market in an equity or [equity related security](#) of the subject issuer.
- (b) the Dealer Member's system for rating investment opportunities and how each recommendation fits within the system and shall disclose on their websites or otherwise, quarterly, the percentage of its recommendations that fall into each category of their recommended terminology; and
- (c) its policies and procedures regarding the dissemination of research.

A Dealer Member shall comply with subsections (b) and (c) by disclosing such information in the report or by disclosing in the report where such information can be obtained.

3. Where an employee of a Dealer Member makes a public comment (which shall include an interview) about the merits of an issuer or its securities, a reference must be made to the existence of any relevant [research report](#) issued by the Dealer Member containing the disclosure as required above, if one exists, or it must be disclosed that such a report does not exist.
4. Where a Dealer Member distributes a [research report](#) prepared by an independent third party to its clients under the third party name, the Dealer Member must disclose any items which would be required to be disclosed under requirement 2 of Rule 3400 had the report been issued in the Dealer Member's name. This requirement does not apply to research reports issued a dealer regulated by the Financial Industry Regulatory Authority or issued by persons governed by other regulators approved by the Corporation, and does not apply if the Dealer Member 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, Dealer Members must disclose that such research is not prepared subject to Canadian disclosure requirements.

5. No Dealer Member shall issue a [research report](#) prepared by an [analyst](#) if the [analyst](#) or any associate of the [analyst](#) serves as an officer, director or employee of the issuer or serves in any [advisory capacity](#) to the issuer.
6. Any Dealer Member that distributes research reports to clients or prospective clients in its own name must disclose its research dissemination policies and procedures on its website or by other means.
7. Each Dealer Member who distributes research reports to clients or prospective clients shall have policies and procedures reasonably designed to prohibit any trading by its 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.
8. No [individual](#) directly involved in the preparation of the report can effect a trade in a security of an issuer, or a derivative instrument whose value depends principally on the value of a security of an issuer, regarding which the [analyst](#) has an outstanding recommendation for a period of 30 calendar days before and 5 calendar days after issuance of the [research report](#), unless that [individual](#) receives the previous written approval of a designated partner, officer or director of the Dealer Member. No approval may be given to allow an [analyst](#) or any [individual](#) involved in the preparation of the report to make a trade that is contrary to the analyst's current recommendation, unless special circumstances exist.
9. Dealer Members must disclose in research reports if in the previous 12 months the [analyst](#) responsible for preparing the report received compensation based upon the Dealer Member's investment banking revenues.
10. No Dealer Member 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.
11. Each Dealer Member shall have policies and procedures in place reasonably to prevent recommendations in research reports from being influenced by the investment- banking department or the issuer. Such policies and procedures shall, at minimum:
 - (i) prohibit any requirement for approval of research reports by the investment banking department;
 - (ii) limit comments from the investment banking department on research reports to correction of factual errors;
 - (iii) prevent the investment banking department from receiving advance notice of ratings or rating changes on covered companies; and
 - (iv) establish systems to [control](#) and keep records of the flow of information between analysts and investment banking departments regarding issuers that are the subject of current or prospective research reports.

12. No Dealer Member 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 as consideration or inducement for the receipt of business or compensation from an issuer.
13. Dealer Members must disclose in research reports if and to what extent an [analyst](#) has viewed the material operations of an issuer. Dealer Members must also disclose where there has been a payment or reimbursement by the issuer of the analyst's travel expenses for such visit.
14. No Dealer Member may issue a [research report](#) for an equity or [equity related security](#) regarding an issuer for which the Dealer Member acted as manager or co-manager of
 - (i) an initial public offering of equity or equity related securities, for 10 calendar days following the date of the offering; or
 - (ii) a secondary offering of equity or equity related securities, for 3 calendar days following the date of the offering;but requirement 14(i) and (ii) do not prevent a Dealer Member from issuing a [research report](#) concerning the effects of significant news about or a significant event affecting the issuer within the applicable 10 or 3 day period.
- 14.1. Requirement 14 does not apply where the subject securities are exempted from restrictions under provisions relating to market stabilization in securities legislation or in the Universal Market Integrity Rules.
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.
16. Dealer Members must issue notice of their intention to suspend or discontinue coverage of an issuer. However, no issuance is required when the sole reason for the suspension is that an issuer has been placed on a Dealer Member's restricted list.
17. Dealer Members must obtain an annual certification from the head of the research department and chief executive officer which states that their analysts are familiar with and have complied with the CFA Institute Code of Ethics and Standards of Professional Conduct whether they are members of the CFA Institute or not.
18. Where a [supervisory analyst](#) of a Dealer Member serves as an officer or director of an issuer, then the Dealer Member must not provide research on the issuer.
19. Dealer Members must pre-approve analysts outside business activities.
20. Where Dealer Members set price targets as recommended under guideline 4, Dealer Members must disclose the valuation methods used.

Guidelines

In addition to the above requirements, when establishing policies and procedures as referred to under requirement 1 of Rule 3400, Dealer Members must comply with the following best practices, where practicable:

1. Dealer Members should distinguish clearly in each [research report](#) between information provided by the issuer or obtained elsewhere and the [analyst](#)'s own assumptions and opinions.
2. Dealer Members should disclose in their research reports and recommendations reliance by the [analyst](#) upon any report or study by third party experts other than the [analyst](#) responsible for the report. Where there is such reliance, the name of the third party experts should be disclosed.
3. Dealer Members should adopt standards of research coverage that include, at a minimum, the obligation to maintain and publish current financial estimates and recommendations on securities followed, and to revisit such estimates and recommendations within a reasonable time following the release of material information by an issuer or the occurrence of other relevant events.
4. Dealer Members should set price targets for recommended transactions, where practicable, and with the appropriate disclosure.
5. Dealer Members should use specific securities terminology in research reports where required to do so by Securities Legislation. Where such terminology is not required, Dealer Members should use the specific technical terminology that is required by the relevant industry, professional association or regulatory authority or in the absence of required terminology use technical terminology that is customarily in use. Where necessary, for full understanding, a glossary should be included.
6. A Dealer Member should make its research reports widely available through its websites or by other means for all of its clients whom the Dealer Member has determined are entitled to receive such research reports at the same time.
7. Where feasible by virtue of the number of analysts, Dealer Members should appoint one or more [supervisory analyst](#) or head of research to be responsible for reviewing and approving research reports as required under Rule 29.7, who should be a partner, director or officer of the Dealer Member and should have the CFA designation or other appropriate qualifications. Dealer Members may have more than one [supervisory analyst](#) where necessary.
8. Dealer Members should require their [analyst](#) employees to obtain the Chartered Financial Analyst designation or other appropriate qualifications.
9. Dealer Members should require that the head of the research department, or in small firms where there is no head then the [analyst](#) or analysts report to a senior officer or partner who is not the head of the investment banking department. However, no policies or procedures will be approved under requirement 1 unless the Corporation is satisfied that they address the relationship between the investment- banking department and research department.