INVESTMENT DEALERS ASSOCIATION OF CANADA

notice

ASSOCIATION CANADIENNE DES COURTIERS EN VALEURS MOBILIÈRES

Contact:
L. Boyce: (416) 943-6903 - lboyce@ida.ca

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ATTENTION:
Ultimate Designated Persons
Chief Financial Officers
Panel Auditors

Distribute internally to:

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Research Report Disclosure Requirements

The Association has recently received a number of questions on the current standards for disclosure of conflicts of interest in research reports.

The current requirements arise out of securities legislation, specifically sections 96 of the *Securities Act* (Alberta), 42 of the *Securities Act* (Newfoundland), 47 of the *Securities Act* (Nova Scotia), 41 of the *Securities Act* (Ontario), and 47 of the *Securities Act* (Saskatchewan). In Quebec, the requirements are found in section 242 of the Regulations under the *Securities Act* pursuant to section 166(1) of the Act. In British Columbia they are in Securities Rule 81(f).

These sections all require that dealers disclose in any research report or similar document making a recommendation with regard to a security whether the dealer or any of its officers or directors has:

- assumed an underwriting liability with respect to the securities, within the past 12 months;
- provided financial advice to the issuer for consideration within the past 12 months; or
- expects to receive any fees as a result of the recommended action.

The sections generally require that the type used for the disclosure be "not less legible" than that used in the body of the report.

Members should check the sections of the legislation applicable to any material they are issuing.

In reviewing reports issued by Members regarding the required disclosures, IDA Sales Compliance staff look to ensure that the disclosure is specific, consistent and legible. If applicable, it should disclose that the Member has had one of the relationships with the issuer in the past twelve months. Boilerplate indicating that it may have had such a relationship is not sufficient.

The disclosure should also be prominent and legible, not included in a mass of fine print or notes on the back pages of a lengthy report.

The Association is currently making changes to proposed Policy 11 on Analyst Standards after comments and discussions with Members and the Canadian Securities Administrators. Policy 11 will require more disclosures and specifically state that they must be prominent. Where feasible, Members should consider voluntary compliance with the new requirements prior to final approval by the CSA.