

# IIROC NOTICE

**Rules Notice**  
**Guidance Note**  
IIROC Rules

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## **Research Report Disclosures and Best Practices**

### **Executive Summary**

This guidance provides assistance to Dealer Members (**Dealers**) regarding Part B of IIROC Rule 3600 by setting out best practices that Dealers should consider when publishing research reports.



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## **1. Application of the rule**

### **1.1 Who is an “analyst”?**

The definition of "analyst" is set out in clause 3606(1)<sup>1</sup>. The definition is not meant to include Registered Representatives who produce reports and recommendations that appear to be similar to research reports. Such communications from Registered Representatives are not subject to the research report requirements under Part B of Rule 3600, instead they are governed by the advertisements, sales literature and correspondence requirements under Part A of Rule 3600.

A Dealer should ensure that it's Registered Representatives:

- (i) do not hold themselves out as analysts, and
- (ii) clearly communicate that the reports and recommendations represent their own conclusions.

### **1.2 What is a research report?**

The definition of "research report" is broad and applies to any material distributed to clients or the public, which contains an analyst's recommendation concerning the purchase, sale or holding of a security. The definition is not limited to a formal published report.

The following are not considered research reports:

- (i) sales and marketing material that do not make reference to an analyst's recommendation,
- (ii) reports relating to government debt or government guaranteed debt, and
- (iii) market analysis, market index, and sector reports.

In general, Dealers should ensure that individuals who prepare sales and marketing material are aware of the definition of “research report” so they do not inadvertently issue something that would be classified as research.

### **1.3 Fixed income securities**

When making a recommendation related to fixed income securities, Dealers may not use the same language as they use in the equities markets. This may result in a Dealer making an implied recommendation that would bring a report within the research report requirements under Part B of Rule 3600. For example, if a Dealer used terminology respecting fixed income securities such as stating that an issue is underpriced, this would be considered a recommendation.

However, Dealers may provide the following factual information:

- (i) coupon rate
- (ii) terms
- (iii) par amount

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<sup>1</sup> In this guidance, all rule references are to the IIROC Rules unless otherwise specified.



- (iv) weight in indices, and
- (v) debt ratings from third party agencies

which will not be considered equivalent to making a recommendation.

## **2. Disclosures and other requirements**

### **2.1 Required disclosure must be fairly represented**

Under section 3610, a Dealer must ensure that research report disclosures are made in a clear, meaningful, comprehensive and prominent manner. Accordingly, this would be reflected in disclosure that is:

- (i) legible and in the same type size as that in the body of the report,
- (ii) prominent and not in a mass of fine print or notes on the back pages of a lengthy report, and
- (iii) specific, consistent and not boilerplate language (e.g., a disclosure indicating that the Dealer may have had “a relationship with an issuer” is too general).

A Dealer’s conflict of interest disclosure obligations includes, but is not limited to, the matters set out in subsection 3608(2). Dealers should exercise their judgment in determining what is material and must therefore be disclosed. A Dealer is in the best position to know what event will trigger its obligation to disclose potential conflicts. For example, a Dealer should decide when investment banking discussions become firm enough to put the Dealer in a potential conflict of interest situation requiring disclosure. When in doubt, the Dealer should err on the side of caution and make the necessary disclosure.

### **2.2 Disclosure of financial interest (clause 3608(2)(ii))**

A Dealer must disclose whether any person involved in creating the content of a research report has an ownership interest in the subject issuer’s securities. When disclosing ownership interests, a Dealer is not required to include information relating to administrative or clerical staff involved in preparing a research report.

### **2.3 Disclosure of remunerated services (clause 3608(2)(iii))**

Clause 3608(2)(iii):

- (i) does not require duplicate disclosure from the individuals when the Dealer discloses the services, and
- (ii) excludes normal investment advisory or trade execution services, such as an investment account by the issuer.



## **2.4 Disclosure if making a market (clause 3608(2)(vi))**

A Dealer must disclose if it is making a market in an equity or equity related security of the issuer. In addition, a Dealer must make the same disclosure in a fixed income research report if the Dealer is making a market in an equity or equity related security of the issuer.

## **2.5 System for rating investments and distributing research reports (section 3609)**

A Dealer may have separate systems for assigning ratings to the different types of securities on which it provides research reports. However, the Dealer may limit its disclosure to the rating system used for the type of security that is the subject of the research report.

A Dealer's policies and procedures for disseminating research reports should address all of the following:

- (i) who its research report is available to (e.g., clients only),
- (ii) how its research report is distributed (e.g, in print form or electronically, or both), and
- (iii) whether all recipients receive the research report at the same time.

## **2.6 Independent third party research (section 3611)**

Under subsection 3611(2), the disclosures set out in sections 3608 and 3609 are not required in the case of independent third party research reports that are issued by members of the Financial Industry Regulatory Authority or persons governed by other regulators approved by IIROC.

To date, IIROC has approved, subject to conditions the following regulators for the purposes of subsection 3611(2):

- (i) the United Kingdom's Financial Conduct Authority (**FCA**),<sup>2</sup> and
- (ii) France's Autorité des Marchés Financiers (**AMF France**).<sup>3</sup>

## **2.7 Disclosures in a paper based research report (clause 3612(1)(i))**

If a Dealer distributes a research report consistent with clause 3612(1)(ii), the report may direct the reader to the disclosures required under sections 3608, 3609 and 3616 through various means. This includes, but is not limited to, the following:

- (i) a hyperlink,
- (ii) a toll-free number to call, or
- (iii) a postal address to which a person may write to request the disclosures required by Part B of Rule 3600.

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<sup>2</sup> See [Notice 12-0206 – Research reports issued by firms regulated by the Financial Services Authority](#) (dated July 3, 2012) respecting IIROC's approval of the FCA (known at the time of approval as the Financial Services Authority).

<sup>3</sup> See [Notice 18-0195 – Research reports issued by firms regulated by France's Autorité des Marchés Financiers](#) (dated October 22, 2018).



However, if a Dealer publishes a hyperlink it should also provide an additional method of accessing the information, such as a toll-free number to call or a postal address to write. This ensures that clients who do not have access to the internet will nevertheless be able to obtain disclosures required by Part B of Rule 3600.

### **2.8 Disclosures in an electronic research report (clause 3612(1)(ii))**

If a Dealer distributes a research report electronically (consistent with clause 3612(1)(ii)), the Dealer may direct clients to disclosure through various means, including, but not limited to, the following:

- (i) a hyperlink,
- (ii) a toll-free number to call, or
- (iii) a postal address to which a person may write to request the disclosures required by Part B of Rule 3600.

### **2.9 Visiting an issuer (section 3613)**

A Dealer must disclose any visit to view the issuer's material operations, whether or not it was in connection with the preparation of a research report, since it is impossible to determine whether a later research report is based in part on information obtained during the course of such a visit.

### **2.10 Public comments (section 3618)**

For the purposes of Rule 3600, a public comment includes any comment made by a Dealer's employee or Approved Person about the quality of a security or issuer, during any of the following:

- (i) a seminar,
- (ii) a public forum (including an interactive electronic forum),
- (iii) a radio or television interview,
- (iv) any other public speaking activity, or
- (v) the writing of an article in which an employee or Approved Person comments about an issuer or security.

The Dealer should provide guidelines and training for any employee or Approved Person making a public comment. A best practice for meeting the requirements of Part B of Rule 3600 includes ensuring employees or Approved Persons of the Dealer make reasonable efforts to disclose the existence of any relevant research report, or the fact that one does not exist.

### **2.11 Trading restrictions (section 3619)**

The trading restrictions on individuals who prepare research reports do not apply to fixed income research reports that only discuss classes of issuers or sectors of the market. However, if the research report contains specific security recommendations, or implied recommendations, than the trading restrictions would apply.



## **2.12 Revenue based compensation (section 3620)**

Disclosure of an analyst's compensation from investment banking revenues does not include compensation based on the overall revenues or profits of the Dealer, which may include investment banking revenue or profits. Disclosure is required only where the analyst's compensation is directly based upon a specific investment banking transaction.

## **2.13 "Date of the offering" (subsection 3622(1))**

For the purposes of subsection 3622(1), the "date of the offering" means the following:

- for prospectus offerings, the date of the final receipt for the prospectus,
- for private placements, the date of pricing (which tends to coincide with the date of the announcement of the private placement), and
- for shelf offerings, the date of the prospectus supplement which qualified the share offering to the public.

The count for the ten and three day quiet periods set out in subsection 3622(1) starts on the day *after* the date of the offering. In other words, the date of the offering is not the first day of this count. For example:

- (i) if the date of the offering of an initial public offering is March 31<sup>st</sup>, the first date on which the research may be published is April 11<sup>th</sup>, or
- (ii) if the date of the offering of a secondary offering is March 31<sup>st</sup>, the first date on which research may be published is April 4<sup>th</sup>.

## **3. Best practices for preparation of research reports**

In each research report, a Dealer should consider the following principles:

- (i) where content is not based on the analysts' own assumptions and opinions, an analyst should ensure it clearly identifies the source of information. For instance, if a Dealer relies on information provided by an issuer or any third-party expert's report or study, the source should be specifically identified in the research report,
- (ii) an analyst should ensure it sets price targets for recommended transactions and provides the appropriate disclosure, and
- (iii) an analyst uses the specific securities terminology required by applicable securities laws. However, if securities laws do not require use of specific securities terminology, an analyst uses the specific technical terminology required by the relevant industry, professional association, or regulatory authority.

A glossary of terms may also be included.

Dealers should consider adopting standards of research coverage that include the following practices:



- (i) maintain and publish the current financial estimates and recommendations on securities followed by the Dealer,
- (ii) review its financial estimates and recommendations within a reasonable time after an issuer's release of material information, and
- (iii) make research reports widely available, through websites or otherwise, to all clients at the same time.

#### **4. Best practices for research department**

Part B of Rule 3600 requires a Dealer to have policies and procedures governing the conduct of analysts, the publishing of research reports and the making of recommendations by analysts.

When the number of research analysts requires it, a Dealer should appoint additional Supervisors to oversee the review and approval of research reports. A Dealer should ensure that Supervisors and analysts have a Chartered Financial Analyst designation or other appropriate qualifications.

Section 3621 requires a Dealer to have policies and procedures in place to restrict the influence of the investment banking department on the activities of the research department. As a best practice, no one in the research department should report to the investment banking department.

#### **5. Applicable rules**

IIROC Rules this Guidance Note relates to:

- Rule 3600, Part B.

#### **6. Previous Guidance Notes**

This guidance replaces the following:

- MR0196 Research Report Disclosure Requirements,
- MR0248 Policy No. 11, and
- Notice 12-0369 – “Date of the offering” within the meaning of Dealer Rule 3400.

#### **7. Related documents**

This Guidance Note is related to:

- Notice 12-0206 – Research reports issued by firms regulated by the Financial Services Authority,
- Notice 13-0220 – Notice of Approval/Implementation of Disclosure Requirements for Research Reports, and
- Notice 18-0195 – Research reports issued by firms regulated by France's Autorité des Marchés Financiers.

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