

## FINRA's New Research Rules

***The new rules retain many of the current rules' core requirements, but expand certain obligations and impose requirements on debt research activities for the first time.***

On August 26, 2015, the Financial Industry Regulatory Authority, Inc. (FINRA) issued two Regulatory Notices<sup>1</sup> announcing the effective dates for new equity and debt research rules recently approved by the Securities and Exchange Commission (SEC).<sup>2</sup> New FINRA Rule 2241 (the New Equity Research Rule) modifies and consolidates current NASD Rule 2711 and Incorporated NYSE Rule 472 with respect to equity research activities (the Legacy Equity Research Rules), and new FINRA Rule 2242 (the Debt Research Rule) adopts — for the first time — rules applicable to debt research analysts and debt research reports.<sup>3</sup>

As detailed below, while there are certain material differences between the New Equity Research Rule and the Debt Research Rule (collectively, the Research Rules), the two rules have similar underlying policy rationales and generally impose similar requirements. The Research Rules are also largely in line with the Legacy Equity Research Rules, but significantly expand FINRA members' obligations in certain areas.<sup>4</sup> Among other things, the Research Rules contain:

- An overarching requirement that FINRA members establish, maintain and enforce written policies and procedures designed to identify and manage conflicts of interest related to the preparation, content, and distribution of research reports and public appearances by research analysts as well as interaction between research analysts and persons outside of the research department
- Specific requirements for written policies and procedures addressing pre-publication review of research reports, research coverage decisions, supervision and control of research analysts, research budget determinations, research analyst compensation, information barriers, retaliation, quiet periods (under the New Equity Research Rule), solicitation and marketing, personal trading restrictions and joint due diligence activities
- Requirements regarding content and disclosure in research reports
- Rules with respect to the distribution of member research reports and third-party research reports

Notably, the Debt Research Rule provides an exemption from many of the Rule's requirements for debt research provided solely to institutional investors and thus will presumably have a more limited impact than the New Equity Research Rule.

Moreover, while the New Equity Research Rule incorporates certain concepts included in the settlement entered into by the SEC and other regulators with several large investment banks in 2003 regarding research and investment banking conflicts of interest (the Global Settlement), FINRA expressly stated in the Equity Research Release that it "does not believe that the terms of the Global Settlement should be

modified through FINRA rulemaking and instead should be determined by the court overseeing the enforcement action. Therefore, FINRA does not intend for any provisions of the equity proposal that may be adopted to supersede provisions of the Global Settlement.”<sup>5</sup> Accordingly, although Section II.7 of Addendum A to the Global Settlement provides that if the “SEC adopts a rule or approves an SRO rule or interpretation with the stated intent to supersede any of the provisions of this settlement, the SEC or SRO rule or interpretation will govern with respect to that provision of the settlement and such provision will be superseded,” FINRA affirmatively chose not to do so, thus continuing the bifurcated (and inherently confusing) regulatory scheme applicable to so-called “settlement firms” and “non-settlement firms.”

The New Equity Research Rule will be implemented in two stages, with certain provisions (including changes with respect to offering-related research quiet periods) becoming effective on September 25, 2015, and the remainder becoming effective on December 24, 2015.<sup>6</sup>

The Debt Research Rule becomes effective on February 22, 2016.<sup>7</sup>

## **Identifying and Managing Conflicts of Interest**

As noted above, the Research Rules require FINRA members to establish, maintain, and enforce written policies and procedures that are reasonably designed to identify and effectively manage (i) conflicts of interest related to the preparation, content and distribution of research reports; (ii) public appearances by research analysts; and (iii) the interaction between research analysts and persons outside of the research department.<sup>8</sup> The Research Rules further provide that a FINRA member’s written policies and procedures must be reasonably designed to promote objective and reliable research and set forth a number of specific requirements for such written policies and procedures.<sup>9</sup> Thus, the Research Rules combine a principle-based approach that allows firms a certain degree of flexibility to design and implement policies and procedures specifically tailored to meet each such firm’s particular circumstances, but then tempers that flexibility somewhat by mandating the inclusion of certain express prescriptive provisions that establish minimum standards.

### **Pre-Publication Review of Research**

Under the New Equity Research Rule, FINRA members must maintain policies and procedures that prohibit pre-publication review, clearance or approval of research reports by persons engaged in investment banking services,<sup>10</sup> and must also restrict pre-publication review by non-research personnel, other than legal and compliance employees.<sup>11</sup> Although this provision generally follows the legacy requirements on pre-publication review of research by investment banking personnel, it eliminates the exception under the Legacy Equity Research Rules allowing for pre-publication review of research reports by investment banking personnel to verify factual accuracy. As under the Legacy Equity Research Rules, however, the subject company and non-investment banking personnel may still review sections of a draft research report for factual accuracy provided certain conditions have been met.<sup>12</sup>

The Debt Research Rule imposes substantially similar requirements with respect to debt research activities, but is broader in that it extends the prohibition on pre-publication review to include sales and trading personnel<sup>13</sup> and principal trading personnel<sup>14</sup> in addition to investment banking personnel.<sup>15</sup>

### **Research Coverage Decisions**

The Research Rules require FINRA members’ policies and procedures to restrict or limit investment banking personnel input and, in the case of the Debt Research Rule, sales and trading personnel and principal trading personnel input, into research coverage decisions.<sup>16</sup> However, FINRA clarifies in the Equity Research Notice and the Debt Research Notice that these provisions do not preclude investment banking personnel or others from conveying customer interests or providing input into coverage

considerations, provided the final decisions regarding the coverage plan are made by research management.<sup>17</sup>

### **Supervision of Analysts**

The New Equity Research Rule incorporates the requirements under the Legacy Equity Research Rules requiring that FINRA members prohibit persons engaged in investment banking activities from supervision or control over research analysts, including influence or control over research analyst compensation evaluations and determinations.<sup>18</sup> The Debt Research Rule likewise requires FINRA members to limit supervision or control over debt research analysts to persons not engaged in investment banking services, but also prohibits supervision by persons engaged in principal trading or sales and trading activities.<sup>19</sup>

### **Research Budget and Analyst Compensation**

Under the New Equity Research Rule, a FINRA member must limit the determination of its research department's budget to senior management not engaged in investment banking services.<sup>20</sup> In addition, as under the Legacy Equity Research Rules, the New Equity Research Rule requires that the member's policies and procedures prohibit compensation based upon specific contributions to a member's investment banking activities, and require a committee that reports to the board of directors (or a senior executive officer if the member has no board of directors) to review and approve at least annually the compensation of any research analyst with primary responsibility for the substance of a research report.<sup>21</sup> Such committee is not permitted to include any representative of the firm's investment banking department.

The Debt Research Rule imposes substantially similar requirements for debt research activities, but extends the prohibition on personnel that may review budget and compensation decisions to persons engaged in principal trading in addition to investment banking, while sales and trading personnel are permitted to provide input into the evaluation of debt research analysts in order to convey customer feedback, subject to certain conditions regarding final compensation decisions.<sup>22</sup>

### **Information Barriers**

The Research Rules impose a new general requirement for FINRA members to adopt written policies and procedures to establish information barriers or other institutional safeguards that are reasonably designed to ensure that research analysts are insulated from review, pressure or oversight by persons engaged in investment banking services or other persons, including sales and trading personnel, who might be biased in their judgment or supervision.<sup>23</sup> According to FINRA, while the Research Rules do not mandate physical separation between the research department and investment banking department (or other persons), FINRA would generally expect such physical separation except in extraordinary circumstances where the costs are unreasonable due to a firm's size and resource limitations.<sup>24</sup>

### **Personal Trading**

The Research Rules expand the requirements with respect to trading by research analysts in securities, derivatives of such securities, and funds whose performance is materially dependent upon the performance of securities covered by a research analyst. Specifically, a FINRA member's policies and procedures must ensure that research analysts, supervisors of research analysts and associated persons with the ability to influence the content of research reports do not benefit in their trading from knowledge of the content or timing of a research report before the intended recipients of such research have had a reasonable opportunity to act on the information in the research report.<sup>25</sup> The New Equity Research Rule

also maintains the current prohibitions on research analysts receiving pre-IPO shares in the sectors they cover and trading against their most recent recommendations.<sup>26</sup>

However, the Research Rules would permit FINRA members to define financial hardship circumstances in which a research analyst would be permitted to trade against his or her most recent recommendation.<sup>27</sup> FINRA further clarified that it would not consider a research analyst account to have traded in a manner inconsistent with a research analyst's recommendation if a member has instituted a policy that prohibits any research analyst from holding securities, or options on, or derivatives of such securities, of the companies in the research analyst's coverage universe, so long as the FINRA member establishes a reasonable plan to liquidate such holdings that its legal or compliance department has approved.<sup>28</sup>

### **Solicitation and Marketing**

The Research Rules require that FINRA members restrict or limit research analysts from activities that can reasonably be expected to compromise the analysts' objectivity.<sup>29</sup> The Research Rules include the prohibitions under the Legacy Equity Research Rules on research analysts participating in pitches and other solicitations of investment banking services transactions as well as road shows and other marketing on behalf of issuers related to such transactions. Consistent with existing guidance, however, analysts may continue to listen to or view a live webcast (from a remote location or another room if at the same location) of a transaction-related road show or other widely attended presentation by investment banking to investors or to the sales force.

The Research Rules also codify FINRA's existing interpretation that the solicitation provisions prohibit FINRA members from including in pitch materials any information about a FINRA member's research capacity in a manner that suggests, directly or indirectly, that the FINRA member might provide favorable research coverage.<sup>30</sup> The Research Rules further clarify that three-way meetings between research analysts and current or prospective customers in the presence of investment banking personnel or company management regarding an investment banking transaction are prohibited.<sup>31</sup>

Finally, FINRA interprets the Research Rules to require that any research analyst's written or oral communication with a current or prospective customer or internal personnel related to an investment banking services transaction be fair, balanced and not misleading, taking into consideration the overall context in which the communication is made.<sup>32</sup>

### **Joint Due Diligence**

The Research Rules establish certain limitations regarding joint due diligence activities in connection with an investment banking services transaction.<sup>33</sup> Specifically, FINRA would require members to have written policies and procedures to prohibit the performance of joint due diligence prior to the selection of underwriters for the transaction.<sup>34</sup> FINRA clarified, however, that this prohibition would not be interpreted to apply if the joint due diligence activities involve a communication with the management of an Emerging Growth Company (an EGC) that is attended by both the research analyst and an investment banker as permitted by the Jumpstart Our Business Startups Act (JOBS Act).<sup>35</sup>

Interestingly, this limitation regarding joint due diligence prior to the selection of underwriters is actually narrower than the comparable provision in the Global Settlement, which (as amended in March 2010) permits research analysts and investment bankers to engage in joint due diligence activities prior to the award of an investment banking mandate in certain limited circumstances and subject to legal/compliance chaperoning requirements.

## **No Promises of Favorable Coverage**

As under the Legacy Equity Research Rules, the Research Rules prohibit explicit or implicit promises of favorable research, a particular research rating or recommendation, or specific research content as an inducement for the receipt of business or compensation.<sup>36</sup>

## **No Retaliation**

The Research Rules require that FINRA members implement policies and procedures that prohibit any employee of the firm from directly or indirectly retaliating against a research analyst as a result of an adverse, negative or otherwise unfavorable research report.<sup>37</sup> While this prohibition was also reflected in the Legacy Equity Research Rules, it was expressly limited to employees involved in the member's investment banking activities, rather than more broadly to any employee of the FINRA member.

## **Research Quiet Periods**

Under the New Equity Research Rule, a FINRA member's policies and procedures must define research "quiet periods" of at least 10 days after an IPO in which the member has acted as an underwriter or dealer, and three days after a secondary offering in which the member has acted as a manager or co-manager. In the Equity Research Notice, FINRA clarifies that, as provided in the Legacy Equity Research Rules, the "date of the offering" is interpreted to refer to the later of the effective date of the registration statement or the first date on which the securities were bona fide offered to the public.<sup>38</sup>

The New Equity Research Rule maintains exceptions to these quiet periods for research reports concerning the effects of significant news or a significant event on the subject company and, for secondary offerings, research reports issued in compliance with Rule 139 under the Securities Act of 1933 regarding a subject company with "actively-traded securities" (as such term is defined in SEC Regulation M).<sup>39</sup> In addition, FINRA reaffirmed that such quiet periods do not apply following the IPO or secondary offering of an EGC as defined in the JOBS Act.<sup>40</sup>

Notably, the quiet periods under the New Equity Research Rule represent a significant departure from the Legacy Equity Research Rules, which imposed a 40-day quiet period on a member acting as manager or co-manager of an IPO, a 25-day quiet period on a member participating as an underwriter or dealer (other than manager or co-manager) in an IPO, and a 10-day quiet period on a member acting as manager or co-manager of a secondary offering.<sup>41</sup> The New Equity Research Rule also eliminates the requirement under the Legacy Equity Research Rules for a 15-day quiet period before and after expiration, waiver or termination of a lock-up agreement entered into in connection with a public offering.

The Debt Research Rule does not mandate offering-related quiet periods.

## **Disclosure and Content Requirements**

The Research Rules maintain the majority of the disclosure and content requirements under the Legacy Equity Research Rules, but include a number of noteworthy modifications:

- FINRA members must establish, maintain and enforce written policies and procedures reasonably designed to ensure that purported facts in its research reports are based on reliable information.<sup>42</sup>
- The current catch-all requirement for disclosure of other material conflicts is expanded to include information known by the research analyst and also any associated person of the FINRA member with the ability to influence the content of a research report.<sup>43</sup>

- The exception for disclosure that would reveal material non-public information regarding potential future investment banking transactions of the subject company is expanded to include specific potential future investment banking transactions of other companies, such as a competitor of the subject company.<sup>44</sup>

## **Distribution of Research Reports**

### **Member Research Reports**

With respect to the distribution of research reports, the Research Rules codify an existing interpretation under FINRA Rule 2010 and set forth additional guidance regarding the provision of different research products and services to different classes of customers.<sup>45</sup> The Research Rules require FINRA members to establish, maintain, and enforce written policies and procedures to ensure that research is not distributed selectively to internal trading personnel or to a particular customer or class of customers in advance of other customers that the firm has previously determined are entitled to receive the research report.<sup>46</sup> The Research Rules clarify, however, that firms would be permitted to provide different research products and services to different classes of customers, provided the products are not differentiated based on the timing of receipt of potentially market moving information and the firm discloses its research dissemination practices to all customers that receive a research product.<sup>47</sup>

### **Third-Party Research Reports**

The Research Rules also largely follow the requirements regarding distribution of third-party research reports under the Legacy Equity Research Rules and require FINRA members to establish, maintain, and enforce written policies and procedures reasonably designed to ensure that any third-party research the member distributes contains no untrue statement of material fact and is otherwise not false or misleading.<sup>48</sup> For the purpose of this requirement, a FINRA member's obligation to review a third-party research report would extend to any untrue statement of material fact or any false or misleading information that should be known from reading the research report, or is known based on information otherwise possessed by the member.<sup>49</sup> FINRA members must also provide certain specified disclosures with third-party research reports, including disclosure of any material conflict of interest reasonably expected to have influenced the firm's choice of third-party research provider.<sup>50</sup>

As under the Legacy Equity Research Rules, the requirements applicable to third-party research reports would generally not apply to the distribution of "independent third-party research reports."<sup>51</sup> Specifically, independent third-party research would not require principal pre-approval; nor would independent third-party research require the FINRA member to include the specified third-party research disclosures if such research is provided by the member: (a) upon request; (b) through a member-maintained website; or (c) to a customer in connection with a solicited order in which the registered representative has informed the customer, during the solicitation, of the availability of independent research on the solicited security and the customer requests such independent research.<sup>52</sup>

### **Termination of Coverage**

The New Equity Research Rule maintains the requirements with respect to termination of coverage contained in the Legacy Equity Research Rules. Specifically, a FINRA member must promptly notify its customers if it intends to terminate coverage of a subject company, must accompany such notice with a final research report (comparable in scope and detail to prior research reports) and provide a final recommendation or rating. Alternatively, if impracticable to provide a final research report, recommendation or rating, a member must disclose to its customers its reason for terminating coverage.<sup>53</sup>

## Exemptions

### Exemption for Institutional Debt Research

As noted above, the Debt Research Rule includes an exemption from certain requirements of the Debt Research Rule for institutional debt research. The exemption adopts a tiered approach, allowing members to obtain consent to receive institutional debt research by different means depending on the proposed recipient's institutional status. Specifically, "qualified institutional buyers" (as defined in Rule 144A under the Securities Act) may agree to receive institutional debt research by negative consent; and other "institutional accounts" (as defined in FINRA Rule 4512(c)) may agree to receive institutional debt research by affirmative written consent.<sup>54</sup> Where the exemption applies, the FINRA member is not required to maintain written policies and procedures with respect to:

- Restricting or prohibiting pre-publication review of institutional debt research by principal trading, sales and trading, or others outside the research department, other than investment banking personnel
- Input by investment banking, principal trading, and sales and trading personnel into research coverage decisions
- Limiting supervision of debt research analysts to persons not engaged in investment banking, principal trading or sales and trading activities
- Limiting determination of the debt research department's budget to senior management not engaged in investment banking or principal trading activities and without regard to specific revenues derived from investment banking
- Determination of debt research analyst compensation
- Restricting or limiting debt research analyst account trading
- Information barriers or other institutional safeguards reasonably designed to ensure debt research analysts are insulated from review or oversight by investment banking, sales and trading, or principal trading personnel, among others (but members still must have written policies and procedures to protect analysts from outside pressures)
- Disclosure requirements, including content and disclosure requirements for third-party research

FINRA members relying on this exemption, however, are required to include a prominent disclosure on the first page of any institutional debt research report stating that (i) the report is intended only for institutional investors and does not carry all of the independence and disclosure standards of retail debt research reports; (ii) if applicable, that the views in the report may differ from the views offered in retail debt research reports; and (iii) if applicable, that the report may not be independent of the firm's proprietary interests and that the firm trades the securities covered in the report for its own account and on a discretionary basis on behalf of certain customers, and such trading interests may be contrary to the recommendation in the report.<sup>55</sup> In addition, FINRA members relying on the exemption must maintain and enforce written policies and procedures reasonably designed to ensure that institutional debt research is made available only to eligible institutional investors.<sup>56</sup>

## Limited Investment Banking Activities

Under the Legacy Equity Research Rules, those firms that over the previous three years, on average per year, managed or co-managed 10 or fewer investment banking transactions and generated US\$5 million or less in gross revenues had a narrow exemption from the prohibitions against analysts being subject to the supervision or control of an investment banking department employee. The Research Rules expand the exemptions under the Legacy Equity Research Rules for firms with limited investment banking activity so that such firms are not subject to the review, supervision, budget and compensation provisions.<sup>57</sup> However, such firms remain subject to the prohibitions regarding compensating analysts for specific investment banking services and would be required to establish barriers to ensure that research analysts are insulated from pressure by investment banking and other non-research personnel.

## Limited Principal Trading Exemption

The Debt Research Rule includes an additional exemption from the review, supervision, budget and compensation provisions for firms that engage in limited principal trading activity — *i.e.*, principal trading activity where, in absolute value on an annual basis, the member's trading gains or losses on principal trades in debt securities are US\$15 million or less over the previous three years, on average per year, and the member employs fewer than 10 debt traders.<sup>58</sup>

## General Exemptive Authority

The Research Rules include new general exemptive authority for FINRA to conditionally or unconditionally grant, in exceptional and unusual circumstances, an exemption from any requirement of the Research Rules for good cause shown, after taking into account all relevant factors and provided that such exemption is consistent with the purposes of the Rules, the protection of investors, and the public interest.<sup>59</sup>

## Annual Attestation Requirement

The New Equity Research Rule eliminates the provision under the Legacy Equity Research Rules that requires a FINRA member to attest annually that it has in place written supervisory policies and procedures reasonably designed to achieve compliance with the applicable provisions of the rules, including the compensation committee review provision. According to FINRA, in light of NASD Rule 3010's requirement to have a supervisory system reasonably designed to achieve compliance with all applicable securities laws and regulations and FINRA rules, the additional attestation requirement was deemed unnecessary.<sup>60</sup>

## Registration Requirements for Research Analysts

In addition to the Research Rules, the SEC also approved amendments to existing NASD Rule 1050 and Incorporated NYSE Rule 344, which impose licensing requirements on equity research analysts.<sup>61</sup> This rule change amends the definition of "research analyst," for the purposes of the registration and qualification requirements, to limit the scope to persons who produce "research reports" and whose primary job function is to provide investment research (*e.g.*, sales and trading personnel generally would not be covered).<sup>62</sup>

Although not clear from the Releases or the amended rules, FINRA indicates in the Debt Research Notice that the registration requirements are intended to apply only to equity research analysts. FINRA, however, also notes that it is considering whether debt research analysts should be subject to the same or similar registration and qualification requirements.<sup>63</sup>

\* \* \*

## Conclusion

The Research Rules represent the consolidation of a number of interpretations FINRA has issued over the past decade as well as a significant expansion of the requirements applicable to member firms with regard to research and the activities of research analysts, including — for the first time — research analysts covering debt securities. As such, the Research Rules may help member firms understand their obligations in an area that has proved fraught with potential landmines. However, the continuing differences in the regulatory landscape for settlement firms and non-settlement firms, and for EGC-related research activities versus non EGC-related research activities, is likely to engender ongoing confusion and inequities with no clear market or investor protection rationale. It will be interesting to watch how the rules and guidance further develop as firms begin to adapt to the new (but still fragmented) research framework.

For ease of reference, we have included as an Appendix to this *Client Alert* a side-by-side comparison of the principal provisions of Legacy Equity Research Rules, the New Equity Research Rule and the Debt Research Rule.

---

If you have questions about this *Client Alert*, please contact one of the authors listed below or the Latham lawyer with whom you normally consult:

**[Dana G. Fleischman](#)**  
[dana.fleischman@lw.com](mailto:dana.fleischman@lw.com)  
+1.212.906.1220  
New York

**[Stephen P. Wink](#)**  
[stephen.wink@lw.com](mailto:stephen.wink@lw.com)  
+1.212.906.1229  
New York

**[Brett M. Ackerman](#)**  
[brett.ackerman@lw.com](mailto:brett.ackerman@lw.com)  
+1.202.637.2109  
Washington, D.C.

---

#### **You Might Also Be Interested In**

[The Bankruptcy of the Securities Market Paradigm: Rethinking the Efficient Market Hypothesis](#)

[SEC Announces Compliance Date for Pay-to-Play Rule](#)

[The 2015 Latham FPI Guide: Accessing the US Capital Markets from Outside the United States](#)

[CFPB Enforcement by the Numbers](#)

---

*Client Alert* is published by Latham & Watkins as a news reporting service to clients and other friends. The information contained in this publication should not be construed as legal advice. Should further analysis or explanation of the subject matter be required, please contact the lawyer with whom you normally consult. The invitation to contact is not a solicitation for legal work under the laws of any jurisdiction in which Latham lawyers are not authorized to practice. A complete list of Latham's *Client Alerts* can be found at [www.lw.com](http://www.lw.com). If you wish to update your contact details or customize the information you receive from Latham & Watkins, visit <http://events.lw.com/reaction/subscriptionpage.html> to subscribe to the firm's global client mailings program.

## Appendix: Comparison of Certain Research Rule Provisions

|  | <b>LEGACY EQUITY RESEARCH RULES<sup>64</sup></b>  | <b>NEW EQUITY RESEARCH RULE</b>  | <b>DEBT RESEARCH RULE (RETAIL DISTRIBUTION)</b>   | <b>DEBT RESEARCH RULE (INSTITUTIONAL DISTRIBUTION)</b>   |
|--|---|--|---|--|
| Pre-Publication Review of Research by Internal Personnel | <p>No employee of the investment banking department or any other employee of the member (except legal and compliance) who is not directly responsible for investment research may review or approve a research report of the member before publication.</p> <p><u>[NASD Rule 2711(b)(2)]</u></p> <p>Non-research personnel may review a research report before its publication as necessary only to verify the factual accuracy of information in the research report or identify any potential conflict of interest, provided that: (A) any written communication between non-research personnel and research department personnel concerning the content of a research report must be made either through authorized legal or compliance personnel of the member or in a transmission copied to such personnel; and (B) any oral communication between non-research personnel and research department personnel concerning the content of a research report must be documented and made either through authorized legal or compliance personnel acting as intermediary or in a conversation conducted in the presence of such personnel.</p> <p><u>[NASD Rule 2711(b)(3)]</u></p> | <p>FINRA members must establish, maintain and enforce policies and procedures that prohibit pre-publication review of research reports by persons engaged in investment banking services and must also restrict pre-publication review by other non-research personnel (except legal and compliance).</p> <p><u>[FINRA Rule 2241(b)(2)(A)]</u></p> <p>Sections of a draft research report may be provided to non-investment banking personnel for factual review so long as: (a) the sections of the report submitted do not contain the research summary, the research rating or the price target; (b) a complete draft of the report is provided to legal or compliance personnel before sections of the report are submitted to non-investment banking personnel; and (c) if, after submitting sections of the report to non-investment banking personnel, the research department intends to change the proposed rating or price target, it must first provide written justification to, and receive written authorization from, legal or compliance personnel for the change.</p> <p><u>[FINRA Rule 2241, Supplementary Material .05]</u></p> | <p>FINRA members must establish, maintain and enforce policies and procedures that prohibit pre-publication review of debt research reports by: (i) investment banking personnel; (ii) principal trading personnel; and (iii) sales and trading personnel.</p> <p><u>[FINRA Rule 2242(b)(2)(A)]</u></p> <p>FINRA members must also restrict or prohibit pre-publication review by other persons not directly responsible for debt research reports (except legal and compliance).</p> <p><u>[FINRA Rule 2242(b)(2)(B)]</u></p> <p>Sections of a draft debt research report may be provided to non-investment banking personnel, non-principal trading personnel, non-sales and trading personnel for factual review, if: (a) the sections of the draft debt research report submitted do not contain the research summary, recommendation or rating; (b) a complete draft of the debt research report is provided to legal or compliance personnel before sections of the report are submitted to non-investment banking personnel, non-principal trading personnel, non-sales and trading personnel; and (c) if, after submitting sections of the draft debt research report to non-investment banking personnel, non-principal trading personnel, non-sales and trading personnel, the research department intends to change the proposed rating or recommendation, it must first provide written justification to, and receive written authorization from, legal or compliance personnel for the change.</p> <p><u>[FINRA Rule 2242, Supplementary Material .05]</u></p> | <p>FINRA members relying on the exemption for debt research provided solely to institutional investors must establish, maintain and enforce policies and procedures to prohibit the pre-publication review of debt research reports by investment banking personnel for any purpose.</p> <p><u>[FINRA Rule 2242(j)(2)]</u></p> |

|   | <b>LEGACY EQUITY RESEARCH RULES<sup>64</sup></b>  | <b>NEW EQUITY RESEARCH RULE</b>  | <b>DEBT RESEARCH RULE (RETAIL DISTRIBUTION)</b>  | <b>DEBT RESEARCH RULE (INSTITUTIONAL DISTRIBUTION)</b>  |
|---|---|--|--|---|
| Pre-Publication Review of Research by the Subject Company | <p>A member may not submit a research report to the subject company before its publication except as expressly otherwise provided in the rule.</p> <p><u>[NASD Rule 2711(c)(1)]</u></p> <p>A member may submit sections of such a research report to the subject company before its publication for review as necessary only to verify the factual accuracy of information in those sections, provided that: (A) the sections of the research report submitted to the subject company do not contain the research summary, the research rating or the price target; (B) a complete draft of the research report is provided to legal or compliance personnel before sections of the report are submitted to the subject company; and (C) if after submitting the sections of the research report to the subject company the research department intends to change the proposed rating or price target, it must first provide written justification to, and receive written authorization from, legal or compliance personnel for the change.</p> <p><u>[NASD Rule 2711(c)(2)]</u></p> | <p>FINRA members must establish, maintain and enforce policies and procedures that prohibit prepublication review of a research report by a subject company for purposes other than verification of facts.</p> <p><u>[FINRA Rule 2241(b)(2)(N)]</u></p> <p>Sections of a draft research report may be provided to the subject company for factual review so long as: (a) the sections of the report submitted do not contain the research summary, the research rating or the price target; (b) a complete draft of the report is provided to legal or compliance personnel before sections of the report are submitted to the subject company; and (c) if, after submitting sections of the report to the subject company, the research department intends to change the proposed rating or price target, it must first provide written justification to, and receive written authorization from, legal or compliance personnel for the change.</p> <p><u>[FINRA Rule 2241, Supplementary Material .05]</u></p> | <p>FINRA members must establish, maintain and enforce policies and procedures that prohibit prepublication review of a debt research report by a subject company for purposes other than verification of facts.</p> <p><u>[FINRA Rule 2242(b)(2)(N)]</u></p> <p>Sections of a draft debt research report may be provided to the subject company for factual review, if: (a) the sections of the draft debt research report submitted do not contain the research summary, recommendation or rating; (b) a complete draft of the debt research report is provided to legal or compliance personnel before sections of the report are submitted to the subject company; and (c) if, after submitting sections of the draft debt research report to the subject company, the research department intends to change the proposed rating or recommendation, it must first provide written justification to, and receive written authorization from, legal or compliance personnel for the change.</p> <p><u>[FINRA Rule 2242, Supplementary Material .05]</u></p> | <p>FINRA members relying on the exemption for debt research provided solely to institutional investors must establish, maintain and enforce policies and procedures to prohibit the pre-publication review of debt research reports by the subject company, subject to the same exceptions applicable for retail distribution of debt research.</p> <p><u>[FINRA Rule 2242(i)(2)]</u></p> |
| Research Coverage Decisions                               | <p>Not addressed.<sup>65</sup></p>  | <p>FINRA members must establish, maintain and enforce policies and procedures that restrict or limit input by the investment banking department into research coverage decisions.</p> <p><u>[FINRA Rule 2241(b)(2)(B)]</u></p>   | <p>FINRA members must establish, maintain and enforce policies and procedures that restrict or limit input by investment banking, sales and trading and principal trading personnel into debt research coverage decisions.</p> <p><u>[FINRA Rule 2242(b)(2)(C)]</u></p>  | <p>Not applicable to FINRA members relying on the exemption for debt research provided solely to institutional investors.</p>   |

|                           | <b>LEGACY EQUITY RESEARCH RULES<sup>64</sup></b>   | <b>NEW EQUITY RESEARCH RULE</b>  | <b>DEBT RESEARCH RULE (RETAIL DISTRIBUTION)</b>   | <b>DEBT RESEARCH RULE (INSTITUTIONAL DISTRIBUTION)</b>   |
|---------------------------|--|--|---|--|
| Supervision of Analysts   | No research analyst may be subject to the supervision or control of any employee of the member's investment banking department, and no personnel engaged in investment banking activities may have any influence or control over the compensatory evaluation of a research analyst.<br><br><u>[NASD Rule 2711(b)(1)]</u> | FINRA members must establish, maintain and enforce policies and procedures that prohibit persons engaged in investment banking activities from supervision or control of research analysts, including influence or control over research analyst compensation evaluation and determination.<br><br><u>[FINRA Rule 2241(b)(2)(C)]</u> | FINRA members must establish, maintain and enforce policies and procedures that limit supervision of a debt research analyst to persons not engaged in: (i) investment banking services transactions (such personnel are also precluded from input into the compensation of debt research analysts); (ii) principal trading activities (such personnel are also precluded from input into the compensation of debt research analysts); or (iii) sales and trading.<br><br><u>[FINRA Rule 2242(b)(2)(D)]</u>   | Not applicable to FINRA members relying on the exemption for debt research provided solely to institutional investors. |
| Research Budget Decisions | Not addressed. <sup>65</sup>   | FINRA members must establish, maintain and enforce policies and procedures that limit determination of the research department budget to senior management not engaged in investment banking services activities.<br><br><u>[FINRA Rule 2241(b)(2)(D)]</u>   | FINRA members must establish, maintain and enforce policies and procedures that limit determination of the debt research department budget to senior management not engaged in investment banking services or principal trading activities.<br><br>Revenues and results of the firm as a whole may be considered in determining the debt research department budget and allocation of debt research department expenses.<br><br>Nothing requires a member to prohibit any personnel from providing to senior management input regarding the demand for and quality of debt research, including product trends and customer interest.<br><br><u>[FINRA Rule 2242(b)(2)(E)]</u> | Not applicable to FINRA members relying on the exemption for debt research provided solely to institutional investors. |
| Analyst Compensation      | No member may pay any bonus, salary or other form of compensation to a research analyst that is based upon a specific investment banking services transaction.<br><br><u>[NASD Rule 2711(d)(1)]</u>  | FINRA members must establish, maintain and enforce policies and procedures that prohibit analyst compensation based on specific investment banking services transactions or contributions to a member's investment banking services activities.<br><br><u>[FINRA Rule 2241(b)(2)(E)]</u>   | FINRA members must establish, maintain and enforce policies and procedures that prohibit analyst compensation based on specific investment banking services or specific trading transactions or contributions to a member's investment banking services or principal trading activities.<br><br><u>[FINRA Rule 2242(b)(2)(F)]</u>   | Not applicable to FINRA members relying on the exemption for debt research provided solely to institutional investors. |

|   | <b>LEGACY EQUITY RESEARCH RULES<sup>64</sup></b>  | <b>NEW EQUITY RESEARCH RULE</b>   | <b>DEBT RESEARCH RULE (RETAIL DISTRIBUTION)</b>  | <b>DEBT RESEARCH RULE (INSTITUTIONAL DISTRIBUTION)</b>  |
|---|---|---|--|---|
| Analyst Compensation Committee Requirements | <p>The compensation of a research analyst who is primarily responsible for the preparation of a research report must be reviewed and approved at least annually by a committee that reports to the member's board of directors. The committee may not have representation from the member's investment banking department.</p> <p><u>[NASD Rule 2711(d)(2)]</u></p> | <p>FINRA members must establish, maintain and enforce policies and procedures that require that the compensation of a research analyst who is primarily responsible for preparation of the substance of a research report be reviewed and approved at least annually by a committee that reports to a member's board of directors. The committee may not have representation from the member's investment banking department.</p> <p><u>[FINRA Rule 2241(b)(2)(F)]</u></p>  | <p>FINRA members must establish, maintain and enforce policies and procedures that require the compensation of a debt research analyst who is primarily responsible for the substance of a research report be reviewed and approved at least annually by a committee that reports to a member's board of director. The committee may not have representation from investment banking personnel or persons engaged in principal trading activities.</p> <p>Sales and trading personnel, but not personnel engaged in principal trading activities, may provide input to debt research management into the evaluation of the debt research analyst in order to convey customer feedback.</p> <p><u>[FINRA Rule 2242(b)(G)]</u></p> | <p>Not applicable to FINRA members relying on the exemption for debt research provided solely to institutional investors.</p>   |
| Information Barriers                        | <p>Not addressed.<sup>67</sup></p>  | <p>FINRA members must establish, maintain and enforce policies and procedures that establish information barriers or other institutional safeguards reasonably designed to ensure that research analysts are insulated from review, pressure or oversight by persons engaged in investment banking services activities or other persons, including sales and trading personnel, who might be biased in their judgment or supervision. Physical separation is not required, but FINRA would generally expect physical separation except in extraordinary circumstances.</p> <p><u>[FINRA Rule 2241(b)(2)(G)]</u></p> | <p>FINRA members must establish, maintain and enforce policies and procedures that establish information barriers or other institutional safeguards reasonably designed to ensure that research analysts are insulated from review, pressure or oversight by persons engaged in: (i) investment banking services; (ii) principal trading or sales and trading activities; and (iii) other persons who might be biased in their judgment or supervision. Physical separation is not required, but FINRA would generally expect physical separation except in extraordinary circumstances.</p> <p><u>[FINRA Rule 2242(b)(2)(H)]</u></p>  | <p>FINRA members relying on the exemption for debt research provided solely to institutional investors are not required to have information barrier policies and procedures designed to ensure that research analysts are insulated from review or oversight by potentially biased non-research personnel, but must still establish, maintain and enforce policies written policies and procedures to ensure that debt analysts are insulated from pressure by such non-research personnel.</p> <p><u>[FINRA Rule 2242(j)(2)]</u></p> |

|                                      | <b>LEGACY EQUITY RESEARCH RULES<sup>64</sup></b>   | <b>NEW EQUITY RESEARCH RULE</b>   | <b>DEBT RESEARCH RULE (RETAIL DISTRIBUTION)</b>  | <b>DEBT RESEARCH RULE (INSTITUTIONAL DISTRIBUTION)</b>  |
|--------------------------------------|--|---|--|---|
| <b>Personal Trading Restrictions</b> | <p>No research analyst account may purchase or receive any securities before the issuer's IPO if the issuer is principally engaged in the same types of business as companies that the research analyst follows.</p> <p>No research analyst account may purchase or sell any security issued by a company that the research analyst follows, or any option on or derivative of such security, for a period beginning 30 calendar days before and ending five calendar days after the publication of a research report concerning the company or a change in a rating or price target of the company's securities, unless certain conditions are satisfied.</p> <p>No research analyst account may purchase or sell any security or any option on or derivative of such security in a manner inconsistent with the research analyst's recommendation as reflected in the most recent research report published by the member.</p> <p><u>[NASD Rule 2711(g)]</u></p> | <p>FINRA members must establish, maintain and enforce policies and procedures that restrict or limit research analyst account trading in securities, any derivatives of such securities and funds whose performance is materially dependent upon the performance of securities covered by the research analyst.</p> <p>FINRA members must ensure that research analyst accounts, supervisors of research analysts and associated persons with the ability to influence the content of research reports do not benefit in their trading from knowledge of the content or timing of a research report before the intended recipients of such research have had a reasonable opportunity to act on the information in the research report.</p> <p>FINRA members must prohibit the purchase or sell any security or any option on or derivative of such security in a manner inconsistent with the research analyst's recommendation as reflected in the most recent research report published by the member, subject to financial hardship circumstances as defined by the firm. FINRA members must prohibit a research analyst account from purchasing or receiving any security before an issuer's IPO if the issuer is principally engaged in the same types of business as companies that the research analyst follows.</p> <p><u>[FINRA Rule 2241(J)]</u></p> | <p>FINRA members must establish, maintain and enforce policies and procedures that restrict or limit debt research analyst account trading in securities, any derivatives of such securities and any fund whose performance is materially dependent upon the performance of securities covered by the debt research analyst.</p> <p>FINRA members must ensure that debt research analyst accounts, supervisors of debt research analysts and associated persons with the ability to influence the content of debt research reports do not benefit in their trading from knowledge of the content or timing of a debt research report before the intended recipients of such debt research have had a reasonable opportunity to act on the information in the debt research report.</p> <p>FINRA members must prohibit a debt research analyst account from the purchase or sale of any security or any option on or derivative of such security in a manner inconsistent with the research analyst's recommendation as reflected in the most recent debt research report published by the member, subject to financial hardship circumstances as defined by the firm.</p> <p><u>[FINRA Rule 2241(J)]</u></p> | <p>Not applicable to FINRA members relying on the exemption for debt research provided solely to institutional investors.</p> |

|  | <b>LEGACY EQUITY RESEARCH RULES<sup>64</sup></b>   | <b>NEW EQUITY RESEARCH RULE</b>  | <b>DEBT RESEARCH RULE (RETAIL DISTRIBUTION)</b>  | <b>DEBT RESEARCH RULE (INSTITUTIONAL DISTRIBUTION)</b>  |
|--|--|--|--|---|
| Solicitation and Marketing                         | <p>No research analyst may participate in efforts to solicit investment banking business. No research analyst may, among other things, participate in any "pitches" for investment banking business to prospective investment banking clients, or have other communications with companies for the purpose of soliciting investment banking business.</p> <p><u>[NASD Rule 2711(c)(4)]</u></p> <p>A research analyst is prohibited from directly or indirectly: (A) participating in a road show related to an investment banking services transaction; and (B) engaging in any communication with a current or prospective customer in the presence of investment banking department personnel or company management about an investment banking services transaction.</p> <p><u>[NASD Rule 2711(c)(5)]</u></p> | <p>FINRA members must establish, maintain and enforce policies and procedures that restrict or limit activities by research analysts that can reasonably be expected to compromise their objectivity, including prohibiting participation in pitches and other solicitations of investment banking services transactions; and participation in road shows and other marketing on behalf of an issuer related to an investment banking services transaction.</p> <p><u>[FINRA Rule 2241(b)(2)(L)]</u></p> <p>No research analyst may engage in any communication with a current or prospective customer in the presence of investment banking department personnel or company management about an investment banking services transaction.</p> <p><u>[FINRA Rule 2241(b)(2)(M); Supplementary Material .03]</u></p> | <p>FINRA members must establish, maintain and enforce policies and procedures that restrict or limit activities by debt research analysts that can reasonably be expected to compromise their objectivity, including prohibiting participation in pitches and other solicitations of investment banking services transactions; and participation in road shows and other marketing on behalf of an issuer related to an investment banking services transaction.</p> <p><u>[FINRA Rule 2242(b)(2)(L)]</u></p> <p>No debt research analyst may engage in any communication with a current or prospective customer in the presence of investment banking department personnel or company management about an investment banking services transaction.</p> <p><u>[FINRA Rule 2242(b)(2)(M); Supplementary Material .02]</u></p> | <p>FINRA members relying on the exemption for debt research provided solely to institutional investors must still establish, maintain and enforce policies and procedures that restrict or limit activities by debt research analysts that can reasonably be expected to compromise their objectivity, including prohibiting participation in pitches and other solicitations of investment banking services transactions; participation in road shows and other marketing on behalf of an issuer related to an investment banking services transaction; and communications in the presence of investment banking department personnel or company management about an investment banking services transaction.</p> <p><u>[FINRA Rule 2242(b)(2)(L)]</u></p> |
| Investment Banking Direction of Analyst Activities | <p>Investment banking department personnel are prohibited from directly or indirectly: (A) directing a research analyst to engage in sales or marketing efforts related to an investment banking services transaction; and (B) directing a research analyst to engage in any communication with a current or prospective customer about an investment banking services transaction.</p> <p><u>[NASD Rule 2711(c)(6)]</u></p>   | <p>FINRA members must establish, maintain and enforce policies and procedures that prohibit investment banking department personnel from directly or indirectly: (i) directing a research analyst to engage in sales or marketing efforts related to an investment banking services transaction; and (ii) directing a research analyst to engage in any communication with a current or prospective customer about an investment banking services transaction.</p> <p><u>[FINRA Rule 2241(b)(2)(M)]</u></p>  | <p>FINRA members must establish, maintain and enforce policies and procedures that prohibit investment banking department personnel from directly or indirectly: (i) directing a debt research analyst to engage in sales or marketing efforts related to an investment banking services transaction; and (ii) directing a debt research analyst to engage in any communication with a current or prospective customer about an investment banking services transaction.</p> <p><u>[FINRA Rule 2242(b)(2)(M)]</u></p>  | <p>FINRA members must establish, maintain and enforce policies and procedures that prohibit investment banking department personnel from directly or indirectly: (i) directing a debt research analyst to engage in sales or marketing efforts related to an investment banking services transaction; and (ii) directing a debt research analyst to engage in any communication with a current or prospective customer about an investment banking services transaction.</p> <p><u>[FINRA Rule 2242(b)(2)(L)]</u></p>   |

|                                      | <b>LEGACY EQUITY RESEARCH RULES<sup>64</sup></b>   | <b>NEW EQUITY RESEARCH RULE</b>   | <b>DEBT RESEARCH RULE (RETAIL DISTRIBUTION)</b>   | <b>DEBT RESEARCH RULE (INSTITUTIONAL DISTRIBUTION)</b>  |
|--------------------------------------|--|---|---|---|
| No Promises of Favorable Coverage    | No member may directly or indirectly offer favorable research, a specific rating or a specific price target, or threaten to change research, a rating or a price target, to a company as consideration or inducement for the receipt of business or compensation.<br><br><u>[NASD Rule 2711(e)]</u>  | FINRA members must establish, maintain and enforce policies and procedures that prohibit explicit or implicit promises of favorable research, a particular research rating or recommendation or specific research content as inducement for the receipt of business or compensation.<br><br><u>[FINRA Rule 2241(b)(2)(K)]</u>   | FINRA members must establish, maintain and enforce policies and procedures that prohibit explicit or implicit promises of favorable debt research, a particular debt research rating or recommendation or specific debt research content as inducement for the receipt of business or compensation.<br><br><u>[FINRA Rule 2242(b)(2)(K)]</u>  | FINRA members must establish, maintain and enforce policies and procedures that prohibit explicit or implicit promises of favorable debt research, a particular debt research rating or recommendation or specific debt research content as inducement for the receipt of business or compensation.<br><br><u>[FINRA Rule 2242(b)(2)(K)]</u>  |
| Standards for Analyst Communications | Any written or oral communication by a research analyst with a current or prospective customer or internal personnel related to an investment banking services transaction must be fair, balanced and not misleading, taking into consideration the overall context in which the communication is made.<br><br><u>[NASD Rule 2711(c)(7)]</u>   | Any written or oral communication by a research analyst with a current or prospective customer or internal personnel related to an investment banking services transaction must be fair, balanced and not misleading, taking into consideration the overall context in which the communication is made.<br><br><u>[FINRA Rule 2241, Supplementary Material .03]</u>   | Any written or oral communication by a debt research analyst with a current or prospective customer or internal personnel related to an investment banking services transaction must be fair, balanced and not misleading, taking into consideration the overall context in which the communication is made.<br><br><u>[FINRA Rule 2242, Supplementary Material .02]</u>  | Any written or oral communication by a debt research analyst with a current or prospective customer or internal personnel related to an investment banking services transaction must be fair, balanced and not misleading, taking into consideration the overall context in which the communication is made.<br><br><u>[FINRA Rule 2242, Supplementary Material .02]</u>  |
| No Retaliation                       | No member and no employee of a member who is involved with the member's investment banking activities may retaliate against or threaten to retaliate against any research analyst employed by the member or its affiliates as a result of an adverse, negative, or otherwise unfavorable research report or public appearance by the research analyst that may adversely affect the member's present or prospective investment banking relationship with the subject company of a research report.<br><br><u>[NASD Rule 2711(j)]</u> | FINRA members must establish, maintain and enforce policies and procedures that prohibit direct or indirect retaliation or threat of retaliation against research analysts employed by the member or its affiliates by persons engaged in investment banking services activities or other employees as the result of an adverse, negative, or otherwise unfavorable research report or public appearance by the research analyst that may adversely affect the member's present or prospective business interests.<br><br><u>[FINRA Rule 2241(b)(2)(H)]</u> | FINRA members must establish, maintain and enforce policies and procedures that prohibit direct or indirect retaliation or threat of retaliation against debt research analysts by any employee of the member as the result of an adverse, negative, or otherwise unfavorable debt research report or public appearance by the debt research analyst that may adversely affect the member's present or prospective business interests.<br><br><u>[FINRA Rule 2242(b)(2)(I)]</u> | FINRA members must establish, maintain and enforce policies and procedures that prohibit direct or indirect retaliation or threat of retaliation against debt research analysts by any employee of the member as the result of an adverse, negative, or otherwise unfavorable debt research report or public appearance by the debt research analyst that may adversely affect the member's present or prospective business interests.<br><br><u>[FINRA Rule 2242(b)(2)(I)]</u> |

|   | <b>LEGACY EQUITY RESEARCH RULES<sup>64</sup></b>  | <b>NEW EQUITY RESEARCH RULE</b>  | <b>DEBT RESEARCH RULE (RETAIL DISTRIBUTION)</b>  | <b>DEBT RESEARCH RULE (INSTITUTIONAL DISTRIBUTION)</b>   |
|---|---|--|--|--|
| Distribution of Member Research Reports | Not addressed in NASD Rule 2711, but FINRA staff has indicated that they interpret FINRA Rule 2010 (Standards of Commercial Honor and Principles of Trade) to prohibit the selective distribution of research to different classes of customers.  | FINRA members must establish, maintain and enforce policies and procedures that ensure that a research report is not distributed selectively to internal trading personnel or a particular customer or class of customers in advance of other customers that the member has previously determined are entitled to receive the research report.<br><br>[FINRA Rule 2241(g)]   | FINRA members must establish, maintain and enforce policies and procedures that a debt research report is not distributed selectively to trading personnel or a particular customer or class of customers in advance of other customers that the member has previously determined are entitled to receive the debt research report.<br><br>[FINRA Rule 2242(f)]  | Not applicable to FINRA members relying on the exemption for debt research provided solely to institutional investors. |
| Distribution of Third-Party Research    | A registered principal or supervisory analyst must approve by signature or initial all third-party research reports distributed by a member. The approval of third-party research shall be based on a review by the designated principal to determine that the content of the research report contains no untrue statement of material fact or is otherwise not false or misleading. For purposes of this provision, a member's obligation to review a third-party research report extends to any untrue statement of material fact or any false or misleading information that should be known from reading the report or is known based on information otherwise possessed by the member.<br><br>[NASD Rule 2711(h)(13)(C)]<br><br>The requirements of paragraph (h)(13)(C) do not apply to independent third-party research reports distributed or made available by a member.<br><br>[NASD Rule 2711(h)(13)(D)] | A registered principal or supervisory analyst must review for compliance with the applicable provisions of the Rule and approve by signature or initial all third-party research reports distributed by a member. FINRA members may not distribute third-party research if they know or have reason to know such research is not objective or reliable.<br><br>FINRA members must establish, maintain and enforce written policies and procedures reasonably designed to ensure that any third-party research it distributes contains no untrue statement of material fact and is otherwise not false or misleading. For purposes of this provision, a member's obligation to review a third-party research report extends to any untrue statement of material fact or any false or misleading information that should be known from reading the report or is known based on information otherwise possessed by the member.<br><br>[FINRA Rule 2241(h)(3)]<br><br>A member is not required to review a third-party research report to determine compliance with paragraph (h)(3) if such research report is an independent third-party research report.<br><br>[FINRA Rule 2241(h)(5)] | FINRA members may not distribute third-party debt research if they know or have reason to know such research is not objective or reliable.<br><br>FINRA members must establish, maintain and enforce written policies and procedures reasonably designed to ensure that any third-party debt research report they distribute contains no untrue statement of material fact and is otherwise not false or misleading. For purposes of this provision, a member's obligation to review a third-party debt research report extends to any untrue statement of material fact or any false or misleading information that should be known from reading the debt research report or is known based on information otherwise possessed by the member.<br><br>[FINRA Rule 2242(g)(2)]<br><br>A member is not required to review a third-party debt research report to determine compliance with paragraph (g)(2) if such debt research report is an independent third-party debt research report.<br><br>[FINRA Rule 2242(g)(4)] | Not applicable to FINRA members relying on the exemption for debt research provided solely to institutional investors. |

|                         | <b>LEGACY EQUITY RESEARCH RULES<sup>64</sup></b>  | <b>NEW EQUITY RESEARCH RULE</b>  | <b>DEBT RESEARCH RULE (RETAIL DISTRIBUTION)</b>   | <b>DEBT RESEARCH RULE (INSTITUTIONAL DISTRIBUTION)</b>  |
|-------------------------|---|--|---|---|
| Termination of Coverage | <p>If a member intends to terminate its research coverage of a subject company, notice of this termination must be made. The member must make available a final research report on the subject company using the means of dissemination equivalent to those it ordinarily uses to provide the customer with its research reports on the subject company. The report must be comparable in scope and detail to prior research reports and must include a final recommendation or rating, unless it is impracticable for the member to produce a comparable report (e.g., if the research analyst covering the subject company or sector has left the member or if the member terminates coverage of the industry or sector). If it is impracticable to produce a final recommendation or rating, the final research report must disclose the member's rationale for the decision to terminate coverage.</p> <p>[FINRA Rule 2711(f)(6)]</p> | <p>FINRA members must promptly notify their customers if they intend to terminate coverage of a subject company. Such notice must be made using the member's ordinary means to disseminate research reports on the subject company to its various customers. The notice must be accompanied by a final research report, comparable in scope and detail to prior research reports, and include a final recommendation or rating. If impracticable to provide a final research report, recommendation or rating, a member must disclose to its customers its reason for terminating coverage.</p> <p>[FINRA Rule 2241(f)]</p>                  | Not applicable.   | Not applicable.   |
| Joint Due Diligence     | <p>Not addressed in NASD Rule 2711, although Incorporated NYSE Rule 472(b)(5) contains a specific carve-out from the rule's solicitation prohibition to explicitly permit communications between analysts, company personnel and/or non-research personnel the sole purpose of which is to conduct due diligence.</p>   | <p>FINRA members must establish, maintain and enforce written policies and procedures reasonably designed to identify and effectively manage conflicts of interest related to the interaction between research analysts and those outside of the research department, including investment banking and sales and trading personnel, subject companies and customers. FINRA interprets this provision to also require members to prohibit the performance of joint due diligence prior to the selection of underwriters for an investment banking services transaction.<sup>68</sup></p> <p>[FINRA Rule 2241, Supplementary Material .02]</p> | <p>FINRA members must establish, maintain and enforce written policies and procedures reasonably designed to identify and effectively manage conflicts of interest related to the interaction between debt research analysts and those outside of the research department, including investment banking department personnel, sales and trading personnel, principal trading personnel, subject companies and customers. FINRA interprets this provision to also require members to prohibit the performance of joint due diligence prior to the selection of underwriters for an investment banking services transaction.</p> <p>[FINRA Rule 2242, Supplementary Material .09]</p> | <p>FINRA members relying on the exemption for debt research provided solely to institutional investors must still establish, maintain and enforce written policies and procedures reasonably designed to identify and effectively manage conflicts of interest related to the interaction between debt research analysts and those outside of the research department, including investment banking department personnel, sales and trading personnel, principal trading personnel, subject companies and customers. FINRA interprets this provision to also require members to prohibit the performance of joint due diligence prior to the selection of underwriters for an investment banking services transaction.</p> <p>[FINRA Rule 2242, Supplementary Material .09]</p> |

|  | <b>LEGACY EQUITY RESEARCH RULES<sup>64</sup></b>  | <b>NEW EQUITY RESEARCH RULE</b>   | <b>DEBT RESEARCH RULE (RETAIL DISTRIBUTION)</b>   | <b>DEBT RESEARCH RULE (INSTITUTIONAL DISTRIBUTION)</b>   |
|--|---|---|---|--|
| Disclosures in Member Research Reports – Price Targets and Ratings | <p>If a research report contains a price target, the member must disclose in the research report the valuation methods used to determine the price target. Price targets must have a reasonable basis and must be accompanied by a disclosure concerning the risks that may impede achievement of the price target.</p> <p><u>[NASD Rule 2711(h)(7)]</u></p> <p>If a research report contains a rating, the member must define in the research report the meaning of each rating used by the member in its rating system. The definition of each rating must be consistent with its plain meaning.</p> <p><u>[NASD Rule 2711(h)(4)]</u></p> <p>If a research report contains either a rating or a price target, and the member has assigned a rating or price target to the subject company's securities rating for at least one year, the research report must include a line graph of the security's daily closing prices for the period that the member has assigned any rating or price target or for a three-year period, whichever is shorter.</p> <p><u>[NASD Rule 2711(h)(6)]</u></p> | <p>FINRA members must establish, maintain and enforce policies and procedures reasonably designed to ensure that: (A) purported facts in a research reports are based on reliable information; and (B) any recommendation, rating or price target has a reasonable basis and is accompanied by a clear explanation of any valuation method used and a fair presentation of the risks that may impede achievement of the recommendation, rating or price target.</p> <p><u>[FINRA Rule 2241(c)(1)]</u></p> <p>FINRA members that employ a rating system must clearly define in each research report the meaning of each rating in the system, including the time horizon and any benchmarks on which a rating is based. The definition of each rating must be consistent with its plain meaning.</p> <p><u>[FINRA Rule 2241(c)(2)]</u></p> <p>If a research report contains either a rating or price target for a subject company's security, and the member has assigned a rating or price target to such security for at least one year, the research report must include a line graph of the security's daily closing prices for the period that the member has assigned any rating or price target or for a three-year period, whichever is shorter.</p> <p><u>[FINRA Rule 2241(c)(3)]</u></p> | <p>FINRA members must establish, maintain and enforce policies and procedures reasonably designed to ensure that: (A) purported facts in a debt research reports are based on reliable information; and (B) any recommendation or rating has a reasonable basis and is accompanied by a clear explanation of any valuation method used and a fair presentation of the risks that may impede achievement of the recommendation or rating.</p> <p><u>[FINRA Rule 2242(c)(1)]</u></p> <p>FINRA members that employ a rating system must clearly define in each research report the meaning of each rating in the system, including the time horizon and any benchmarks on which a rating is based. The definition of each rating must be consistent with its plain meaning.</p> <p><u>[FINRA Rule 2242(c)(2)]</u></p> <p>If a debt research report limited to the analysis of an issuer of a debt security contains a rating for the subject company, and the member has assigned a rating to such subject company for at least one year, the debt research report must show each date on which a member has assigned a rating and the rating assigned on such date. The member must include this information for the period that the member has assigned any rating or for a three-year period, whichever is shorter.</p> <p><u>[FINRA Rule 2242(c)(3)]</u></p> | Not applicable to FINRA members relying on the exemption for debt research provided solely to institutional investors. |

|  | <b>LEGACY EQUITY RESEARCH RULES<sup>64</sup></b>  | <b>NEW EQUITY RESEARCH RULE</b>   | <b>DEBT RESEARCH RULE (RETAIL DISTRIBUTION)</b>   | <b>DEBT RESEARCH RULE (INSTITUTIONAL DISTRIBUTION)</b>  |
|--|---|---|---|---|
| Disclosures in Member Research Reports – Potential Conflicts of Interest | <p>A member must disclose in research reports: (A) if the research analyst or a member of the research analyst's household has a financial interest in the securities of the subject company, and the nature of the financial interest (including, without limitation, whether it consists of any option, right, warrant, future, long or short position); (B) if, as of the end of the month immediately preceding the date of publication of the research report (or the end of the second most recent month if the publication date is less than 10 calendar days after the end of the most recent month), the member or its affiliates beneficially own 1% or more of any class of common equity securities of the subject company; (C) any other actual, material conflict of interest of the research analyst or member of which the research analyst knows or has reason to know at the time of publication of the research report.</p> <p><u>[NASD Rule 2711(h)(1)]</u></p> | <p>FINRA members must disclose in any research report at the time of publication or distribution of the report: (A) if the research analyst or a member of the research analyst's household has a financial interest in the debt or equity securities of the subject company (including, without limitation, whether it consists of any option, right, warrant, future, long or short position), and the nature of such interest; (B) if the research analyst has received compensation based upon (among other factors) the member's investment banking revenues; and (C) any other material conflict of interest of the research analyst or member that the research analyst or an associated person of the member with the ability to influence the content of a research report knows or has reason to know at the time of the publication or distribution of a research report</p> <p><u>[FINRA Rule 2241(c)(4)(A)-(B)]</u></p>  | <p>FINRA members must disclose in any debt research report at the time of publication or distribution of the report: (A) if the debt research analyst or a member of the debt research analyst's household has a financial interest in the debt or equity securities of the subject company (including, without limitation, any option, right, warrant, future, long or short position), and the nature of such interest; (B) if the debt research analyst has received compensation based upon (among other factors) the member's investment banking, sales and trading or principal trading revenues; and (C) any other material conflict of interest of the debt research analyst or member that the debt research analyst or an associated person of the member with the ability to influence the content of a debt research report knows or has reason to know at the time of the publication or distribution of a debt research report.</p> <p><u>[FINRA Rule 2242(c)(4)(A)-(B)]</u></p>  | <p>Debt research reports provided to institutional investors pursuant to the institutional debt research must disclose prominently on the first page that: (A) "This document is intended for institutional investors and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors." (B) If applicable, "The views expressed in this report may differ from the views offered in [Firm's] debt research reports prepared for retail investors." (C) If applicable, "This report may not be independent of [Firm's] proprietary interests. [Firm] trades the securities covered in this report for its own account and on a discretionary basis on behalf of certain clients. Such trading interests may be contrary to the recommendation(s) offered in this report."</p> <p><u>[FINRA Rule 2242(j)(3)]</u></p> |
| Disclosures in Third-Party Research Reports                              | <p>If a member distributes or makes available any third-party research report, the member must accompany the research report with, or provide a web address that directs the recipient to, the current applicable disclosures, as they pertain to the member.</p> <p><u>[NASD Rule 2711(h)(13)(A)]</u></p> <p>The requirements of paragraph (h)(13)(A) do not apply to independent third-party research reports made available by a member to its customers: (i) upon request; (ii) in connection with a solicited order in which a registered representative has informed the customer, during the solicitation, of the availability of independent research on the solicited equity security, and the customer requests such independent research; or (iii) through a member-maintained web site.</p> <p><u>[NASD Rule 2711(h)(13)(B)]</u></p>  | <p>FINRA members must accompany any third-party research report it distributes with, or provide a web address that directs a recipient to, disclosure of any material conflict of interest that can reasonably be expected to have influenced the choice of a third-party research provider or the subject company of a third-party research report.</p> <p><u>[FINRA Rule 2241(h)(4)]</u></p> <p>FINRA members will not be considered to have distributed a third-party research report for purposes of paragraph (h)(4) where the research is an independent third-party research report and made available by a member (a) upon request; (b) through a member-maintained website; or (c) to a customer in connection with a solicited order in which the registered representative has informed the customer, during the solicitation, of the availability of independent research on the solicited equity security and the customer requests such independent research.</p> <p><u>[FINRA Rule 2241(h)(6)]</u></p> | <p>FINRA members must accompany any third-party debt research report it distributes with, or provide a web address that directs a recipient to, disclosure of any material conflict of interest that can reasonably be expected to have influenced the choice of a third-party debt research report provider or the subject company of a third-party debt research report.</p> <p><u>[FINRA Rule 2242(g)(3)]</u></p> <p>FINRA members will not be considered to have distributed a third-party debt research report for purposes of paragraph (g)(3) where the research is an independent third-party debt research report and made available by a member (a) upon request; (b) through a member-maintained website; or (c) to a customer in connection with a solicited order in which the registered representative has informed the customer, during the solicitation, of the availability of independent debt research on the solicited debt security and the customer requests such independent debt research.</p> <p><u>[FINRA Rule 2242(g)(5)]</u></p> | <p>Not applicable to FINRA members relying on the exemption for debt research provided solely to institutional investors.</p>   |

|                                   | <b>LEGACY EQUITY RESEARCH RULES<sup>64</sup></b>  | <b>NEW EQUITY RESEARCH RULE</b>   | <b>DEBT RESEARCH RULE (RETAIL DISTRIBUTION)</b>  | <b>DEBT RESEARCH RULE (INSTITUTIONAL DISTRIBUTION)</b>  |
|-----------------------------------|---|---|--|---|
| Disclosures in Public Appearances | <p>A research analyst must disclose in public appearances: (A) if the research analyst or a member of the research analyst's household has a financial interest in the securities of the subject company, and the nature of the financial interest (including, without limitation, whether it consists of any option, right, warrant, future, long or short position); (B) if, as of the end of the month immediately preceding the date of the public appearance (or the end of the second most recent month if the publication date is less than 10 calendar days after the end of the most recent month), the member or its affiliates beneficially own 1% or more of any class of common equity securities of the subject company; (C) any other actual, material conflict of interest of the research analyst or member of which the research analyst knows or has reason to know at the time of the public appearance.</p> <p><u>[NASD Rule 2711(h)(1)]</u></p> <p>A research analyst must disclose in public appearances: (i) if, to the extent the research analyst knows or has reason to know, the member or any affiliate received any compensation from the subject company in the past 12 months; (ii) if the research analyst received any compensation from the subject company in the past 12 months; or if, to the extent the research analyst knows or has reason to know, the subject company currently is, or during the 12-month period preceding the date of distribution of the research report, was, a client of the member.</p> <p><u>[NASD Rule 2711(h)(2)]</u></p> | <p>A research analyst must disclose in public appearances: (A) if the research analyst or a member of the research analyst's household has a financial interest in the debt or equity securities of the subject company (including, without limitation, whether it consists of any option, right, warrant, future, long or short position), and the nature of such interest; (B) if the member or its affiliates beneficially own 1% or more of any class of common equity securities of the subject company; (C) if, to the extent the research analyst knows or has reason to know, the member or any affiliate received any compensation from the subject company in the previous 12 months; (D) if the research analyst received any compensation from the subject company in the previous 12 months; (E) if, to the extent the research analyst knows or has reason to know, the subject company currently is, or during the preceding 12-month period was, a client of the member. In such cases, the research analyst also must disclose the types of services provided to the subject company, if known by the research analyst; or (F) any other material conflict of interest of the research analyst or member that the research analyst knows or has reason to know at the time of the public appearance.</p> <p><u>[FINRA Rule 2241(d)(1)]</u></p> | <p>A debt research analyst must disclose in public appearances: (A) if the debt research analyst or a member of the debt research analyst's household has a financial interest in the debt or equity securities of the subject company (including, without limitation, whether it consists of any option, right, warrant, future, long or short position), and the nature of such interest; (B) if, to the extent the debt research analyst knows or has reason to know, the member or any affiliate received any compensation from the subject company in the previous 12 months; (C) if the debt research analyst received any compensation from the subject company in the previous 12 months; (D) if, to the extent the debt research analyst knows or has reason to know, the subject company currently is, or during the preceding 12-month period was, a client of the member. In such cases, the debt research analyst also must disclose the types of services provided to the subject company, if known by the debt research analyst; or (E) any other material conflict of interest of the debt research analyst or member that the debt research analyst knows or has reason to know at the time of the public appearance.</p> <p><u>[FINRA Rule 2242(d)(1)]</u></p> | <p>The institutional debt research exemption expressly applies to the "distribution of a debt research report" to eligible institutional investors. It is not clear whether (or to what extent) the exemption is also intended to relieve members relying on the exemption from the disclosure requirements applicable to public appearances by debt research analysts.</p> <p><u>[FINRA Rule 2242(j)]<sup>69</sup></u></p> |

|  | <b>LEGACY EQUITY RESEARCH RULES<sup>64</sup></b>  | <b>NEW EQUITY RESEARCH RULE</b>   | <b>DEBT RESEARCH RULE (RETAIL DISTRIBUTION)</b>   | <b>DEBT RESEARCH RULE (INSTITUTIONAL DISTRIBUTION)</b> |
|--|---|---|---|--|
| Post-Offering Research Quiet Periods   | <p>40-day quiet period for a member acting as manager or co-manager of a non-EGC IPO.</p> <p><u>[NASD Rule 2711(f)(1)]</u></p> <p>25-day quiet period for a member participating as an underwriter or dealer (other than as manager or co-manager) of a non-EGC IPO.</p> <p><u>[NASD Rule 2711(f)(2)]</u></p> <p>10-day quiet period for a member acting as manager or co-manager of a non-EGC secondary offering.</p> <p><u>[NASD Rule 2711(f)(1)]</u></p>   | <p>FINRA members must establish, maintain and enforce policies and procedures that define quiet periods of at least:</p> <p>10 days after an IPO in which the member has acted as an underwriter or dealer; and</p> <p>3 days after a secondary offering in which the member has acted as a manager or co-manager.</p> <p><u>[FINRA Rule 2241(b)(2)(I)]</u></p>   | Not applicable.   | Not applicable.  |
| Lock-Up Related Research Quiet Periods | <p>15-day quiet period before and after expiration, waiver, or termination of a lock-up agreement in respect of an offering by a non-EGC issuer.</p> <p><u>[NASD Rule 2711(f)(4)]</u></p>   | Not applicable.   | Not applicable.   | Not applicable.  |
| Limited Investment Banking Exemption   | <p>The restrictions on relationships with the research department do not apply to members that over the previous three years, on average per year, have participated in 10 or fewer investment banking services transactions as manager or co-manager and generated \$5 million or less in gross investment banking services revenues from those transactions. For purposes of this exemption, the term "investment banking services transactions" includes the underwriting of both corporate debt and equity securities but not municipal securities.</p> <p><u>[NASD Rule 2771(k)]</u></p> | <p>The restrictions regarding review, coverage, supervision, budget, and compensation provisions, and information barriers do not apply to members that over the previous three years, on average per year, have participated in 10 or fewer investment banking services transactions as manager or co-manager and generated \$5 million or less in gross investment banking revenues from those transactions; provided, however, that such members must establish information barriers or other institutional safeguards reasonably designed to ensure that research analysts are insulated from pressure by persons engaged in investment banking services activities or other persons, including sales and trading personnel, who might be biased in their judgment or supervision. For the purposes of this exemption, the term "investment banking services transactions" include the underwriting of both corporate debt and equity securities but not municipal securities.</p> <p><u>[FINRA Rule 2241(i)]</u></p> | <p>The restrictions regarding review (investment banking), coverage (investment banking) supervision (investment banking), budget, compensation provisions, and information barriers do not apply to members that over the previous three years, on average per year, have participated in 10 or fewer investment banking services transactions as manager or co-manager and generated \$5 million or less in gross investment banking revenues from those transactions; provided, however, that such members must establish information barriers or other institutional safeguards reasonably designed to ensure debt research analysts are insulated from pressure by persons engaged in investment banking services activities or other persons, including persons engaged in principal trading or sales and trading activities, who might be biased in their judgment or supervision. For the purposes of this exemption, the term "investment banking services transactions" includes the underwriting of both corporate debt and equity securities but not municipal securities.</p> <p><u>[FINRA Rule 2242(h)]</u></p> | Not applicable.  |

|                                     | LEGACY EQUITY RESEARCH RULES <sup>64</sup> | NEW EQUITY RESEARCH RULE | DEBT RESEARCH RULE (RETAIL DISTRIBUTION)  | DEBT RESEARCH RULE (INSTITUTIONAL DISTRIBUTION)  |
|-------------------------------------|--|--------------------------|---|--|
| Limited Principal Trading Exemption | Not applicable.                            | Not applicable.          | The restrictions regarding review (sales and trading and principal trading), coverage (sales and trading and principal trading) supervision (sales and trading and principal trading), budget, compensation provisions, and information barriers not apply to members where (1) in absolute value on an annual basis, the member's trading gains or losses on principal trades in debt securities are \$15 million or less over the previous three years, on average per year; and (2) the member employs fewer than 10 debt traders; provided, however, that with respect to the exemption, such members must establish information barriers or other institutional safeguards reasonably designed to ensure debt research analysts are insulated from pressure by persons engaged in principal trading or sales and trading activities or other persons who might be biased in their judgment or supervision.<br><br>[FINRA Rule 2242(i)] | Not applicable.  |
| Institutional Investor Exemption    | Not applicable.                            | Not applicable.          | Not applicable.   | Except as otherwise noted, the provisions of the Debt Research Rule do not apply to the distribution of a debt research report to: (A) A qualified institutional buyer where, pursuant to Rule 2111(b) where (i) the member or associated person has a reasonable basis to believe that the qualified institutional buyer is capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies involving a debt security or debt securities; and (ii) such qualified institutional buyer has affirmatively indicated that it is exercising independent judgment in evaluating the member's recommendations pursuant to Rule 2111 and such affirmation covers transactions in debt securities; so long as the member has provided written disclosure to the qualified institutional buyer that the member may provide debt research reports that are intended for institutional investors and that are not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail |

|                                   | LEGACY EQUITY RESEARCH RULES <sup>64</sup>  | NEW EQUITY RESEARCH RULE  | DEBT RESEARCH RULE (RETAIL DISTRIBUTION) | DEBT RESEARCH RULE (INSTITUTIONAL DISTRIBUTION)   |
|-----------------------------------|---|---|--|---|
|                                   |   |   |  | investors; or (B) a person that meets the definition of "institutional account" in Rule 4512(c); provided that such person, prior to receipt of a debt research report, has affirmatively notified the member in writing that it wishes to receive institutional debt research and forego treatment as a retail investor for the purposes of this Rule.<br><br>[FINRA Rule 2242(j)] |
| Registration of Research Analysts | All persons associated with a member who are to function as research analysts shall be registered with NASD. For the purposes of this Rule 1050, "research analyst" shall mean an associated person who is primarily responsible for the preparation of the substance of a research report or whose name appears on a research report.<br><br>[Current NASD Rule 1050(a)-(b)] | All persons associated with a member who are to function as research analysts shall be registered with FINRA. For the purposes of this Rule 1050, "research analyst" shall mean an associated person whose primary job function is to provide investment research and who is primarily responsible for the preparation of the substance of a research report or whose name appears on a research report.<br><br>[Amended NASD Rule 1050(a)-(b)] | Not applicable.                          | Not applicable.   |

## Endnotes

- <sup>1</sup> See FINRA Regulatory Notice 15-30 (August 2015), available at: [https://www.finra.org/sites/default/files/notice\\_doc\\_file\\_ref/Regulatory-Notice-15-30.pdf](https://www.finra.org/sites/default/files/notice_doc_file_ref/Regulatory-Notice-15-30.pdf) (Equity Research Notice); FINRA Regulatory Notice 15-31 (August 2015), available at: <https://www.finra.org/sites/default/files/Regulatory-Notice-15-31.pdf> (Debt Research Notice).
- <sup>2</sup> The new rules were approved on July 16, 2015. See SEC Release No. 34-75471, File No. SR-FINRA-2014-047 (July 16, 2015) (hereinafter, the Equity Research Release); SEC Release No. 34-75472, File No. SR-FINRA-2014-048 (July 16, 2015) (hereinafter, the Debt Research Release, and together with the Equity Research Release, the Releases).
- <sup>3</sup> A “debt research report” is defined as any written (including electronic) communication that includes an analysis of a debt security or an issuer of a debt security and that provides information reasonably sufficient upon which to base an investment decision, excluding communications that solely constitute an equity research report as defined in FINRA Rule 2241(a)(11). The term “debt security,” in turn, includes any “security” as defined in Section 3(a)(10) of the Securities Exchange Act of 1934 (Exchange Act), except for any “equity security” as defined in Section 3(a)(11) of the Exchange Act, any “municipal security” as defined in Section 3(a)(29) of the Exchange Act, any “security-based swap” as defined in Section 3(a)(68) of the Exchange Act and any “U.S. Treasury Security” as defined in paragraph (p) FINRA Rule 6710.
- <sup>4</sup> See the Appendix for a summary, side-by-side comparison of the Legacy Equity Research Rules, the New Equity Research Rule, and the Debt Research Rule.
- <sup>5</sup> Equity Research Release at p. 47.
- <sup>6</sup> See Equity Research Notice. In particular, the following provisions of the New Equity Research Rule become effective on September 25, 2015: (i) Rule 2241(b)(2)(l) (relating to changes in offering-related research quiet periods); (ii) Rule 2241(j) (relating to exemptions for good cause); and (iii) Rule 2241.10 (relating to the divestiture of research analyst holdings in compliance with a firm’s approved liquidation plan). Also effective as of September 25, 2015 are the deletion of the annual attestation requirement under the Legacy Equity Research Rules and the amendments under NASD Rule 1050 and Incorporated NYSE Rule 344 with respect to the registration of research analysts.
- <sup>7</sup> See Debt Research Notice.
- <sup>8</sup> See FINRA Rule 2241(b)(1); FINRA Rule 2242(b)(1).
- <sup>9</sup> See FINRA Rule 2241(b)(2); FINRA Rule 2242(b)(2).
- <sup>10</sup> “Investment banking services” include, without limitation, acting as an underwriter, participating in a selling group in an offering for the issuer or otherwise acting in furtherance of a public offering of the issuer; acting as a financial adviser in a merger or acquisition; providing venture capital or equity lines of credit or serving as placement agent for the issuer or otherwise acting in furtherance of a private offering of the issuer. See FINRA Rule 2241(a)(5).
- <sup>11</sup> See FINRA Rule 2241(b)(2)(A).
- <sup>12</sup> See FINRA Rule 2241, Supplementary Material .05. Sections of a draft research report may be provided to non-investment banking personnel or the subject company for factual review, provided: (i) that the draft section does not contain the research summary, research rating or price target; (ii) a complete draft of the report is provided to legal or compliance personnel before sections are submitted to non-investment banking personnel or the subject company; and (iii) any subsequent proposed changes to the rating or price target are accompanied by a written justification to legal or compliance and receive written authorization for the change. The FINRA member also must retain copies of any draft and the final version of the report for three years.
- <sup>13</sup> “Sales and trading personnel” include persons in any department or division, whether or not identified as such, who perform any sales or trading service on behalf of a FINRA member. See FINRA Rule 2241(a)(12); FINRA Rule 2242(a)(15).
- <sup>14</sup> The Research Rules do not contain a definition for “principal trading personnel.”
- <sup>15</sup> See FINRA Rule 2242(b)(2)(A).
- <sup>16</sup> See FINRA Rule 2241(b)(2)(B); FINRA Rule 2242(b)(2)(C).
- <sup>17</sup> See Equity Research Notice at p. 4; Debt Research Notice at p. 5.
- <sup>18</sup> See FINRA Rule 2241(b)(2)(C).
- <sup>19</sup> See FINRA Rule 2242(b)(2)(D).
- <sup>20</sup> See FINRA Rule 2241(b)(2)(D).
- <sup>21</sup> See FINRA Rule 2241(b)(2)(E)-(F). The committee must consider the following factors when reviewing a research analyst’s compensation, if applicable: (i) the research analyst’s individual performance, including the analyst’s

---

productivity and the quality of the analyst's research; (ii) the correlation between the research analyst's recommendations and the performance of the recommended securities; and (iii) the overall ratings received from clients, sales force and peers independent of the member's investment banking department, and other independent ratings services.

22 See FINRA Rule 2242(b)(2)(G).

23 See FINRA Rule 2241(b)(2)(G); FINRA Rule 2242(b)(2)(H).

24 See Equity Research Release at p. 56; Debt Research Release at p. 58.

25 See FINRA Rule 2241(b)(2)(J); FINRA Rule 2242(b)(2)(J).

26 See Equity Research Release at p. 13.

27 See FINRA Rule 2241(b)(2)(J); FINRA Rule 2242(b)(2)(J).

28 See FINRA Rule 2241, Supplementary Material .10; FINRA Rule 2242, Supplementary Material .10.

29 See FINRA Rule 2241(b)(2)(L); FINRA Rule 2242(b)(2)(L). See also FINRA's FAQs regarding its research conflicts of interest rules (in particular, with respect to analyst communications with issuers during the solicitation period prior to the award of an underwriter mandate) at <http://www.finra.org/industry/faq-research-rules-frequently-asked-questions-faq>.

30 See FINRA Rule 2241, Supplementary Material .01; FINRA Rule 2242, Supplementary Material .01.

31 See FINRA Rule 2241, Supplementary Material .03; FINRA Rule 2242, Supplementary Material .02.

32 See FINRA Rule 2241, Supplementary Material .03; FINRA Rule 2242, Supplementary Material .02.

33 See FINRA Rule 2241, Supplementary Material .02; FINRA Rule 2242, Supplementary Material .09.

34 See *id.*

35 See Equity Research Release at p. 11.

36 See FINRA Rule 2241(b)(2)(K); FINRA Rule 2242(b)(2)(K).

37 See FINRA Rule 2241(b)(2)(H); FINRA Rule 2242(b)(2)(I).

38 See Equity Research Notice at p. 5.

39 See FINRA Rule 2241(l)(iii). The exceptions also apply to public appearances regarding such companies.

40 See FINRA Rule 2241(l).

41 FINRA has indicated that, although it had been in favor of completely eliminating the quiet period following a secondary offering, it was constrained by the terms of the Sarbanes-Oxley Act of 2002 which mandates quiet periods following "public offerings" of securities.

42 See FINRA Rule 2241(c)(1); FINRA Rule 2242(c)(1).

43 See FINRA Rule 2241(c)(4)(I); FINRA Rule 2242(c)(4)(H). The disclosure standard applies also to information that the analyst or other person "has reason to know" of at the time of the publication or distribution of the research report. FINRA has clarified, however, that this would not impose a duty of inquiry with respect to such matters but instead would only cover those conflicts that should reasonably be discovered by those persons in the ordinary course of discharging their functions. See Equity Research Release at p. 17; Debt Research Release at p. 23.

44 See FINRA Rule 2241(c)(5); FINRA Rule 2242(c)(5).

45 See FINRA Rule 2241, Supplementary Material .07; FINRA Rule 2242, Supplementary Material .06.

46 See FINRA Rule 2241(g); FINRA Rule 2242(f).

47 See FINRA Rule 2241, Supplementary Material .07; FINRA Rule 2242, Supplementary Material .06.

48 See FINRA Rule 2241(h); FINRA Rule 2242(g)

49 See *id.*

50 See *id.*

51 "Independent third-party research report" means a third-party research report, in respect of which the person producing the report: (i) has no affiliation or business or contractual relationship with the distributing member or that member's affiliates that is reasonably likely to inform the content of its research reports; and (ii) makes content determinations without any input from the distributing member or that member's affiliates. See FINRA Rule 2241(a)(3); FINRA Rule 2242(a)(6).

52 See FINRA Rule 2241(h)(5)-(6); FINRA Rule 2242(g)(4)-(5).

53 See FINRA Rule 2241(f). FINRA has previously stated that it expects the circumstances under which a final report cannot be provided to be exceptional (e.g., if the analyst covering a subject company or sector has left the

---

member's employ or the member has discontinued coverage of the sector). See Equity Research Release at p. 19.

<sup>54</sup> See FINRA Rule 2242(j). FINRA stated that, to avoid a disruption in the receipt of institutional debt research, the proposed rule change would allow firms to send institutional debt research to any FINRA Rule 4512(c) account, except a natural person, without affirmative or negative consent for a period of up to one year after the SEC approval of the proposed rule change while they obtain the necessary consents. Natural persons that qualify as an institutional account under FINRA Rule 4512(c) would be required to provide affirmative consent to receive institutional debt research during this transition period and thereafter.

<sup>55</sup> See FINRA Rule 2242(j)(3).

<sup>56</sup> See FINRA Rule 2242(j)(4).

<sup>57</sup> See FINRA Rule 2241(i); FINRA Rule 2242(h).

<sup>58</sup> See FINRA 2242(i).

<sup>59</sup> See FINRA Rule 2241(j); FINRA Rule 2242(k).

<sup>60</sup> See Equity Research Release at p. 24.

<sup>61</sup> See Equity Research Release at p. 23.

<sup>62</sup> See *id.*

<sup>63</sup> Debt Research Notice, note 2.

<sup>64</sup> For convenience purposes, references to particular provisions are included solely with respect to NASD Rule 2711 and not also to the corresponding provisions of Incorporated NYSE Rule 472.

<sup>65</sup> Restrictions on research coverage are, however, included as an undertaking in the Global Settlement. In particular, the Global Settlement provides that investment banking may have no input into company-specific coverage decisions and investment banking revenues may not be taken into account in making company-specific coverage decisions.

<sup>66</sup> Although not addressed in NASD Rule 2711, the Global Settlement provides that the firm's research budget and allocation of research expenses must be determined by senior management without investment banking input and without regard to specific revenues or results derived from investment banking.

<sup>67</sup> While NASD Rule 2711 does not mandate particular information barriers or require physical separation between the research department and the investment banking department, the Global Settlement does require physical separation between the research and investment banking departments in such a manner as to prevent the flow of information between such departments.

<sup>68</sup> As previously noted, this limitation regarding joint due diligence prior to the selection of underwriters is actually narrower than the comparable provision in the Global Settlement, which permits research analysts and investment bankers to conduct joint due diligence meetings prior to the award of an investment banking mandate in certain limited circumstances and subject to legal/compliance chaperoning requirements.

<sup>69</sup> See *also* Debt Research Release at p. 34; Debt Research Notice at p. 16.