

# FINRA Proposes to Amend Existing Equity Research Rules and Establish New Debt Research Rule

December 11, 2014

The Financial Industry Regulatory Authority recently filed with the Securities and Exchange Commission a [proposal](#) to consolidate and amend FINRA's current equity research rules and a separate revised [proposal](#) to establish a debt research rule. The main differences between FINRA's Current Equity Rules and the Proposed Equity and Debt Rules (as defined below) are outlined in the **attached chart**. Highlights include:

- **Blackout Periods.** The blackout periods during which firms may not publish or distribute equity research reports and equity analysts may not make public appearances relating to the issuer would be significantly shortened: the current 40-day blackout period for IPOs would be reduced to a minimum of 10 days after the completion of the offering for any firm that participated as an underwriter or dealer; the current 10-day blackout period for secondary offerings in which a firm participated as a manager or co-manager would be reduced to a minimum of three days after the completion of the offering; and the blackout period around the time of lock-up expiration would be eliminated. The Proposed Debt Rule does not provide for any research or public appearance blackout periods for debt research;
- **“Policies and Procedures” Approach.** Both proposals would require firms to adopt written policies and procedures incorporating specific elements; an associated person's failure to comply with those policies and procedures would itself be a violation of FINRA rules;
- **Exemption for Institutional Debt Research.** Debt research provided solely to certain eligible institutional investors would be exempted from many provisions of the Proposed Debt Rule, *provided* that certain disclosure and other requirements are met;
- **Pre-publication Review.** The Proposed Equity Rule would eliminate the ability of investment banking (“IB”) personnel to conduct pre-publication review for factual verification;
- **Compensation.** Both proposals would extend the Current Equity Rules' prohibition on basing analyst compensation on specific IB transactions or contributions to the firm's IB business; the Proposed Debt Rule would also prohibit the consideration of specific trading transactions or contributions to the firm's principal trading activities;
- **Disclosure.** Both proposals would require firms to establish policies and procedures to ensure that purported facts in research reports are based on reliable information and expand the current “catch all” disclosure to cover material conflicts of interest known by any associated person of the firm with the ability to influence the contents of a research report;
- **Information Barriers.** Both proposals would explicitly require firms to maintain information barriers or other safeguards to ensure research analysts are insulated from the review, pressure or oversight by persons who might be biased in their judgment or supervision, including IB and sales and trading personnel, and in the case of the Proposed Debt Rule, principal trading personnel;
- **Annual Attestation.** The current research-specific annual attestation requirement would be eliminated;
- **Retaliation.** Both proposals would extend the current anti-retaliation prohibition to employees other than IB personnel; and

- **Exemptive Authority.** Both proposals would provide FINRA with authority to exempt firms from any of the proposed requirements for “good cause.”

Comments on both proposals are due by December 15, 2014.

## Background

FINRA’s current research rules, NASD Rule 2711 and Incorporated NYSE Rule 472 (together, the “**Current Equity Rules**”) apply only to member firms’ *equity* research reports and activities. As part of its ongoing rulebook consolidation project, FINRA proposes to combine the Current Equity Rules into a single FINRA rule and to codify several existing FINRA interpretations in the form of proposed new FINRA Rule 2241 (the “**Proposed Equity Rule**”). In doing so, FINRA is taking the opportunity to restructure the rule to be somewhat less prescriptive by utilizing a “policies and procedures” approach, and to relax some elements that have come to be viewed as unnecessarily burdensome.

FINRA is also taking action on its long-stated intention to establish a debt research rule. FINRA issued a debt research concept proposal in **March 2011** and solicited comment on debt research rule proposals in **February 2012** and **October 2012**. FINRA’s proposed Rule 2242 (the “**Proposed Debt Rule**”) takes into account comments received in response to these initiatives. The Proposed Debt Rule would also carry over most requirements in the Current Equity Rules, but with some structural changes and other modifications. The Proposed Debt Rule would apply a tiered approach to certain requirements. Debt research provided solely to certain eligible institutional investors would be exempted from most of the provisions regarding supervision, coverage determinations, budget and compensation determinations and all of the disclosure requirements, provided that the research reports contain a front page “health warning” disclosure and the firm establishes policies and procedures to ensure that such research is available only to eligible institutional investors who agree (or, in some cases, are deemed to agree) to receive reports that are prepared without these safeguards.

As noted, both proposals would codify in FINRA’s rules certain existing guidance under the Current Equity Rules. However, FINRA’s plans concerning the continued validity of other existing guidance are unclear. Finally, the proposals would not supersede the “Global Research Settlement,” which imposes on many of the largest broker-dealers a structural separation between IB and equity research units. Nor would the proposals impact the obligations of firms under Regulation AC, which, among other things, requires securities research analysts to certify the truthfulness of the views they express in research reports and public appearances.

## Registration of Research Analysts

Current FINRA rules require any person who functions as an equity research analyst to be registered as such and pass the Series 86 and 87 examinations. FINRA proposes to limit the definition of “research analyst” to persons whose primary job is to provide investment research, which would provide relief for those who prepare equity research reports only on an occasional basis. The Proposed Debt Rule does not include any specific qualification requirements for debt research analysts, but FINRA notes that it is considering the issue.

## Timing and Implementation

SEC approval is required for the rule changes to become effective. If and when the proposed rules are approved, FINRA will within 60 days issue a Regulatory Notice announcing the rules’ effective dates, which will be within 180 days of the publication of the Regulatory Notice.

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If you have any questions regarding the matters covered in this publication, please contact any of the lawyers listed below or your regular Davis Polk contact.

<b>Lanny A. Schwartz</b>	<b>212 450 4174</b>	<a href="mailto:lanny.schwartz@davispolk.com">lanny.schwartz@davispolk.com</a>
<b>Annette L. Nazareth</b>	<b>202 962 7075</b>	<a href="mailto:annette.nazareth@davispolk.com">annette.nazareth@davispolk.com</a>
<b>Jeffrey T. Dinwoodie</b>	<b>202 962 7132</b>	<a href="mailto:jeffrey.dinwoodie@davispolk.com">jeffrey.dinwoodie@davispolk.com</a>
<b>Mark Sater</b>	<b>212 450 3142</b>	<a href="mailto:mark.sater@davispolk.com">mark.sater@davispolk.com</a>
<b>Zachary J. Zweihorn</b>	<b>202 962 7136</b>	<a href="mailto:zachary.zweihorn@davispolk.com">zachary.zweihorn@davispolk.com</a>

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## Comparison of Current Equity, Proposed Equity and Proposed Debt Rules

	Requirement	Current Equity Rules	Proposed Equity Rule	Proposed Debt Rule
<b>Mandatory Policies and Procedures to Manage Conflicts of Interest</b>				
1	Mandatory written policies and procedures to manage conflicts of interest relating to research reports, public appearances, the interaction between research analysts (“ <b>Analysts</b> ”) and those outside the research department and other specified matters.	Not explicitly	Yes	Yes
<b>Institutional Investor Exemption</b>				
2	Exemption for research reports <sup>1</sup> provided solely to certain institutional investors in certain circumstances.	No	No	Yes <sup>2</sup>
<b>Restrictions on Relationship with Research Department</b>				
3	Prohibition on supervision or control of, and influence regarding compensation evaluation of, Analysts by IB department and personnel.	Yes	Yes	Yes, and supervision / control prohibition also applies to Principal Trading (“ <b>PT</b> ”) and Sales and Trading (“ <b>S&amp;T</b> ”); compensation input prohibition also applies to PT
4	Restriction on internal pre-publication review.	General prohibition on review by all non-research / legal / compliance personnel	General prohibition on review by IB; flexibility regarding restrictions or general prohibition on review by other	General prohibition on review by IB,* PT and S&T; flexibility regarding restrictions or prohibition on review by other

<sup>1</sup> The Proposed Equity Rule excludes from the definition of “research report” communications concerning mutual funds.

<sup>2</sup> The Proposed Debt Rule exempts “**Institutional Debt Research**” distributed to qualified institutional investors from the requirements that otherwise apply to debt research described in this table, *other than those marked with an asterisk (\*)*. This exemption would allow members to distribute Institutional Debt Research to qualified institutional buyers (“**QIBs**”) where: (1) there is a reasonable basis to believe the QIB is capable of evaluating investment risks independently, and (2) the QIB has affirmatively indicated that it is exercising independent judgment in evaluating the member’s recommendations pursuant to FINRA Rule 2111, and such affirmation covers transactions in debt securities, *provided* that the member has provided written disclosure to the QIB that the member may provide debt research reports that are intended for institutional investors and that are not subject to all of the independent and disclosure standards applicable to debt research reports prepared for retail investors. If a QIB does not object to receiving Institutional Debt Research, the member may reasonably conclude that the QIB has consented to receiving it, thus conditionally permitting a *negative consent* process for QIBs. Certain other institutional accounts that do not meet these standards *may affirmatively elect* in writing to receive such Institutional Debt Research. A member would also be required to attach certain disclosures as a front page health warning on Institutional Debt Research and establish policies and procedures reasonably designed to ensure that such research is made available only to eligible institutional investors. To avoid a disruption in the receipt of Institutional Debt Research, members would be permitted to send Institutional Debt Research to certain institutional accounts (except natural persons) without affirmative or negative consent for a period of up to one year after SEC approval of the rule change while they obtain the necessary consents.

	Requirement	Current Equity Rules	Proposed Equity Rule	Proposed Debt Rule
			non-research, non-legal and non-compliance personnel	non-research, non-legal and non-compliance personnel
5	Exception from internal pre-publication review restriction for factual verification.	Generally available, subject to chaperoning and documentation requirements	Available for non-IB personnel only, subject to limitations and requirements <sup>3</sup>	Available for non-IB, non-PT, and non-S&T personnel only, subject to limitations and requirements <sup>4</sup>
6	Input into research coverage decisions by IB personnel restricted or limited.	Under a FINRA interpretation, IB personnel may not make final coverage decisions <sup>5</sup>	Yes	Yes, PT and S&T personnel also restricted / limited
7	Requirement that research department budget be determined by senior management, excluding senior management involved in IB activities.	FINRA interprets Current Equity Rules as prohibiting IB personnel from making research budget determinations <sup>6</sup>	Yes	Yes, and senior management involved in PT activities also excluded
8	Mandatory information barriers or other safeguards to ensure Analysts are insulated from the review, pressure or oversight by persons who might be biased in their judgment or supervision.	Not explicitly	Yes, and must, at a minimum, have barriers between research and IB personnel, and other personnel, including	Yes, and must, at a minimum, have barriers <sup>7</sup> between research and IB, S&T and PT personnel and others who

<sup>3</sup> Under the Proposed Equity Rule, a research report may be provided to non-IB personnel for factual verification as long as: (1) the sections of the report submitted do not contain the research summary, the research rating or the price target; (2) a complete draft of the report is provided to legal or compliance personnel before sections of the report are submitted to the non-IB personnel; and (3) written authorization from legal or compliance personnel is obtained before changing the report after such factual review.

<sup>4</sup> Under the Proposed Debt Rule, a research report may be provided to non-IB, non-PT and non-S&T personnel for factual verification as long as: (1) the sections of the report submitted do not contain the research summary, recommendation or rating; (2) a complete draft of the report is provided to legal or compliance personnel before sections of the report are submitted to the non-IB, non-PT and non-S&T personnel; and (3) written authorization from legal or compliance personnel is obtained before changing the report after such factual review.

<sup>5</sup> See Proposed Equity Rule Release at p.16.

<sup>6</sup> See Proposed Equity Rule Release at p.91.

<sup>7</sup> The Proposed Debt Rule will require policies and procedures that specifically prohibit (1) S&T and PT personnel attempting to influence a debt Analyst's opinion or views for the purpose of benefiting the trading position of the firm or customers; and (2) debt Analysts identifying or recommending specific potential trading transactions to S&T or PT personnel that are inconsistent with the Analyst's currently published debt research reports, or disclosing the timing of, or material investment conclusions in, a pending debt research report. FINRA is also proposing to permit certain communications between Analysts and S&T and PT personnel, such as allowing Analysts to seek from S&T and PT personnel certain market information relevant to the Analyst's valuation of a particular debt security.

	Requirement	Current Equity Rules	Proposed Equity Rule	Proposed Debt Rule
			S&T, who might be biased in their judgment or supervision	might be biased in their judgment or supervision* <sup>8</sup>
9	Prohibition on due diligence by Analyst in presence of IB personnel prior to selection of underwriters for an IB transaction.	No	Yes	Yes
10	Prohibition on Analysts communicating with current or prospective customers about an IB transaction in presence of IB personnel or company management.	Yes	Yes	Yes*
<b>Restrictions on Communication with the Subject Company</b>				
11	Prohibition on subject company pre-publication review, except for factual verification, if certain conditions are met. <sup>9</sup>	Yes	Yes	Yes*
12	Requirement that any notice to a subject company of an intended ratings change occur after the close of trading on the business day before the ratings change announcement.	Yes	No	No
13	Prohibition on Analysts participating in pitches and other solicitations of IB business, with an exception for emerging growth company (“EGC”) IPOs.	Yes	Yes	Yes, but no exception for EGCs*
14	Prohibition on Analysts participating in road shows related to an IB services transaction.	Yes	Yes, also prohibits participating in “other marketing” on behalf of an issuer related to an IB services transaction	Yes, also prohibits participating in “other marketing” on behalf of an issuer related to an IB services transaction*
15	Prohibition on IB directing an Analyst to: (1) engage in sales or marketing related to IB transactions, or (2) communicate with current or	Yes	Yes	Yes*

<sup>8</sup> Although firms relying on the Institutional Debt Research exemption would have to establish barriers ensuring Analysts are insulated from *pressure* by certain non-research personnel, they would not be required to establish barriers that insulate Analysts from the *review* and *oversight* by certain non-research personnel.

<sup>9</sup> Under the Current Equity Rules, the Proposed Equity Rule and the Proposed Debt Rule, a research report may be provided to the subject company for factual verification as long as: (1) the sections of the report submitted do not contain the research summary and certain other information; (2) 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 (3) written authorization from legal or compliance personnel is obtained before changing the report after such factual review.

	Requirement	Current Equity Rules	Proposed Equity Rule	Proposed Debt Rule
	prospective customers about IB transactions.			
16	Requirement that Analyst communications related to IB transactions be fair, balanced and not misleading.	Yes	Yes	Yes
<b>Restrictions on Analyst Compensation</b>				
17	Prohibition on basing Analyst compensation on specific IB transaction or contributions to IB business.	Yes	Yes	Yes, and prohibits considering specific trading transactions and contributions to PT activities
18	Requirement that Analyst compensation be annually approved by a committee having specific reporting lines and composition, and which must consider specified factors.	Yes. IB personnel may not be represented on committee	Yes. IB personnel may not be represented on committee	Yes. IB and PT personnel may not be represented on committee
<b>Prohibition on Promise of Favorable Research</b>				
19	Prohibition on promise of favorable research as inducement for receipt of business or compensation. <sup>10</sup>	Yes	Yes	Yes*
<b>Blackout Periods</b>				
20	Blackout period during which the member must not publish or otherwise distribute research reports and Analysts must not make public appearances relating to the issuer, with EGC and other exceptions.	40 days if acting as manager / co-manager of IPO; 25 days if participating as other underwriter / dealer in IPO; 10 days if acting as manager / co-manager of secondary offering; 15 days before and after the expiration, waiver or termination of a lock-up agreement	Firm policies must provide the following minimum blackout periods: 10-day if participating as underwriter / dealer in IPO; 3-day if acting as manager / co-manager of secondary offering / no required blackout around time of lock-up expiration	No blackout periods

<sup>10</sup> Under the Proposed Equity Rule and the Proposed Debt Rule, members will be prohibited from including in pitch materials any information about their research capacity that suggests, directly or indirectly, that the member might provide favorable research coverage, codifying FINRA's interpretation of the Current Equity Rules. See [Notice to Members 07-04](#).

	Requirement	Current Equity Rules	Proposed Equity Rule	Proposed Debt Rule
<b>Termination of Coverage</b>				
21	Notification requirement for termination of coverage of a subject company.	Yes	Yes	No
<b>Restrictions on Personal Trading by Analysts</b>				
22	Restrictions on Analyst purchasing or selling securities issued by a company that Analyst follows (or related options / derivatives).	Explicit prohibition on Analyst trading such securities within specified periods around the publication of a research report on the company, rating or price target change, subject to exceptions including for investments in registered diversified investment companies and certain other investment funds and for transactions in personal financial hardship circumstances	Mandatory policies and procedures restricting Analyst trading in such securities and any fund whose performance is materially dependent upon the performance of such securities	Mandatory policies and procedures restricting Analyst trading in such securities and any fund whose performance is materially dependent upon the performance of such securities
23	Mandatory policies and procedures that ensure Analyst accounts, supervisors of Analysts and associated persons able to influence research do not benefit in their trading from knowledge of the content or timing of a research report.	Not explicitly	Yes	Yes
24	Prohibition on Analyst purchasing or receiving securities before an IPO if issuer is principally engaged in the same business as companies that Analyst follows.	Yes, subject to exceptions for investments in registered diversified investment companies and certain other investment funds	Yes	No
25	Prohibition on Analyst purchasing or selling any security (or related options / derivatives) in a manner inconsistent with recommendation, subject to exceptions.	Yes, subject to exceptions for investments in registered diversified investment companies and certain other investment funds and for transactions in personal financial hardship	Yes, and permits financial hardship exceptions as long as policies define financial hardship circumstances	Yes, and permits financial hardship exceptions as long as policies define financial hardship circumstances



	Requirement	Current Equity Rules	Proposed Equity Rule	Proposed Debt Rule
		circumstances		
26	Pre-approval required for certain transactions of persons who oversee Analysts.	Yes	No, but see Row 23	No, but see Row 23
<b>Disclosures</b>				
<b>Mandatory Disclosures in Research Reports</b>				
27	If Analyst or member of household has financial interest in subject company's securities (including certain derivatives) and nature of such interest.	Yes	Yes	Yes
28	If member or its affiliate have financial interest in subject company's securities.	Yes, if beneficially own 1% or more of any class of equities of the subject company	Yes, if maintain a "significant financial interest" in the debt or equities of the subject company, including if beneficially own 1% or more of any class of equities	No, but see Row 35
29	If Analyst received compensation based on (among other factors) the firm's IB revenues.	Yes	Yes	Yes, and compensation based on S&T and PT revenues
30	If Analyst received compensation from the subject company in the past 12 months.	Yes	Yes	Yes
31	If member or affiliates (1) managed or co-managed a public offering for subject company in past 12 months, (2) recently received compensation for IB services from subject company in past 12 months or (3) expect to receive or seek compensation for IB services from subject company in next 3 months.	Yes	Yes	Yes

	Requirement	Current Equity Rules	Proposed Equity Rule	Proposed Debt Rule
32	If member or affiliates received compensation for products or services other than IB services from subject company in past 12 months.	Yes, to the extent Analyst or employee with ability to influence report knows <sup>11</sup>	Yes <sup>12</sup>	Yes
33	If subject company is, or during past 12 months was, a client of the firm, and if so, the types of services provided.	Yes, to the extent Analyst or employee with ability to influence report knows	Yes	Yes
34	If Analyst or member of household serves as an officer, director or advisory board member of subject company.	Yes	Not explicitly, but would be a material conflict that must be disclosed under requirement described in Row 36 <sup>13</sup>	Not explicitly, but would be a material conflict that must be disclosed under requirement described in Row 36 <sup>14</sup>
35	If member was making a market in subject company's securities when report was published.	Yes	Yes	No, although disclosure required if firm trades or may trade as principal in debt securities (or related derivatives) that are subject of report
36	Any other material conflict of interest the Analyst knows or has reason to know at time of publication of the report.	Yes	Yes, and any conflict that an associated person of the member with the ability to influence a research report knows or has reason to know	Yes, and any conflict that an associated person of the member with the ability to influence a research report knows or has reason to know

<sup>11</sup> Disclosure of whether an affiliate of the member received compensation for products or services other than IB services from the subject company in the past 12 months is also required where the Analyst or member has reason to know of such compensation, unless the member has implemented policies and procedures reasonably designed to prevent the Analyst and employees of the member with the ability to influence the substance of a research report from directly or indirectly receiving information from the affiliate as to whether the affiliate received such compensation.

<sup>12</sup> Proposed FINRA Rule 2241.04 and proposed FINRA Rule 2242.04 state that a member may satisfy this disclosure requirement with respect to the receipt of non-IB compensation by an affiliate by implementing policies and procedures reasonably designed to prevent the Analyst and associated persons with the ability to influence the content of research reports from directly or indirectly receiving information from the affiliate as to whether the affiliate received such compensation. However, a member must disclose receipt of such non-IB compensation received in the past 12 months when the Analyst or an associated person with the ability to influence the content of a research report has actual knowledge that an affiliate received such compensation during that period.

<sup>13</sup> See Proposed Equity Rule Release at p.32 n.58.

<sup>14</sup> See Proposed Debt Rule Release at p.41 n.81.

	Requirement	Current Equity Rules	Proposed Equity Rule	Proposed Debt Rule
37	Certain disclosures not required if disclosure would reveal certain material non-public information.	Yes	Yes	Yes
<b>Other Research Report Disclosure Requirements</b>				
38	Mandatory policies and procedures reasonably designed to ensure purported facts in reports are based on reliable information.	Not explicitly	Yes	Yes
39	If a report contains a price target, must disclose valuation methods used and risks that may impede achievement of price target. Price targets must have a reasonable basis.	Yes	Yes, and requirements also apply to any recommendation or rating	No, but requirements apply to any recommendation or rating
40	If a report contains a rating or price target, and member has assigned a rating or price target to subject company's securities for at least 1 year, the report must show over a specified period the security's daily closing prices, the ratings or price targets assigned, and the dates ratings or price targets were assigned.	Yes, information must be in the form of a line graph	Yes, information must be in the form of a line graph	Yes, does not apply to price targets, no line graph is required, and report need not specify the security's daily closing prices
41	Required disclosures must be on front page of research reports or front page must refer to page on which disclosures are found. Disclosures and references to disclosures must be clear, comprehensive and prominent.	Yes	Yes, electronic reports may provide a hyperlink to required disclosures	Yes, electronic reports may provide a hyperlink to required disclosures
42	Mandatory policies and procedures reasonably designed to prevent improper selective or tiered dissemination of reports.	Yes <sup>15</sup>	Yes	Yes <sup>16</sup>
43	If research report contains a rating, member must define the meaning of each rating in its rating system, and definitions must be consistent with words' plain meanings. Regardless of rating system, member must	Yes	Yes	Yes

<sup>15</sup> This requirement stems from an existing interpretation of the FINRA Communications Rule. See Proposed Equity Rule Release at p.37 and Proposed Debt Rule Release at p.46.

<sup>16</sup> Under the Proposed Debt Rule, a member may provide different debt research products and services to different classes of customers, which may lead to different recommendations or ratings, *provided* that (1) each recommendation or rating is consistent with the meaning of the member's ratings systems for each respective product and (2) the member informs its other customers that receive a research product that the member's alternative debt research products and services may reach different conclusions or recommendations that could impact the price of the debt security. However, a member may not differentiate a debt research product based on the timing of receipt of a recommendation, rating or other potentially market-moving information, nor may a member label a debt research product with substantially the same contents as a different debt research product as a means to allow certain customers to trade in advance of other customers.

	Requirement	Current Equity Rules	Proposed Equity Rule	Proposed Debt Rule
	disclose in each research report percentage of all securities rated by the member to which the member would assign a "buy," "hold / neutral" or "sell" rating, and member must disclose percentage of subject companies within each of the three categories for whom the member recently provided IB services.			
<b>Mandatory Disclosures in Public Appearances</b>				
44	If Analyst or member of household has financial interest in subject company's securities (including certain derivatives) and nature of such interest.	Yes	Yes	Yes
45	If member or affiliates have financial interest in subject company's securities.	Yes, if beneficially owns 1% or more of any class of common equity securities of the subject company	Yes, if maintains a "significant financial interest" in the debt or equities of the subject company, including if beneficially owns 1% or more of any class of common equity securities of the subject company	No
46	If, to the extent Analyst knows or has reason to know, the member or any affiliate received compensation from subject company in the past 12 months.	Yes	Yes	Yes
47	If Analyst received compensation from subject company in the past 12 months.	Yes	Yes	Yes
48	If, to the extent Analyst knows or has reason to know, subject company is, or during past 12 months was, a client of the firm, and if so, the types of services provided, if Analyst knows.	Yes	Yes	Yes
49	If the Analyst or a member of household serves as an officer, director or advisory board member of subject company.	Yes	Not in rule, but would be a material conflict that must be	Not in rule, but would be a material conflict that must be

	Requirement	Current Equity Rules	Proposed Equity Rule	Proposed Debt Rule
			disclosed under requirement described in Row 50 <sup>17</sup>	disclosed under requirement described in Row 50 <sup>18</sup>
50	Any other material conflict of interest the Analyst knows or has reason to know at time of appearance.	Yes	Yes	Yes
51	Certain disclosures not required if disclosure would reveal certain material non-public information.	Yes	Yes	Yes
52	Records of public appearances sufficient to demonstrate compliance with applicable disclosure requirements must be maintained for at least 3 years.	Yes	Yes	Yes
<b>Distribution of Third-Party Research Reports</b>				
53	Requirement to accompany third-party research with, or provide a web address for, certain disclosures.	Yes	Yes, with explicit requirement to disclose material conflicts reasonably expected to have influenced the member's choice of third-party research provider or subject company of a third-party research report	Yes, with explicit requirement to disclose material conflicts reasonably expected to have influenced the member's choice of third-party research provider or subject company of a third-party research report
54	Mandatory written supervisory procedures to ensure completeness and accuracy of required disclosures.	Yes	Not explicitly <sup>19</sup>	Not explicitly
55	Exceptions from disclosure requirements for third-party research reports made available to customers: (1) upon request; (2) in connection with certain solicited orders; or (3) through a member-maintained web site.	Yes	Yes	Yes
56	Requirement to review third-party research reports (other than	Yes, registered principal or	Yes, registered principal or	Yes, but such reports not

<sup>17</sup> See Proposed Equity Rule Release at p.32 n.58.

<sup>18</sup> See Proposed Debt Rule Release at p.41 n.81.

<sup>19</sup> It is unclear whether FINRA intends to include this provision in the Proposed Equity Rule and the Proposed Debt Rule. FINRA notes on p.114 of the Proposed Equity Rule Release that the provision is being proposed, even though it appears nowhere in the proposed rule text. There is no such discussion in the Proposed Debt Rule Release.

	Requirement	Current Equity Rules	Proposed Equity Rule	Proposed Debt Rule
	independent third-party research reports) to ensure they contain no untrue statement of material fact or are otherwise not misleading.	supervisory analyst must approve third-party research reports based on this review	supervisory analyst must approve third-party research reports based on this review	explicitly required to be approved by a registered principal or supervisory analyst
57	Prohibition on distributing third-party research known not to be objective or reliable.	Not explicitly	Yes	Yes
58	Requirement that third-party research be clearly labeled as such. <sup>20</sup>	Yes	Yes	Yes
<b>Supervisory Procedures</b>				
59	Requirement to adopt and implement written supervisory procedures reasonably designed to ensure member and its employees comply with the provisions of the rule.	Yes	Yes	Yes
60	Annual attestation that the member has adopted and implemented written supervisory procedures reasonably designed to ensure compliance with the provisions of the rule.	Yes	No, although annual attestation regarding compliance with, and supervisory processes concerning, all applicable FINRA rules already required under FINRA Rule 3130	No, although annual attestation regarding compliance with, and supervisory processes concerning, all applicable FINRA rules already required under FINRA Rule 3130
<b>Prohibition on Retaliation Against Analysts</b>				
61	Prohibition on retaliation against Analysts by a member's employees for an unfavorable research report or public appearance that may adversely affect business interests.	Yes, but applies only to retaliation / threats by IB personnel and only in circumstances that may adversely affect an IB relationship	Yes, extends to retaliation / threats by any employee	Yes, extends to retaliation / threats by any employee*
<b>Other Exemptions</b>				

<sup>20</sup> See FINRA Rule 2711, [Notice to Members 04-18](#).

	Requirement	Current Equity Rules	Proposed Equity Rule	Proposed Debt Rule
62	Certain provisions of the rule not applicable to members with limited IB activity (“ <b>Small Firm Exemption</b> ”).	Yes	Yes	Yes, and additional exemption from PT-related safeguards for firms with limited PT activity
63	Requirement that members qualifying for the Small Firm Exemption must maintain records for 3 years of communications that, but for exemption, would be subject to other requirements of the rule.	Yes	Yes, and must also maintain records sufficient to establish eligibility for exemption	Yes, and must also maintain records sufficient to establish eligibility for exemption
64	Mandatory information barriers or other safeguards for firms relying on Small Firm Exemption ensuring Analysts are insulated from pressure <sup>21</sup> by IB personnel and other persons who might be biased in their judgment or supervision.	No	Yes	Yes
65	FINRA has authority to issue exemption for good cause.	No	Yes	Yes

<sup>21</sup> Although firms relying on the Small Firm Exemption would have to establish safeguards ensuring Analysts are insulated from *pressure* by certain non-research personnel, they would not be required to establish safeguards that insulate Analysts from the *review* and *oversight* by certain non-research personnel.