

FINRA Watching for Promises of Favorable Research in Exchange for Investment Banking Business

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Approximately ten years ago, the US regulators, including FINRA, began to crack down on a variety of research-related practices, including a perception that positive research was being offered to issuers as an inducement for broker-dealers to be hired as underwriters. While there have not been any recent reported violations of these rules by FINRA members, there have been reported instances where potential issuers have suggested that they would select underwriters in part based on which were expected to provide positive research coverage. FINRA has therefore issued a Notice to Members to remind member firms that its rules prohibit them from promising to provide or providing favorable research in exchange for compensation or business, such as an underwriting role in an issuer's upcoming offering. The notice also outlines member firms' responsibilities in circumstances where an issuer has suggested that it expects favorable research from member firms awarded an underwriting role in the issuer's offering. While the Notice to Members does not prohibit a member firm from acting as an underwriter in these situations, it is a warning to member firms that they should tread carefully in these instances, and does offer some suggested steps that member firms should take in these circumstances.

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

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