

## Principles and Regulations for Research-Related Conflicts of Interest<sup>1</sup>

	<b>IOSCO Principles and Core Measures<sup>2</sup></b>	<b>EU Forum Group Recommendations</b>	<b>U.S. Regulations and Global Settlement</b>	<b>U.K. Regulations<sup>3</sup></b>
<b>I.</b>	<b>Scope of Regulations:</b>			
A.	Equity and fixed income	Fixed income and other non-equity securities	Equity, except for Reg AC	All designated investments <sup>4</sup>
<b>II.</b>	<b>Analysts' Compensation and Interaction with Business Units:</b>			
A.	Analysts cannot participate in pitches or road shows	No specific requirement	Research analysts may not solicit investment banking business through pitches or other forms of communications with firms	Analysts cannot actively participate in pitches or road shows if they are producing "impartial" research on that issuer
B.	Analysts cannot report to investment banking	Analysts should never report directly or indirectly to investment banking	No research analyst may be subject to the supervision or control of any employee of the investment banking department	An individual whose responsibilities might conflict with the interests of clients shall not supervise or control an analyst
C.	Analysts' compensation cannot be linked to specific investment banking transactions	Analysts' compensation should not be linked to specific investment banking or banking transactions	Analysts' compensation cannot be based on a specific investment banking transaction	Analysts' compensation cannot be linked to specific investment banking transactions or specific recommendations

<sup>1</sup> The information contained in this document is not intended to be comprehensive or legally binding. The information in the table refers generally to regulations introduced since 2001 that were specifically intended to control or minimize research-related conflicts of interest. Whenever possible relevant regulations introduced prior to 2001 are referenced in the footnotes.

<sup>2</sup> The IOSCO 'core' measures are seen as critical for making IOSCO's principles effective and are intended to apply in all jurisdictions, regardless of their legal systems or level of market development. In addition, IOSCO's *Statement of Principles for Addressing Sell-Side Securities Analyst Conflicts of Interest* includes "other" measures that regulators might want to consider but which are not necessarily intended to be implemented in all jurisdictions.

<sup>3</sup> With a few limited exceptions, such as the restrictions on dealing ahead, the FSA's regulations apply to "objective" or "impartial" research. If a firm is producing impartial research, FSA's guidance states that an analyst should not be involved in any activities that would appear to be inconsistent with the provision of an impartial assessment of the value or prospects of relevant investments.

<sup>4</sup> The term 'designated investment' is very widely defined to cover equities, fixed income securities, derivatives, life assurance policies and foreign exchange forward contracts.

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	<b>IOSCO Principles and Core Measures</b>	<b>Australia's Regulation</b>	<b>Canada's Regulations</b>	<b>Japan's Regulations</b>
<b>I.</b>	<b>Scope of Regulations:</b>			
A.	Equity and fixed income	All financial products	Equity and fixed income	Equity and fixed income
<b>II.</b>	<b>Analysts' Compensation and Interaction with Business Units:</b>			
A.	Analysts cannot participate in pitches or road shows	No specific restriction	No specific restriction	No specific restriction <sup>5</sup>
B.	Analysts cannot report to investment banking	Research should not be supervised by investment banking, corporate advisory or dealing functions	The head of research should report to a senior officer who is not the head of investment banking	Analysts cannot be supervised by investment banking
C.	Compensation cannot be linked to specific investment banking transactions	Compensation should not be contingent on the introduction of new clients or the retention of existing clients	No form of compensation can be paid that is directly based upon one or more specific investment banking services transactions <sup>6</sup>	Compensation cannot be linked to specific investment banking transactions

<sup>5</sup> Regulations in this area are under consideration.

<sup>6</sup> In addition, research reports must disclose if any part of the analyst's compensation in the past 12 months was based on revenue from investment banking.

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	<b>IOSCO Principles and Core Measures</b>	<b>EU Forum Group Recommendations</b>	<b>U.S. Regulations and Global Settlement</b>	<b>U.K. Regulations</b>
<b>II.</b>	<b>Analysts' Compensation and Interaction with Business Units (cont'd):</b>			
D.	No specific requirement	Investment banking should have no involvement in determining analysts' compensation	Investment banking may not have any influence or control in the compensatory evaluation of an analysts	Individuals whose responsibilities might conflict with the interests of clients for whom research is published or distributed cannot determine the remuneration of analysts
E.	No specific requirement	No specific requirement	No specific requirement	Remuneration of analysts should not create or suggest the creation of incentives for the production of research that is less than objective
F.	No specific requirement	No specific requirement	Compensation committees must review and approve compensation for research analysts annually and the basis for compensation must be documented and certified to NASD annually <sup>7</sup>	No specific requirement
G.	No specific requirement	No specific requirement	Compensation must be based on the quality of research, productivity, correlation between recommendations and stock price performance, ratings received from clients, sales force, peers and other independent ratings services	No specific requirement

<sup>7</sup> The compensation committees must report to the firm's board of directors, cannot include members of the firm's investment banking department and cannot consider analysts' contribution to the firm's investment banking business when determining compensation.

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	<b>IOSCO Principles and Core Measures</b>	<b>Australia's Regulation</b>	<b>Canada's Regulations</b>	<b>Japan's Regulations</b>
<b>II.</b>	<b>Analysts' Compensation and Interaction with Business Units (cont'd):</b>			
D.	No specific requirement	Persons directly connected with other business units should not make decisions about analysts' compensation	No specific requirement	Investment banking can have no involvement in determining analysts' compensation
E.	No specific requirement	No specific requirement	Firms must have policies and procedures in place to prevent research recommendations from being influenced by investment banking	Investment banking cannot have undue influence nor intervention in the content of research reports
F.	No specific requirement	No specific requirement	No specific requirement	No specific requirement
G.	No specific requirement	No specific requirement	No specific requirement	No specific requirement

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	<b>IOSCO Principles and Core Measures</b>	<b>EU Forum Group Recommendations</b>	<b>U.S. Regulations and Global Settlement</b>	<b>U.K. Regulations</b>
<b>III.</b>	<b>Information Barriers:</b>			
A.	Firms must establish robust information barriers between research and other areas of the firm to limit the potential for conflicts of interest and to prevent individuals within the firm from attempting to influence research	Firms should have appropriate procedures to control flow of information between research and investment banking	Under the Global Settlement, firms must maintain information barriers between research and non-research business units at all times	No directly corresponding requirement although the general provisions on Chinese walls and systems and controls will be relevant. <sup>8</sup>
B.	No specific requirement	No specific requirement	Under the Global Settlement investment banking and research must be physically separate and must have separate reporting lines, legal and compliance staff and budgeting processes	Firms must have a conflicts of interest policy that, among other issues, should clarify the extent to which analysts may become involved in activities other than research
C.	No specific requirement	No specific requirement	Non-research personnel cannot review or approve research reports prior to publication except to verify factual accuracy or identify potential conflicts and communication regarding unpublished research between research and non-research personnel must be through or in the presence of compliance and legal personnel <sup>9</sup>	A firm should not allow third parties to view investment research before publication except for fact checking

<sup>8</sup> Firms distributing impartial research must publish an analysts' independence policy and should organize the research function so as to minimize the influence of commercial interests on the impartiality of their investment research. See section VC on page 9.

<sup>9</sup> In addition, firms subject to the Global Settlement must create and enforce firewalls designed to prohibit all communication between research and investment banking except in certain specified circumstances.

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<b>III.</b>	<b>Information Barriers:</b>			
A.	Firms must establish robust information barriers between research and other areas of the firm <u>to limit the potential for conflicts of interest and to prevent individuals within the firm from attempting to influence research</u>	Robust information barriers should prevent information passing between research staff and other staff who may have an impact on the preparation of research	Firms must establish systems to control and keep records of the flow of information between analysts and investment banking	Firms must establish information barriers between research and other areas of the firm
B.	No specific requirement	Research should be structurally and physically separate from investment banking, corporate advisory and dealing functions	No specific requirement	Firms must separate research and investment banking and analysts should be brought over the ('Chinese') wall only in specific circumstances which are agreed to by compliance
C.	No specific requirement	Research reports should not be reviewed or approved by non-research staff, other than to check for factual accuracy	Research reports cannot require investment banking approval and comments by investment banking must be limited to correction of factual errors	Communication between research and non-research personnel about unpublished research must be only in specific circumstances and through compliance

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<b>IV.</b>	<b>Analyst Conflicts of Interest:</b>			
A.	Analysts cannot trade the securities or related derivatives of an issuer they cover in a manner contrary to their recommendations <sup>10</sup>	Analysts and connected persons should not own securities in the sectors that they cover <sup>11</sup>	No research analyst account may purchase or sell any security that the analyst covers, or any option on or derivative of such security, in a manner inconsistent with the analyst's most recent published recommendation <sup>12</sup>	Analysts are prohibited from trading securities for their own account in a way that would be contrary to his or her own published recommendations <sup>13</sup>
B.	Analysts cannot trade the securities or related derivatives of an issuer they cover ahead of publishing research on that issuer <sup>14</sup>	No specific requirement	No research analyst account may trade any security of an issuer the analyst covers for 30 days prior to and 5 days after publication of a research report on that issuer <sup>15</sup>	Firms must ensure that personal account dealing by analysts and other employees does not conflict with the firm's duty to its customers
C.	Analysts must disclose if an individual employed by or associated with their firm serves as officer, director or board member of an issuer that they cover <sup>16</sup>	No specific requirement	Analysts must disclose in research reports and public appearances if they or a family member serve as officers, directors or advisory board members of the issuer	No directly corresponding requirement <sup>17</sup>

<sup>10</sup> An "other" measure states that, "analysts are prohibited from trading the securities or related derivatives of issuers and/or industries that they cover."

<sup>11</sup> Or, when analysts and connected persons are permitted to acquire and trade such securities, their employers should have in place effective written policies covering such activities and monitoring and enforcement procedures.

<sup>12</sup> A research analyst account is defined to include any account in which a research analyst or household member has a financial interest or over which the analyst has discretion or control.

<sup>13</sup> Unless the transaction is to realize the cash value of a holding or position and is undertaken in order to meet an obligation of the investment analyst that is not related to any designated investment and the firm has given its permission in writing.

<sup>14</sup> An "other" measure states that, "analysts are prohibited from trading the securities of issuers they cover before and after the issuance of a research report."

<sup>15</sup> Similarly, no research analyst account may trade any security of an issuer for 30 days prior to and 5 days after a change in ratings or price targets for the company's securities. Trades may be permitted within 30 days of publication if there is significant news regarding the subject company.

<sup>16</sup> An "other" measure would prohibit firms from covering an issuer when members of the firm serve as officers, directors or board members of that company.

<sup>17</sup> However, in general firms must manage conflicts of interest by: (a) disclosure; (b) the use of an independence policy; (c) established internal arrangements; or (d) declining to act.

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<b>IV.</b>	<b>Analyst Conflicts of Interest:</b>			
A.	Analysts cannot trade the securities or related derivatives of an issuer they cover in a manner contrary to their recommendations <sup>18</sup>	Research report providers should consider prohibiting analysts from holding or trading in financial products on which they prepare research	Analysts cannot trade contrary to their current recommendations unless special circumstances exist	Analyst cannot trade against his/her own recommendation unless authorized to do so
B.	Analysts cannot trade the securities or related derivatives of an issuer they cover ahead of publishing research on that issuer <sup>19</sup>	Research report providers should consider imposing a quiet period on its staff for trading ahead of the distribution of a research report	No individual directly involved in the preparation of a research report can trade in a security covered in the report for 30 calendar days before and 5 days after issuance of the report <sup>20</sup>	Analysts cannot trade securities of an issuer they cover unless authorized to do so
C.	Analysts must disclose if an individual employed by or associated with their firm serves as an officer, director or board member of an issuer that they cover <sup>21</sup>	No specific requirement	Analysts cannot cover an issuer if they or an associate serve as an officer, director or employee of the issuer <sup>22</sup>	No specific requirement <sup>23</sup>

<sup>18</sup> An "other" measure states that, "analysts are prohibited from trading the securities or related derivatives of issuers and/or industries that they cover."

<sup>19</sup> An "other" measure states that, "analysts are prohibited from trading the securities of issuers they cover before and after the issuance of a research report"

<sup>20</sup> Unless prior approval of a partner, director or officer is received.

<sup>21</sup> An "other" measure would prohibit firms from covering an issuer when members of the firm serve as officers, directors or board members of that company.

<sup>22</sup> An analyst also cannot cover an issuer if he/she serves in an advisory capacity to the issuer.

<sup>23</sup> Currently under consideration.

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<b>IV.</b>	<b>Analysts' Conflicts of Interest (cont'd):</b>			
D.	No specific requirement	No specific requirement	No research analyst account may purchase or receive any securities prior to an issuer's IPO if that issuer is principally engaged in the same types of business as the companies that the research analyst follows	No specific requirement
E.	No specific requirement	No specific requirement	Any equity transactions by persons who oversee research analysts must be approved by legal or compliance if they involve securities of the subject companies covered by the research analysts they oversee	No specific requirement
<b>V.</b>	<b>Firm's Conflicts of Interest:</b>			
A.	Firms cannot improperly trade securities or related derivatives ahead of publishing research on the issuer of those securities	No specific requirement	No specific requirement <sup>24</sup>	A firm may deal ahead of publication of research only within the ordinary course of its market making activities or to fulfill an unsolicited customer order <sup>25</sup>
B.	Firms cannot promise issuers favorable research, specific ratings or specific target prices in return for a continued or future business relationship, service or investment	No specific requirement	Firms cannot offer favorable research or a specific price target or a specific rating or threaten to change research, a rating or a price target in order to induce business or compensation	A firm should ensure that neither it nor any employees offer or accept an inducement to provide favorable research in order to retain or secure any business or other compensation from a relevant issuer

<sup>24</sup> Dealing ahead of publication is not permissible under existing U.S. securities regulation.

<sup>25</sup> See rule 7.3 and the joint trade associations' guidance thereon.

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<b>IV.</b>	<b>Analysts' Conflicts of Interest (cont'd):</b>			
D.	No specific requirement	No specific requirement	No specific requirement	No specific requirement
E.	No specific requirement	No specific requirement	No specific requirement	No specific requirement
<b>V.</b>	<b>Firm's Conflicts of Interest:</b>			
A.	Firms cannot improperly trade securities or related derivatives ahead of publishing research on the issuer of those securities	Firms should consider imposing a quiet period on itself for trading ahead of the distribution of a research report	Firms cannot trade with knowledge of or in anticipation of the distribution of research, a new recommendation or change in a recommendation	Firms cannot improperly trade securities or related derivatives ahead of publishing research on the issuer of those securities
B.	Firms cannot promise issuers favorable research, specific ratings or specific target prices in return for a continued or future business relationship, service or investment	Firms should ensure that favorable research is not offered, or changes to research threatened, as an inducement to secure the business of a corporate client	Firms cannot offer favorable research, specific ratings or specific target prices, a delay in changing a rating or price target or threaten to change research, a rating or price target of an issuer in return for a continued or future business relationship, service or investment	Firms cannot promise issuers favorable research or a specific price target or offer to change a rating

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<b>V.</b>	<b>Firms' Conflicts of Interest (cont'd):</b>			
C.	Firms must have written internal procedures for addressing actual and potential analyst conflicts of interest	No specific requirement	Firms must adopt and implement written supervisory procedures reasonably designed to ensure that the firm and its employees comply with the research analyst rules. A senior officer of the firm must attest annually that the firm has adopted and implemented these procedures.	Firms that produce "objective" or impartial research must have a written policy for managing research-related conflicts of interest and must make that policy publicly available
D.	No specific requirement <sup>26</sup>	Research produced by selling syndicate analysts should be subject to a quiet period immediately after the offering has been priced	If a firm managed or co-managed an initial public offering for a specific issue, it cannot publish or distribute research on that issuer for 40 days following the initial public offering <sup>27</sup>	The firm's conflicts of interest policy should set out the firm's arrangement as to the method and timing of the publication of investment research <sup>28</sup>
E.	No specific requirement	No specific requirement	If a firm managed or co-managed a secondary offering, it cannot publish or distribute research on that issuer for 10 days following the initial public offering of that issuer	No specific requirement

<sup>26</sup> An other measure states that firms cannot publish research reports during "quiet periods" before and after a securities offering that is underwritten by the firm

<sup>27</sup> Also applies to public appearances by research analyst covering the issuer although there is an exception based on the release of significant news.

<sup>28</sup> The FSA notes that firms should consider if their conflicts of interest policy should contain any restrictions on the timing of the publication of research. For example, a firm might consider whether it should restrict publication of relevant investment research around the time of an investment offering. In addition, the FSA states that any individual with responsibilities that might reasonably be considered to conflict with the interests of the clients to whom investment research is published or distributed should not be responsible for: (1) supervision of an investment analysts; (2) decisions on the subject matter or content of investment research or the timing or its publication; and, (3) determining the remuneration of an investment analysts. The firm's conflicts of interest management policy must describe how research is published and distributed and how its substance may be disclosed.

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<b>V.</b>	<b>Firms' Conflicts of Interest (cont'd):</b>			
C.	Firms must have written internal procedures for addressing actual and potential analyst conflicts of interest	Firms should have specific, documented policies and practices for the management of conflicts of interest and make those available to all staff	Firms must have written conflict of interest policies and procedures in order to minimize conflicts faced by analysts and said policies must be approved and filed with the IDA	Firms must have internal rules to ensure proper and fair business conducts related to preparation and use of analyst reports.
D.	Firms cannot publish research reports during "quiet periods" before and after a securities offering that is underwritten by the firm	Firms should consider quiet periods while non-research services are being provided to an issuer	Firms cannot publish or distribute research for an equity or equity related security for 40 days after managing or co-managing a primary offering of the issuer <sup>29</sup>	Research reports cannot contain ratings or target prices for a certain period when the firm has managed or co-managed a primary offering of the issuer <sup>30</sup>
E.	No specific requirement	No specific requirement	Firms cannot publish or distribute research for an equity or equity related security for 10 days after managing or co-managing a secondary public offering of the issuer <sup>31</sup>	No specific requirement

<sup>29</sup> The restrictions on publishing research also apply to public appearances by the research analysts.

<sup>30</sup> The certain period is after the filing of the securities registration statements for the IPO and within 10 business days from the date of listing (about 40 days).

<sup>31</sup> The restrictions on publishing research also apply to public appearances by the research analysts.

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<b>V.</b>	<b>Firms' Conflicts of Interest (cont'd):</b>			
F.	No specific requirement	No specific requirement	Firms cannot publish or otherwise distribute research on an issuer for 25 days after the issuer's IPO if they participated as an underwriter or dealer for that IPO <sup>32</sup>	No specific requirement
G.	No specific requirement	No specific requirement	Firms cannot issue research for 15 days prior to and after the expiration of a "lock up" agreement <sup>33</sup>	No specific requirement
H.	No specific requirement	No specific requirement	Firms may share with issuers only those portions of unpublished research reports that contain factual information and may not share portions of the report that contain ratings, price targets or research summaries. If the research department wishes to change a rating or price target after submitting the research report to the issuer, it must provide written justification to and receive written approval from legal or compliance. <sup>34</sup>	No specific requirement
I.	No specific requirement	No specific requirement	No specific requirement	No specific requirement

<sup>32</sup> These restrictions on publishing research also apply to public appearances by research analysts.

<sup>33</sup> There is an exception based on the release of significant news and SEC Rule 139 concerning a company with "actively traded securities".

<sup>34</sup> Prior to submitting any sections of the research report to the subject company, the research department must provide a complete draft of the research report to the legal or compliance department. In addition, the firm may notify a subject company that it intends to change its ratings of the company's securities, provided that the notification occurs on the business day before the firm announces the rating change, after the close of trading in the principle market of the subject company's securities.

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<b>V.</b>	<b>Firms' Conflicts of Interest (cont'd):</b>			
F.	No specific requirement	No specific requirement	No specific requirement	No specific requirement
G.	No specific requirement	No specific requirement	No specific requirement	No specific requirement
H.	No specific requirement	No specific requirement	No specific requirement	No specific requirement
I.	No specific requirement	Firms should consider not publishing research on financial products in which they have a material interest	No specific requirement	No specific requirement

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	<b>IOSCO Principles and Core Measures</b>	<b>EU Forum Group Recommendations</b>	<b>U.S. Regulations and Global Settlement</b>	<b>U.K. Regulations</b>
<b>VI.</b>	<b>Licensing and Educational Requirements for Research Analysts:</b>			
A.	An “other” measure states that analysts must take periodic examinations to test their knowledge of their legal and ethical duties	Analysts should receive ongoing training in market practice and relevant regional laws and regulation	Continuing education is required for research analysts and supervisory analysts that stresses ethics, rules and personal responsibilities	No directly corresponding requirement <sup>35</sup>
B.	No specific requirement	No specific requirement	Research analysts and supervisory analysts must pass a qualification examination and be registered with and qualified by NASD	No specific requirement
<b>VII.</b>	<b>Analyst Self-Certification:</b>			
A.	An “other” measure states that analysts must certify under oath that the opinions they express and recommendations they make in research reports and/or public appearances are the opinions that they themselves hold	No specific requirement	Analysts must certify that the views expressed in their research reports accurately reflect their personal views about the subject securities and issuers <sup>36</sup>	No directly corresponding requirement <sup>37</sup>

<sup>35</sup> FSA’s training and competence regime requires firms: (1) to ensure that employees are competent to perform their duties; and, (2) to confirm that employees have been trained in the firm’s policies and procedures. The regime is supplemented by a record keeping requirement.

<sup>36</sup> In addition, analysts must certify: (1) that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report; or (2) that part or all of their compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report. If the analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report, the statement must include the source, amount, and purpose of such compensation, and further disclose that it may influence the recommendation in the research report.

<sup>37</sup> However, the FSA states that “firms should ensure that “objective” research contains the objective views of the analyst responsible for it.”

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<b>VI.</b>	<b>Licensing and Educational Requirements for Research Analysts:</b>			
A.	An "other" measure states that analysts must take periodic examinations to test their knowledge of their legal and ethical duties	No specific requirement	Analysts should obtain a CFA designation or other appropriate qualifications	No specific requirement
B.	No specific requirement	No specific requirement	No specific requirement	No specific requirement
<b>VII.</b>	<b>Analyst Self-Certification:</b>			
A.	An "other" measure states that analysts must certify under oath that the opinions they express and recommendations they make in research reports and/or public appearances are the opinions that they themselves hold	No specific requirement - however, firms should ensure each report reflects the views of its author or authorizing officer	Firms must obtain an annual certification which states that analysts are familiar with and have complied with the AIMR Code of Ethics	No specific requirement

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<b>VIII.</b>	<b>Restrictions on Issuers:</b>			
A.	No specific requirement	Issuers should not seek to influence an analyst's recommendation or engage in retaliatory action	No specific requirement	No specific requirement
B.	No specific requirement	Issuers should encourage the attendance of analysts at financial information meetings organized in connection with an offering	No specific requirement	No specific requirement
C.	Issuers cannot selectively disclose material information to one analyst and not to other analysts	Issuers should not discriminate in providing information to analysts	No specific requirement <sup>38</sup>	No specific requirement
D.	No specific requirement	Issuers should develop their own governance rules covering relations with analysts <sup>39</sup>	No specific requirement	No specific requirement
<b>IX.</b>	<b>Investor Education:</b>			
A.	Investor education should play an important role in managing analyst conflicts of interest	No specific requirement but the Forum Group seeks to promote investor education sponsored by regulators and other market participants	Seven of the firms party to the Global Settlement will make payments totaling \$80 million that will be used specifically to finance investor education programs	No specific requirement but the FSA announced the creation of a Financial Capability Steering Group in late 2003 that will develop and implement a national strategy for improving consumers' financial capability

<sup>38</sup> There are existing SEC rules on issuers' selective disclosure of information.

<sup>39</sup> In addition, listing authorities should consider making adherence to issuer best practice codes a listing requirement.

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<b>VIII.</b>	<b>Restrictions on Issuers:</b>			
A.	No specific requirement	No specific requirement	No specific requirement	No specific requirement
B.	No specific requirement	No specific requirement	No specific requirement	No specific requirement
C.	Issuers cannot selectively disclose material information to one analyst and not to other analysts	No specific requirement	No specific requirement	No specific requirement
D.	No specific requirement	No specific requirement	No specific requirement	No specific requirement
<b>IX.</b>	<b>Investor Education:</b>			
A.	Investor education should play an important role in managing analyst conflicts of interest	No specific requirement	No specific requirement	No specific requirement