

## Corporate Securities

APRIL 30, 2001

### Draft Report of the Securities Industry Committee on Analyst Standards

### Recommendations for the Supervision and Practice of Canadian Securities Industry Analysts

#### Introduction

On April 12, 2001 the Securities Industry Committee on Analysts Standards (the "Committee") released its draft report (the "Draft Report") containing recommendations aimed at improving the independence of research and ensuring the professional practice of Canadian securities industry analysts.

The Committee, formed by The Toronto Stock Exchange, the Canadian Venture Exchange and the Investment Dealers Association of Canada, was set up in response to concerns regarding the supervision of research analysts, the standards of practice and the manner in which analysts deal with conflicts of interest if corporate issuers or employers try to influence the analysts' opinions and published research. As a result of the Committee's conclusion that sell-side analysts and their member firms have not always effectively managed the potential and actual conflicts of interest that inevitably arise in the course of an analyst's work, the Committee has proposed 28 recommendations to deal with these issues.

In developing its recommendations the Committee has generally chosen the least intrusive option. However, where conflicts of a serious nature cannot be managed by enhanced disclosure obligations, the Committee has recommended specific prohibitions. The 28 recommendations include 14 requiring disclosure, six advocating the setting of standards, four recommending changes within member firms and their policies, two recommending registration of supervisory analysts, and one recommendation each dealing with education and prohibited relationships between analysts and the companies that they are researching.

The Draft Report has been released for a 60-day comment period before the final report is issued in the fall of 2001. The Committee is requesting comments from all interested parties with respect to its recommendations and is specifically seeking comments on the cost implications of compliance with the recommendations and the effect of the recommendations, given that Canada's markets are only one part of a larger global market.

#### Key Recommendations

The key recommendations proposed by the Committee include:

- analysts' reports must prominently disclose when analysts own stock in the company being covered;
- analysts' reports must prominently disclose the combined holding, long or short, of the member firm and specified officers and employees if it exceeds 10 per cent or more of the voting or equity securities of the company being covered;
- analysts' reports must prominently indicate if the member firm has received remuneration for services from, and if the member firm has acted as an adviser or underwriter for, the company being covered within the past two years;
- an analyst should be prohibited from issuing a report on a company if the analyst is an officer, director or adviser of the company;
- analysts' reports must clearly explain the rating system being used;
- member firms must disclose on their web sites or otherwise, on a quarterly basis, information as to the percentage of their recommendations that fall into each category of their rating system;

- member firms and their employees should be prohibited from trading in a listed security of a company based upon knowledge of, or in anticipation of the dissemination of, an analyst report;
- member firms should appoint a supervisory analyst to be responsible for approving all research reports and recommendations before their release; and
- the Saucier Committee on Corporate Governance should consider, as part of the corporate governance responsibility of a public company's board of directors, the need for the development of a communications policy that addresses how management will interact with analysts.

The Committee has also recommended that analysts meet certain education standards, as well as the development of a process of annual certification to ensure that supervisory analysts comply with the Association for Investment Management and Research ("AIMR") Code of Ethics and Standards of Professional Conduct, whether or not they are members of AIMR.

## Conclusion

The Draft Report contains important recommendations that are intended to promote analysts' reports and recommendations being objective, candid and independent to the betterment of Canadian securities markets. We encourage you to contact us if you would like to discuss the recommendations or if you would like assistance in preparing comments for the Committee.

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