

disclosure required by Rule 472(k)(1)(i)c. and (iii) (b) and (d) to the extent such disclosure would reveal material non-public information regarding specific potential future investment banking services transactions of the subject company.

(k)(2) Disclosures Specific to Research Reports.

The front page of a research report either must include the disclosures required under this Rule or must refer the reader to the page(s) on which each such disclosure is found. Disclosures, and references to disclosures, must be clear, comprehensive, and prominent.

A member or member organization must disclose in research reports if the associated person preparing such reports received compensation that is based upon (among other factors) the member's or member organization's overall investment banking revenues.

A member or member organization must disclose in research reports that recommend securities:

(i) if it is making a market in the subject company's securities at the time the research report is issued.

(ii) the valuation methods used, and any price objectives must have a reasonable basis and include a discussion of risks.

(iii) the meanings of all ratings used by the member or member organization in its ratings system. (For example, a member or member organization might disclose that a "strong buy" rating means that the rated security's price is expected to appreciate at least 10% faster than other securities in its sector over the next *twelve* (12)-month period[.]). Definitions of ratings terms also must be consistent with their plain meaning. Therefore, for example, a "hold" rating should not mean or imply that an investor should sell a security.)

(iv) the percentage of all securities that the member or member organization recommends an investor "buy," "hold," or "sell." Within each of the three (3) categories, a member or member organization must also disclose the percentage of subject companies that are investment banking services clients of the member or member organization within the previous twelve (12) months[.]. ([S]ee Rule 472.70 for further information[.]).

(v) a chart that depicts the price of the subject company's stock over time and indicates points at which a member or member organization assigned or changed a rating or price target. This provision would apply only to securities that have been assigned a rating for at least one (1) year, and need not extend more than three (3) years prior to the date of the research report. The

information in the price chart must be current as of the end of the most recent calendar quarter (or the second most recent calendar quarter if the publication date is less than fifteen (15) calendar days after the most recent calendar quarter).

When a member or member organization distributes a research report covering six (6) or more subject companies for purposes of the disclosures required in paragraph (k) of this Rule, such research report may direct the reader in a clear and prominent manner as to where they may obtain applicable current disclosures in written or electronic format.

Other Communications Activities

(l) Other communications activities are deemed to include, but are not limited to, conducting interviews with the media, writing books, conducting seminars or lecture courses, writing newspaper or magazine articles, or making radio/TV appearances.

Members and member organizations must establish specific written supervisory procedures applicable to members, allied members, and employees who engage in these types of communications activities. These procedures must include provisions that require prior approval of such activity by a person designated under the provisions of Rule 342(b)(1). These types of activities are subject to the general standards set forth in paragraph (i). In addition, any activity which includes discussion of specific securities and/or industries is subject to the specific standards in paragraph (j) and the disclosure requirements of paragraphs (k)(1) and (k)(2)(i).

Small Firm Exception

(m) The provisions of Rule 472(b)(1), (2) and (3) do not apply to members and member organizations that over the three previous 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 paragraph the term "investment banking services transactions" shall include both debt and equity underwritings. Members and member organizations that qualify for this exemption must maintain records for three years of any communications that, but for this exemption, would be subject to paragraphs (b)(1), (2), and (3) of this Rule.

.10 Definitions

(1) Communication—The term "Communication" is deemed to include,

but is not limited to, advertisements, market letters, research reports, sales literature, electronic communications, communications in and with the press, and wires and memoranda to branch offices or correspondent firms which are shown or distributed to customers or the public.

(2) Research Report—"Research report" is generally defined as a written or electronic communication which includes an analysis of equity securities of individual companies or industries, and provides information reasonably sufficient upon which to base an investment decision [and includes a recommendation].

For purposes of approval by a supervisory analyst pursuant to Rule 472(a)(2), research report includes, but is not limited to, reports which recommend equity securities, derivatives of such securities, including options, debt and other types of fixed income securities, single stock futures products, and other investment vehicles subject to market risk.

(3) Advertisement—"Advertisement" is defined to include, but is not limited to, any sales communications that is published, or designed for use in any print, electronic or other public media such as newspapers, periodicals, magazines, radio, television, telephone recording, Web sites, motion pictures, audio or video device, telecommunications device, billboards, or signs.

(4) Market letters—"Market letters" are defined as, but are not limited to, any written comments on market conditions, individual securities, or other investment vehicles that are not defined as research reports. They also may include "follow-ups" to research reports and articles prepared by members or member organizations which appear in newspapers and periodicals.

(5) Sales literature—"Sales literature" is defined as, but is not limited to, written or electronic communications including, but not limited to, telemarketing scripts, performance reports or summaries, form letters, seminar texts, and press releases discussing or promoting the products, services, and facilities offered by a member or member organization, the role of investment in an individual's overall financial plan, or other material calling attention to any other communication.

.20 For purposes of this Rule, "investment banking services" includes, without limitation, acting as an underwriter in an offering for the issuer; acting as a financial adviser in a merger or acquisition; providing venture