

(iv) *With respect to registered research analysts, training in ethics, professional responsibility and the requirements of Rule 2711.*

(3) through (4) No change.

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## 2711. Research Analysts and Research Reports

### (a) Definitions

For purposes of this rule, the following terms shall be defined as provided.

(1) through (3) No change.

(4) "Public appearance" means any participation in a seminar, forum (including an interactive electronic forum), radio, television or *print media* interview, or other public speaking activity, or the writing of a *print media article*, in which a research analyst makes a recommendation or offers an opinion concerning an equity security.

(5) "Research analyst" means the associated person who is principally responsible for, and any associated person who reports directly or indirectly to such a research analyst in connection with, preparation of the substance of a research report, whether or not any such person has the job title of "research analyst." *Solely for purposes of paragraph (g), the term "research analyst" also includes such other persons as the director or research, supervisory analyst, or member of a committee who have direct influence or control with respect to (A) the preparation of research reports, or (B) establishing or changing a rating or price target of a subject company's equity securities.*

(6) through (7) No change.

(8) "Research report" means a written or electronic communication which includes an analysis of equity securities of individual companies or industries, and which provides information reasonably sufficient upon which to base an investment decision [and includes a recommendation].

(9) No change.

### (b) Restrictions on [Investment Banking Department] Relationships with Research Department

(1) No research analyst may be subject to the supervision or control of any employee of the member's investment banking department.

(2) Except as provided in paragraph (b)(3), no employee of the investment banking department or any other employee of the member who is not directly responsible for investment research ("non-research personnel"), other than legal or compliance personnel, may review or approve a

research report of the member before its publication.

(3) [Investment banking] *Non-research* personnel may review a research report before its publication as necessary only to verify the factual accuracy of information in the research report or [to review the research report for] *identify* any potential conflict of interest, provided that:

(A) any written communication between [investment banking] *non-research personnel* and research department personnel concerning [such] *the content* of a research report must be made either through [an] authorized legal or compliance [official] *personnel* of the member or in a transmission copied to such [an official] *personnel*; and

(B) any oral communication between [investment banking] *non-research personnel* and research department personnel concerning [such] *the content* of a research report must be documented and made either through [an] authorized legal or compliance [official] *personnel* acting as intermediary or in a conversation conducted in the presence of such [an official] *personnel*.

### (c) Restrictions on Review of a Research Report by the Subject Company

(1) No change.

(2) A member may submit sections of such a research report to the subject company before its publication for review as necessary only to verify the factual accuracy of information in those sections, provided that:

(A) No change.

(B) a complete draft of the research report is provided to [the] legal or compliance [department] *personnel* before sections of the report are submitted to the subject company; and

(C) if after submitting the sections of the research report to the subject company the research department intends to change the proposed rating or price target, it must first provide written justification to, and receive written authorization from, [the] legal or compliance [department] *personnel* for the change. The member must retain copies of any draft and the final version of such a research report for three years following its publication.

(3) No change.

(4) *No research analyst may issue a research report or make a public appearance concerning a subject company if the research analyst engaged in any communication with the subject company in furtherance of obtaining investment banking business prior to the time the subject company entered into a letter of intent or other*

*written agreement with the member designating the member as an underwriter of an initial public offering by the subject company. This provision shall not apply to any due diligence communication between the research analyst and the subject company, the sole purpose of which was to analyze the financial condition and business operations of the subject company.*

### (d) [Prohibition of Certain Forms of] Restrictions on Research Analyst Compensation

(1) No member may pay any bonus, salary or other form of compensation to a research analyst that is based upon a specific investment banking services transaction.

(2) *A research analyst's compensation must be reviewed and approved at least annually by a committee that reports to the member's board of directors, or when the member has no board of directors, to a senior executive officer of the member. This committee may not have representation from the member's investment banking department. The committee must consider the following factors when reviewing a research analyst's compensation, if applicable:*

(A) *the research analyst's individual performance, including the analyst's productivity and the quality of the analyst's research;*

(B) *the correlation between the research analyst's recommendations and the stock price performance; and*

(C) *the overall ratings received from clients, sales force, and peers independent of the member's investment banking department, and other independent ratings services.*

*The committee may not consider as a factor in determining the research analyst's compensation his or her contributions to the member's investment banking business. The committee must document the basis upon which each research analyst's compensation was established. The annual attestation required by Rule 2711(i) must certify that the committee reviewed and approved each research analyst's compensation and documented the basis upon which this compensation was established.*

(e) No change.

### (f) [Imposition of Quiet Periods] Restrictions on Publishing Research Reports and Public Appearances; Termination of Coverage

(1) No member may publish or otherwise distribute a research report regarding a subject company or recommend a subject company's securities in a public appearance for