

(4) "Debt security" means any "security" as defined in Section 3(a)(10) of the Exchange Act, except for any "equity security" as defined in Section 3(a)(11) of the Exchange Act, any "municipal security" as defined in Section 3(a)(29) of the Exchange Act, any "security-based swap" as defined in Section 3(a)(68) of the Exchange Act, and any "U.S. Treasury Security" as defined in paragraph (p) of Rule 6710.

(5) "Debt trader" means a person, with respect to transactions in debt securities, who is engaged in proprietary trading or the execution of transactions on an agency basis.

(6) "Independent third-party debt research report" means a third-party debt research report, in respect of which the person producing the report:

(A) has no affiliation or business or contractual relationship with the distributing member or that member's affiliates that is reasonably likely to inform the content of its research reports; and

(B) makes content determinations without any input from the distributing member or that member's affiliates.

(7) "Institutional investor" means any person that satisfies the requirements of paragraph (j)(1)(A) or (B) of this Rule.

(8) "Investment banking department" means any department or division, whether or not identified as such, that performs any investment banking service on behalf of a member.

(9) "Investment banking services" include, without limitation, acting as an underwriter, participating in a selling group in an offering for the issuer or otherwise acting in furtherance of a public offering of the issuer; acting as a financial adviser in a merger or acquisition; providing venture capital or equity lines of credit or serving as placement agent for the issuer or otherwise acting in furtherance of a private offering of the issuer.

(10) "Member of a debt research analyst's household" means any individual whose principal residence is the same as the debt research analyst's principal residence. This term shall not include an unrelated person who shares the same residence as a debt research analyst, provided that the debt research analyst and unrelated person are financially independent of one another.

(11) "Public appearance" means any participation in a conference call, seminar, forum (including an interactive electronic forum) or other public speaking activity before 15 or more persons or before one or more representatives of the media, a radio, television or print media interview, or the writing of a print media article, in which a debt research analyst makes a recommendation or offers an opinion concerning a debt security or an issuer of a debt security. This term shall not include a password protected Webcast, conference call or similar event with 15 or more existing customers, provided that all of the event participants previously received the most current debt research report or other documentation that contains the required applicable disclosures, and that the debt research analyst appearing at the event corrects and updates during the event any disclosures in the debt research report that are inaccurate, misleading or no longer applicable.

(12) "Qualified institutional buyer" has the same meaning as under Rule 144A of the Securities Act.

(13) "Retail investor" means any person other than an institutional investor.

(14) "Research department" means any department or division, whether or not identified as such, that is principally responsible for preparing the substance of a debt research report on behalf of a member.

(15) "Sales and trading personnel" includes persons in any department or division, whether or not identified as such, who perform any sales or trading service on behalf of a member.

(16) "Subject company" means the issuer whose debt securities are the subject of a debt research report or a public appearance.

(17) "Third-party debt research report" means a debt research report that is produced by a person or entity other than the member.

(b) Identifying and Managing Conflicts of Interest

(1) A member must establish, maintain and enforce written policies and procedures reasonably designed to identify and effectively manage conflicts of interest related to:

(A) the preparation, content and distribution of debt research reports;

(B) public appearances by debt research analysts; and

(C) the interaction between debt research analysts and those outside of the research department, including investment banking department personnel, sales and trading personnel, principal trading personnel, subject companies and customers;

(2) A member's written policies and procedures must be reasonably designed to promote objective and reliable debt research that reflects the truly held opinions of debt research analysts and to prevent the use of debt research reports or debt research analysts to manipulate or

condition the market or favor the interests of the member or a current or prospective customer or class of customers. Such policies and procedures must:

(A) prohibit prepublication review, clearance or approval of debt research reports by:

- (i) investment banking personnel;
- (ii) principal trading personnel; and
- (iii) sales and trading personnel;

(B) restrict or prohibit prepublication review, clearance or approval of debt research reports by other persons not directly responsible for the preparation, content and distribution of debt research reports, other than legal and compliance personnel;

(C) restrict or limit input by investment banking department, sales and trading and principal trading personnel into debt research coverage decisions to ensure that research management independently makes all final decisions regarding the research coverage plan;

(D) limit supervision of a debt research analyst to persons not engaged in:

- (i) investment banking services transactions (such persons shall also be precluded from input into the compensation of debt research analysts);
 - (ii) principal trading activities (such persons shall also be precluded from input into the compensation of debt research analysts);
- or
- (iii) sales and trading;

(E) limit determination of the debt research department budget to senior management, excluding senior management engaged in investment banking services or principal trading activities, and without regard to specific revenues or results derived from investment banking. Revenues and results of the firm as a whole, however, may be considered in determining the debt research department budget and allocation of debt research department expenses. Nothing in this provision shall require a member to prohibit any personnel from providing to senior management input regarding the demand for and quality of debt research, including product trends and customer interests;

(F) prohibit compensation based upon specific investment banking services or specific trading transactions or contributions to a member's investment banking services or principal trading activities;

(G) require that the compensation of a debt research analyst who is primarily responsible for the substance of a research report be reviewed and approved at least annually by a committee that reports to a member's board of directors, or if the member has no board of directors, a senior executive officer of the member. This committee may not have representation from investment banking personnel or persons engaged in principal trading activities and must consider the following factors when reviewing a debt research analyst's compensation, if applicable:

- (i) the debt research analyst's individual performance, including the analyst's productivity and the quality of the debt research analyst's research; and
- (ii) the overall ratings received from customers and peers (independent of the member's investment banking department and persons engaged in principal trading activities) and other independent ratings services.

Sales and trading personnel, but not personnel engaged in principal trading activities, may provide input to debt research management into the evaluation of the debt research analyst in order to convey customer feedback; provided, however, that final compensation determinations must be made by research management, subject to review and approval by the committee described in this subparagraph (G).

The committee must document the basis upon which each such research analyst's compensation was established, including any input from sales and trading;

(H) establish information barriers or other institutional safeguards reasonably designed to ensure that debt research analysts are insulated from the review, pressure or oversight by persons engaged in:

- (i) investment banking services;
- (ii) principal trading or sales and trading activities; and
- (iii) other persons who might be biased in their judgment or supervision;

(I) prohibit direct or indirect retaliation or threat of retaliation against debt research analysts by any employee of the member as the result of an adverse, negative, or otherwise unfavorable debt research report or public appearance written or made by the debt research analyst that may adversely affect the member's present or prospective business interests;

(J) restrict or limit debt research analyst account trading in securities, any derivatives of such securities and any fund whose performance is materially dependent upon the performance of securities covered by the debt research analyst, including:

(i) ensuring that debt research analyst accounts, supervisors of debt research analysts and associated persons with the ability to influence the content of debt research reports do not benefit in their trading from knowledge of the content or timing of a debt research report before the intended recipients of such debt research have had a reasonable opportunity to act on the information in the debt research report; and

(ii) providing that no debt research analyst account may purchase or sell any security or any option on or derivative of such security in a manner inconsistent with the research analyst's recommendation as reflected in the most recent debt research report published by the member, and defining financial hardship circumstances, if any (e.g., unanticipated significant change in the personal financial circumstances of the beneficial owner of the research analyst account), in which the member will permit a debt research analyst account to trade in a manner inconsistent with such research analyst's most recently published recommendation;

(K) prohibit explicit or implicit promises of favorable debt research, a particular debt research rating or recommendation or specific debt research content as inducement for the receipt of business or compensation;

(L) restrict or limit activities by debt research analysts that can reasonably be expected to compromise their objectivity, including prohibiting:

(i) participation in pitches and other solicitations of investment banking services transactions; and

(ii) participation in road shows and other marketing on behalf of an issuer related to an investment banking services transaction;

(M) prohibit investment banking department personnel from directly or indirectly:

(i) directing a debt research analyst to engage in sales or marketing efforts related to an investment banking services transaction; and

(ii) directing a debt research analyst to engage in any communication with a current or prospective customer about an investment banking services transaction;

(N) prohibit prepublication review of a debt research report by a subject company for purposes other than verification of facts.

(c) Content and Disclosure in Debt Research Reports

(1) A member must establish, maintain and enforce written policies and procedures reasonably designed to ensure that:

(A) purported facts in its debt research reports are based on reliable information; and

(B) any recommendation or rating has a reasonable basis and is accompanied by a clear explanation of any valuation method used and a fair presentation of the risks that may impede achievement of the recommendation or rating.

(2) A member that employs a rating system must clearly define in each debt research report the meaning of each rating in the system, including the time horizon and any benchmarks on which a rating is based. The definition of each rating must be consistent with its plain meaning.

(A) Irrespective of the rating system a member employs, a member must include in each debt research report limited to the analysis of an issuer of a debt security that includes a rating of the subject company the percentage of all subject companies rated by the member to which the member would assign a "buy," "hold" or "sell" rating.

(B) A member must disclose in each debt research report the percentage of subject companies within each of the "buy," "hold" and "sell" categories for which the member has provided investment banking services within the previous 12 months.

(C) The information required in paragraphs (c)(2)(A) and (B) of this Rule must be current as of the end of the most recent calendar quarter or the second most recent calendar quarter if the publication date of the debt research report is less than 15 calendar days after the most recent calendar quarter.

(3) If a debt research report limited to the analysis of an issuer of a debt security contains a rating for the subject company, and the member has assigned a rating to such subject company for at least one year, the debt research report must show each date on which a member has assigned a rating and the rating assigned on such date. The member must include this information for the period that the member has assigned any rating or for a three-year period, whichever is shorter.

(4) A member must disclose in any debt research report at the time of publication or distribution of the report:

(A) if the debt research analyst or a member of the debt research analyst's household has a financial interest in the debt or equity securities of the subject company (including, without limitation, any option, right, warrant, future, long or short position), and the nature of such interest;

(B) if the debt research analyst has received compensation based upon (among other factors) the member's investment banking, sales and trading or principal trading revenues;

(C) if the member or any of its affiliates:

(i) managed or co-managed a public offering of securities for the subject company in the past 12 months;

(ii) received compensation for investment banking services from the subject company in the past 12 months; or

(iii) expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months;

(D) if, as of the end of the month immediately preceding the date of publication or distribution of a debt research report (or the end of the second most recent month if the publication date is less than 30 calendar days after the end of the most recent month) the member or its affiliates have received from the subject company any compensation for products or services other than investment banking services in the previous 12 months;

(E) if the subject company is, or over the 12-month period preceding the date of publication or distribution of the debt research report has been, a client of the member, and if so, the types of services provided to the issuer. Such services, if applicable, shall be identified as either investment banking services, non-investment banking securities-related services or non-securities services;

(F) if the member trades or may trade as principal in the debt securities (or in related derivatives) that are the subject of the debt research report;

(G) if the debt research analyst received any compensation from the subject company in the previous 12 months; and

(H) any other material conflict of interest of the debt research analyst or member that the debt research analyst or an associated person of the member with the ability to influence the content of a debt research report knows or has reason to know at the time of the publication or distribution of a debt research report.

(5) A member or debt research analyst will not be required to make a disclosure required by paragraph (c)(4) of this Rule to the extent such disclosure would reveal material non-public information regarding specific potential future investment banking transactions.

(6) Except as provided in subparagraph (7), the disclosures required by this paragraph (c) must be presented on the front page of debt research reports or the front page must refer to the page on which the disclosures are found. Electronic debt research reports may provide a hyperlink directly to the required disclosures. All disclosures and references to disclosures required by this Rule must be clear, comprehensive and prominent.

(7) A member that distributes a debt research report covering six or more subject companies (a "compendium report") may direct the reader in a clear manner as to where the reader may obtain applicable current disclosures required by this paragraph (c). Electronic compendium reports must include a hyperlink to the required disclosures. Paper-based compendium reports must provide either a toll-free number to call or a postal address to request the required disclosures and also may include a web address of the member where the disclosures can be found.

(d) Disclosure in Public Appearances

(1) A debt research analyst must disclose in public appearances:

(A) if the debt research analyst or a member of the debt research analyst's household has a financial interest in the debt or equity securities of the subject company (including, without limitation, whether it consists of any option, right, warrant, future, long or short position), and the nature of such interest;

(B) if, to the extent the debt research analyst knows or has reason to know, the member or any affiliate received any compensation from the subject company in the previous 12 months;

(C) if the debt research analyst received any compensation from the subject company in the previous 12 months;

(D) if, to the extent the debt research analyst knows or has reason to know, the subject company currently is, or during the 12-month period preceding the date of publication or distribution of the debt research report, was, a client of the member. In such cases, the debt research analyst also must disclose the types of services provided to the subject company, if known by the debt research analyst; or

(E) any other material conflict of interest of the debt research analyst or member that the debt research analyst knows or has reason to know at the time of the public appearance.

(2) A member or debt research analyst will not be required to make a disclosure required by this paragraph (d) to the extent such disclosure would reveal material non-public information regarding specific potential future investment banking transactions.

(3) Members must maintain records of public appearances by debt research analysts sufficient to demonstrate compliance by those debt research analysts with the applicable disclosure requirements in this paragraph (d). Such records must be maintained for at least three years from the date of the public appearance.

(e) Disclosure Required by Other Provisions

In addition to the disclosures required by paragraphs (c) and (d) of this Rule, members and debt research analysts must comply with all applicable disclosure provisions of Rule 2210 and the federal securities laws.

(f) Distribution of Member Research Reports

A member must establish, maintain and enforce written policies and procedures reasonably designed to ensure that a debt research report is not distributed selectively to trading personnel or a particular customer or class of customers in advance of other customers that the member has previously determined are entitled to receive the debt research report.

(g) Distribution of Third-Party Debt Research Reports

(1) A member may not distribute third-party debt research if it knows or has reason to know such research is not objective or reliable.

(2) A member must establish, maintain and enforce written policies and procedures reasonably designed to ensure that any third-party debt research report it distributes contains no untrue statement of material fact and is otherwise not false or misleading. For the purposes of this paragraph (g)(2) only, a member's obligation to review a third-party debt research report extends to any untrue statement of material fact or any false or misleading information that:

(A) should be known from reading the debt research report; or

(B) is known based on information otherwise possessed by the member.

(3) A member must accompany any third-party debt research report it distributes with, or provide a web address that directs a recipient to, disclosure of any material conflict of interest that can reasonably be expected to have influenced the choice of a third-party debt research report provider or the subject company of a third-party debt research report, including the disclosures required by paragraphs (c)(4)(C), (c)(4)(F) and (c)(4)(H) of this Rule.

(4) A member shall not be required to review a third-party debt research report to determine compliance with paragraph (g)(2) of this Rule if such debt research report is an independent third-party debt research report.

(5) A member shall not be considered to have distributed a third-party debt research report for the purposes of paragraph (g)(3) where the research is an independent third-party debt research report and made available by a member (a) upon request; (b) through a member-maintained website; or (c) to a customer in connection with a solicited order in which the registered representative has informed the customer, during the solicitation, of the availability of independent debt research on the solicited debt security and the customer requests such independent debt research.

(6) A member must ensure that a third-party debt research report is clearly labeled as such and that there is no confusion on the part of the recipient as to the person or entity that prepared the debt research report.

(h) Exemption for Members with Limited Investment Banking Activity

The provisions of paragraphs (b)(2)(A)(i), (b)(2)(B), (b)(2)(C) (with respect to investment banking), (b)(2)(D)(i), (b)(2)(E) (with respect to investment banking), (b)(2)(G) and (b)(2)(H)(i) and (iii) of this Rule shall not apply to members that over the previous three 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 revenues from those transactions; provided, however, that with respect to paragraph (b)(2)(H)(i) and (iii) of this Rule, such members must establish information barriers or other institutional safeguards reasonably designed to ensure debt research analysts are insulated from pressure by persons engaged in investment banking services activities or other persons, including persons engaged in principal trading or sales and trading activities, who might be biased in their judgment or supervision. For the purposes of this paragraph (h), the term "investment banking services transactions" includes the underwriting of both corporate debt and equity securities but not municipal securities. Members that qualify for this exemption must maintain records sufficient to establish eligibility for the exemption and also maintain for at least three years any communication that, but for this exemption, would be subject to paragraphs (b)(2)(A)(i), (b)(2)(B), (b)(2)(C), (b)(2)(D)(i), (b)(2)(E), (b)(2)(G) and (b)(2)(H)(i) and (iii) of this Rule.

(i) Exemption for Limited Principal Trading Activity

The provisions of paragraphs (b)(2)(A)(ii) and (iii), (b)(2)(B), (b)(2)(C) (with respect to sales and trading and principal trading), (b)(2)(D)(ii) and (iii), (b)(2)(E) (with respect to principal trading), (b)(2)(G) and (b)(2)(H)(ii) and (iii) of this Rule shall not apply to members where (1) in absolute value on an annual basis, the member's trading gains or losses on principal trades in debt securities are \$15 million or less over the previous three years, on average per year; and (2) the member employs fewer than 10 debt traders; provided, however, that with respect to paragraph (b)(2)(H)(ii) and (iii) of this Rule, such members must establish information barriers or other institutional safeguards reasonably designed to ensure debt research analysts are insulated from pressure by persons engaged in principal trading or sales and trading activities or other persons who might be biased in their judgment or supervision. Members that qualify for this exemption must maintain records sufficient to establish eligibility for the exemption and also maintain for at least three years any communication that, but for this exemption, would be subject to paragraphs (b)(2)(A)(ii) and (iii), (b)(2)(B), (b)(2)(C), (b)(2)(D)(ii) and (iii), (b)(2)(E), (b)(2)(G) and (b)(2)(H)(ii) and (iii) of this Rule.

(j) Exemption for Debt Research Reports Provided to Institutional Investors

(1) Except as provided in paragraphs (j)(2) and (j)(3) of this Rule, the provisions of this Rule shall not apply to the distribution of a debt research report to:

(A) A qualified institutional buyer where, pursuant to Rule 2111(b):

(i) the member or associated person has a reasonable basis to believe that the qualified institutional buyer is capable of evaluating investment risks independently, both in general and with regard to particular transactions and investment strategies involving a debt security or debt securities; and

(ii) such qualified institutional buyer has affirmatively indicated that it is exercising independent judgment in evaluating the member's recommendations pursuant to Rule 2111 and such affirmation covers transactions in debt securities; so long as the member has provided written disclosure to the qualified institutional buyer that the member may provide debt research reports that are intended for institutional investors and that are not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors. If the qualified institutional buyer does not contact the member to request that such institutional debt research not be provided, the member may reasonably conclude that the qualified institutional buyer has consented to receiving debt institutional research reports; or

(B) a person that meets the definition of "institutional account" in Rule 4512(c); provided that such person, prior to receipt of a debt research report, has affirmatively notified the member in writing that it wishes to receive institutional debt research and forego treatment as a retail investor for the purposes of this Rule.

(2) Notwithstanding paragraph (j)(1) of this Rule, a member must establish, maintain and enforce written policies and procedures reasonably designed to identify and effectively manage conflicts of interest described in paragraphs (b)(2)(A)(i), (b)(2)(H) (with respect to pressuring), (b)(2)(I), (b)(2)(K), (b)(2)(L), (b)(2)(M), (b)(2)(N) and Supplementary Material .02(a) of this Rule.

(3) Notwithstanding paragraph (j)(1) of this Rule, a member that distributes third-party debt research reports to institutional investors pursuant to this exemption must establish, maintain and enforce written policies and procedures reasonably designed to comply with paragraphs (g)(1), (g)(2), (g)(4) and (g)(6) of this Rule.

(4) Debt research reports provided to institutional investors pursuant to this exemption ("institutional debt research") must disclose prominently on the first page that:

(A) "This document is intended for institutional investors and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors."

(B) If applicable, "The views expressed in this report may differ from the views offered in [Firm's] debt research reports prepared for retail investors."

(C) If applicable, "This report may not be independent of [Firm's] proprietary interests. [Firm] trades the securities covered in this report for its own account and on a discretionary basis on behalf of certain clients. Such trading interests may be contrary to the recommendation(s) offered in this report."

(5) Notwithstanding paragraph (j)(4) of this Rule, a member that distributes third-party debt research reports to institutional investors pursuant to this exemption must disclose prominently the disclosures required by paragraphs (j)(4)(A) and (j)(4)(C) of this Rule.

(6) A member must establish, maintain and enforce written policies and procedures reasonably designed to ensure that institutional debt research is made available only to eligible institutional investors. A member may not rely on this exemption with respect to a debt research report that the member has reason to believe will be redistributed to a retail investor.

(7) This paragraph (j) does not relieve a member of its obligations to comply with the antifraud provisions of the federal securities laws and FINRA rules.

(k) Exemption for Good Cause

Pursuant to the Rule 9600 Series, FINRA may in exceptional and unusual circumstances, conditionally or unconditionally grant an exemption from any requirement of this Rule for good cause shown after taking into account all relevant factors, to the extent such exemption is consistent with the purposes of the Rule, the protection of investors, and the public interest.

• • • **Supplementary Material:** -----

.01 Efforts to Solicit Investment Banking Business. FINRA interprets paragraph (b)(2)(L)(i) of this Rule to prohibit in pitch materials any information about a member's debt research capacity in a manner that suggests, directly or indirectly, that the member might provide favorable debt research coverage. For example, FINRA would consider the publication in a pitch book or related materials of an analyst's industry ranking to imply the potential outcome of future research because of the manner in which such rankings are compiled. On the other hand, a member would be permitted to include in the pitch materials the fact of coverage and the name of the debt research analyst because such information alone does not imply favorable coverage. Members must consider whether the facts and circumstances of any solicitation or engagement would warrant disclosure under Section 17(b) of the Securities Act.

.02 Restrictions on Communications with Customers and Internal Personnel

(a) Consistent with the requirements of paragraph (b)(2)(M) of this Rule, no debt research analyst may engage in any communication with a current or prospective customer in the presence of investment banking department personnel or company management about an investment banking services transaction.

(b) FINRA interprets paragraph (b)(1)(C) of this Rule to, among other things, require that any written or oral communication by a debt research analyst with a current or prospective customer or internal personnel related to an investment banking services transaction must be fair, balanced and not misleading, taking into consideration the overall context in which the communication is made.

.03 Information Barriers between Research Analysts and Trading Desk Personnel

(a) FINRA interprets paragraph (b)(1)(C) of this Rule to, among other things, require members to establish, maintain and enforce written policies and procedures reasonably designed to prohibit:

(1) Sales and trading and principal trading personnel attempting to influence a debt research analyst's opinion or views for the purpose of benefiting the trading position of the firm, a customer or a class of customers; and

(2) Debt research analysts identifying or recommending specific potential trading transactions to sales and trading or principal trading personnel that are inconsistent with such debt research analyst's currently published debt research reports, or disclosing the timing of, or material investment conclusions in, a pending debt research report.

(b) The following communications between debt research analysts and sales and trading or principal trading personnel are permitted:

(1) Sales and trading and principal trading personnel may communicate customers' interests to a debt research analyst, so long as the debt research analyst does not respond by publishing debt research for the purpose of benefiting the trading position of the firm, a customer or a class of customers;

(2) Debt research analysts may provide customized analysis, recommendations or trade ideas to sales and trading and principal trading personnel and customers, provided that any such communications are not inconsistent with the analyst's currently published or pending debt research, and that any subsequently published debt research is not for the purpose of benefiting the trading position of the firm, a customer or a class of customers;

(3) Sales and trading and principal trading personnel may seek the views of debt research analysts regarding the creditworthiness of the issuer of a debt security and other information regarding an issuer of a debt security that is reasonably related to the price/performance of the debt security, so long as, with respect to any covered issuer, such information is consistent with the debt research analyst's published debt research report and consistent in nature with the types of communications that a debt research analyst might have with customers. In determining what is consistent with the debt research analyst's published debt research, a member may consider the context, including that the investment objectives or time horizons being discussed differ from those underlying the debt research analyst's published views; and

(4) Debt research analysts may seek information from sales and trading and principal trading personnel regarding a particular bond instrument, current prices, spreads, liquidity and similar market information relevant to the debt research analyst's valuation of a particular debt security.

(c) Communications between debt research analysts and sales and trading or principal trading personnel that are not related to sales and trading, principal trading or debt research activities may take place without restriction, unless otherwise prohibited.

.04 Disclosure of Compensation Received by Affiliates. A member may satisfy the disclosure requirement in paragraph (c)(4)(D) of this Rule with respect to receipt of non-investment banking services compensation by an affiliate by implementing written policies and procedures reasonably designed to prevent the debt research analyst and associated persons of the member with the ability to influence the content of debt research reports

from directly or indirectly receiving information from the affiliate as to whether the affiliate received such compensation. In addition, a member may satisfy the disclosure requirement in paragraph (c)(4)(C) of this Rule with respect to the receipt of investment banking compensation from a foreign sovereign by a non-U.S. affiliate of the member by implementing written policies and procedures reasonably designed to prevent the debt research analyst and associated persons of the member with the ability to influence the content of debt research reports from directly or indirectly receiving information from the non-U.S. affiliate as to whether such non-U.S. affiliate received or expects to receive such compensation from the foreign sovereign. However, a member must disclose compensation received by its affiliates from the subject company (including any foreign sovereign) in the past 12 months when the debt research analyst or an associated person with the ability to influence the content of a debt research report has actual knowledge that an affiliate received such compensation during that time period.

.05 Submission of Sections of a Draft Research Report for Factual Review.

Consistent with the requirements of paragraphs (b)(2)(B) and (N) of this Rule, sections of a draft debt research report may be provided to non-investment banking personnel, non-principal trading personnel, non-sales and trading personnel or to the subject company for factual review, if:

(a) the sections of the draft debt research report submitted do not contain the research summary, recommendation or rating;

(b) a complete draft of the debt research report is provided to legal or compliance personnel before sections of the report are submitted to non-investment banking personnel, non-principal trading personnel, non-sales and trading personnel or the subject company; and

(c) if, after submitting sections of the draft debt research report to non-investment banking personnel, non-principal trading personnel, non-sales and trading personnel or the subject company, the research department intends to change the proposed rating or recommendation, it must first provide written justification to, and receive written authorization from, legal or compliance personnel for the change. The member must retain copies of any draft and the final version of such debt research report for three years after publication.

.06 Distribution of Member Research Products. With respect to paragraph (f) of this Rule, a member may provide different debt research products and services to different classes of customers. For example, a member may offer one debt research product for those with a long-term investment horizon ("investor research") and a different debt research product for those customers with a short-term investment horizon ("trading research"). These products may lead to different recommendations or ratings, provided that each is consistent with the meaning of the member's ratings system for each respective product. However, a member may not differentiate a debt research product based on the timing of receipt of a recommendation, rating or other potentially market moving information, nor may a member label a debt research product with substantially the same content as a different debt research product as a means to allow certain customers to trade in advance of other customers. In addition, a member that provides different debt research products and services for different customers must inform its other customers that receive a research product that its alternative debt research products and services may reach different conclusions or recommendations that could impact the price of the debt security. Thus, for example, a member that offers trading research must inform its investment research customers that its trading research product may contain different recommendations or ratings that could result in short-term price movements contrary to the recommendation in its investment research.

.07 Ability to Influence the Content of a Debt Research Report. For the purposes of this Rule, an associated person with the ability to influence the content of a debt research report is an associated person who is required to review the content of the debt research report or has exercised authority to review or change the debt research report prior to publication or distribution. This term does not include legal or compliance personnel who may review a debt research report for compliance purposes but are not authorized to dictate a particular recommendation or rating.

.08 Obligations of Persons Associated with a Member. Consistent with Rule 0140, persons associated with a member must comply with such member's written policies and procedures as established pursuant to this Rule. In addition, consistent with Rule 0140, it shall be a violation of this Rule for an associated person to engage in the restricted or prohibited conduct to be addressed through the establishment, maintenance and enforcement of written policies and procedures required by this Rule or related Supplementary Material.

.09 Joint Due Diligence. FINRA interprets paragraph (b)(1)(C) to prohibit the performance of joint due diligence (i.e., confirming the adequacy of disclosure in offering or other disclosure documents for a transaction) by the debt research analyst in the presence of investment banking department personnel prior to the selection by the issuer of the underwriters for the investment banking services transaction.

.10 Divesting Research Analyst Holdings. With respect to paragraph (b)(2)(J)(ii), FINRA shall not consider a research analyst account to have traded in a manner inconsistent with a research analyst's recommendation where a member has instituted a policy that prohibits any research analyst from holding securities, or options on or derivatives of such securities, of the companies in the research analyst's coverage universe; provided that the member establishes a reasonable plan to liquidate such holdings consistent with the principles in paragraph (b)(2)(J)(i) and such plan is approved by the member's legal or compliance department.

.11 Distribution of Institutional Debt Research During Transition Period. A member may distribute institutional debt research to any person that meets the definition of "institutional account" in Rule 4512(c), other than a natural person, for a period of up to one-year after July 16, 2015 ("the transition period"). After the transition period, a member must have obtained the necessary consent in either paragraph (j)(1)(A) or (j)(1)(B) to distribute institutional debt research to a person. Natural persons that qualify as an institutional account under Rule 4512(c) must provide affirmative written consent to receive institutional debt research during the year transition period and thereafter. This Supplementary Material .11 shall automatically sunset at the end of the transition period.

.12 Distribution of Institutional Debt Research to Non-U.S. Investors. The requirements of paragraphs (j)(1)(A) and (B) of this Rule shall not apply to the distribution of an institutional debt research report by a non-U.S. affiliate of a member to a non-U.S. investor, provided that:

(a) The non-U.S. investor is not a customer of the member;

(b) The non-U.S. investor is a customer of the non-U.S. affiliate of the member; and

(c) The non-U.S. affiliate of the member has a reasonable basis to believe that the customer meets the definition of “institutional account” in Rule 4512(c).

.13 Distribution of Institutional Debt Research for Informational Purposes

(a) A member may distribute institutional debt research reports to the persons described in paragraph (c) of this Supplementary Material .13 for informational purposes unrelated to investing in debt securities, provided that the member does not distribute the reports prior to their publication and the member has disclosed that:

(1) The member may provide the recipient debt research reports that were prepared for institutional investors and are not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors; and

(2) The institutional debt research reports would be provided only for informational purposes and not for the purpose of making an investment decision related to debt securities.

(b) If the person receiving institutional debt research pursuant to this Supplementary Material .13 does not contact the member to request that such institutional debt research not be provided, the member may reasonably conclude that the person has consented to receiving debt institutional research according to the terms of this Supplementary Material .13.

(c) Institutional debt research may be distributed for informational purposes unrelated to investing in debt securities pursuant to this Supplementary Material .13 to:

(1) Regulators for regulatory purposes;

(2) Academics for academic purposes;

(3) Issuers for the purpose of enhancing knowledge of their industry and competitors and market and economic factors; and

(4) Media organizations for news gathering purposes.

.14 Public Appearances by Research Analysts. A member or debt research analyst will not be required to make a disclosure required by paragraph (d) of this Rule where attendance at the public appearance is limited to institutional investors eligible to receive institutional debt research pursuant to paragraph (j) of this Rule. Members must maintain records of public appearances by debt research analysts sufficient to demonstrate that attendance at the public appearance was limited to institutional investors eligible to receive institutional debt research pursuant to paragraph (j) of this Rule. Such records must be maintained for at least three years from the date of the public appearance.

Amended by SR-FINRA-2016-017 eff. July 16, 2016;

Adopted by SR-FINRA-2014-048, SR-FINRA-2016-008, and SR-FINRA-2016-013 eff. July 16, 2016.

Selected Notice: 15-31



2251. Processing and Forwarding of Proxy and Other Issuer-Related Materials

[The Rule](#)[Notices](#)

(a) A member shall process and forward promptly all information as required by this Rule and applicable SEC rules regarding a security to the beneficial owner (or the beneficial owner's designated investment adviser) if the member carries the account in which the security is held for the beneficial owner and the security is registered in a name other than the name of the beneficial owner.

(1) Equity Securities

For an equity security, the member, subject to paragraph (e) of this Rule and applicable SEC rules, shall process and forward:

(A) all proxy material, as provided in paragraph (c) of this Rule, that is furnished to the member by the issuer of the securities or a stockholder of such issuer; and

(B) all annual reports, information statements and other material sent to stockholders that are furnished to the member by the issuer of the securities.

(2) Debt Securities

For a debt security other than a municipal security, the member, subject to paragraph (e) of this Rule and applicable SEC rules, shall make reasonable efforts to process and forward any communication, document, or collection of documents pertaining to the issue that:

(A) was prepared by or on behalf of, the issuer, or was prepared by or on behalf of, the trustee of the specific issue of the security; and

(B) contains material information about such issue including, but not limited to, notices concerning monetary or technical defaults, financial reports, information statements, and material event notices.

(b) No member shall give a proxy to vote stock that is registered in its name, except as required or permitted under the provisions of paragraphs (c) or (d) of this Rule, unless such member is the beneficial owner of such stock.

(c)(1) Whenever an issuer or stockholder of such issuer soliciting proxies shall, subject to paragraph (e) of this Rule and applicable SEC rules, timely furnish to a member:

(A) sufficient copies of all soliciting material that such person is sending to registered holders, and

(B) satisfactory assurance that he or she will reimburse such member for all out-of-pocket expenses, including reasonable clerical expenses incurred by such member in connection with such solicitation, such member shall process and transmit promptly to each beneficial owner of stock of such issuer (or the beneficial owner's designated investment adviser) that is in its possession or control and registered in a name other than the name of the beneficial owner, all such material furnished. Such material shall include a signed proxy indicating the number of shares held for such beneficial owner and bearing a symbol identifying the proxy with proxy records maintained by the member, and a letter informing the beneficial owner (or the beneficial owner's designated investment adviser) of the time limit and necessity for completing the proxy form and processing and forwarding it to the person soliciting proxies prior to the expiration of the time limit in order for the shares to be represented at the meeting. A member shall furnish a copy of the symbols to the person soliciting the proxies and shall also retain a copy thereof pursuant to the provisions of SEA Rule 17a-4.

(2) Notwithstanding the provisions of paragraph (c)(1) of this Rule, a member may give a proxy to vote any stock pursuant to the rules of any national securities exchange of which it is a member provided that the records of the member clearly indicate the procedure it is following.

(3) This paragraph (c) shall not apply to beneficial owners residing outside of the United States, although members may voluntarily comply with the provisions hereof in respect to such persons if they so desire.

(d)(1) A member may give a proxy to vote any stock registered in its name if such member holds such stock as executor, administrator, guardian, trustee, or in a similar representative or fiduciary capacity with authority to vote.

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(2) A member that has in its possession or within its control stock registered in the name of another member and that desires to process and transmit signed proxies pursuant to the provisions of paragraph (c) of this Rule, shall obtain the requisite number of signed proxies from such holder of record.

(3) Notwithstanding the foregoing,

(A) any member designated by a named Employee Retirement Income Security Act of 1974 (as amended) ("ERISA") Plan fiduciary as the investment manager of stock held as assets of the ERISA Plan may vote the proxies in accordance with the ERISA Plan fiduciary responsibilities if the ERISA Plan expressly grants discretion to the investment manager to manage, acquire, or dispose of any plan asset and has not expressly reserved the proxy voting right for the named ERISA Plan fiduciary; and

(B) any designated investment adviser may vote such proxies.

(e)(1) As required in paragraph (a) of this Rule, a member must process and forward promptly the material set forth in paragraph (a)(1), in connection with an equity security, or must make reasonable efforts to process and forward promptly the material set forth in paragraph (a)(2), in connection with a debt security, provided that the member:

(A) is furnished with sufficient copies of the material (e.g., annual reports, information statements or other material sent to security holders) by the issuer, stockholder, or trustee;

(B) is requested by the issuer, stockholder, or trustee to process and forward the material to security holders; and,

(C) receives satisfactory assurance that it will be reimbursed, consistent with Rule 2251.01 and applicable SEC rules, by such issuer, stockholder, or trustee for all out-of-pocket expenses, including reasonable clerical expenses.

(2) This paragraph (e) shall not apply to beneficial owners residing outside of the United States although members may voluntarily comply with the provisions hereof in respect to such persons if they so desire.

(f) For purposes of this Rule, the term "designated investment adviser" is a person registered under the Investment Advisers Act, or registered as an investment adviser under the laws of a state, who exercises investment discretion pursuant to an advisory contract for the beneficial owner and is designated in writing by the beneficial owner to receive proxy and related materials and vote the proxy, and to receive annual reports and other material sent to security holders.

(1) For purposes of this Rule, the term "state" shall have the meaning given to such term in Section 202(a)(19) of the Investment Advisers Act (as the same may be amended from time to time).

(2) The written designation must be signed by the beneficial owner; be addressed to the member; and include the name of the designated investment adviser.

(3) Members that receive such a written designation from a beneficial owner must ensure that the designated investment adviser is registered with the SEC pursuant to the Investment Advisers Act, or with a state as an investment adviser under the laws of such state, and that the investment adviser is exercising investment discretion over the customer's account pursuant to an advisory contract to vote proxies and/or to receive proxy soliciting material, annual reports and other material. Members must keep records substantiating this information.

(4) Beneficial owners have an unqualified right at any time to rescind designation of the investment adviser to receive materials and to vote proxies. The rescission must be in writing and submitted to the member.

(g) The Board of Governors for the guidance of members is authorized to establish a suggested rate of reimbursement of members for expenses incurred in connection with processing and transmitting the proxy solicitation to the beneficial owners of the securities pursuant to paragraph (c) of this Rule or in processing and transmitting information statements or other material to the beneficial owners of securities pursuant to paragraph (e) of this Rule.

••• Supplementary Material: -----

.01 Approved Rates of Reimbursement

(a) The following approved rates of reimbursement for expenses incurred in processing and forwarding proxy material, annual reports, information statements and other material shall be considered reasonable rates of reimbursement. In addition to the charges specified in this Supplementary Material, members also are entitled to receive reimbursement for: (1) actual postage costs (including return postage at the lowest available rate); (2) the actual cost of envelopes (provided they are not furnished by the issuer, the trustee, or a person soliciting proxies); and (3) any actual communication expenses (excluding overhead) incurred in receiving voting returns either telephonically or electronically.

(1) Basic Processing and Intermediary Unit Fees

(A) Definitions: For purposes of this Supplementary Material:

(i) the term "nominee" shall mean a broker or bank subject to SEA Rule 14b-1 or Rule 14b-2, respectively;

(ii) the term "intermediary" shall mean a proxy service provider that coordinates the distribution of proxy or other materials for multiple nominees.

(B)

(i) For each set of proxy material, i.e., proxy statement, form of proxy and annual report when processed as a unit, a Processing Unit Fee based on the following schedule according to the number of nominee accounts through which the issuer's securities are beneficially owned:

- a. 50 cents for each account up to 10,000 accounts;
- b. 47 cents for each account above 10,000 accounts, up to 100,000 accounts;
- c. 39 cents for each account above 100,000 accounts, up to 300,000 accounts;
- d. 34 cents for each account above 300,000 accounts, up to 500,000 accounts;
- e. 32 cents for each account above 500,000 accounts.

To clarify, under this schedule, a member may charge the issuer the tier one rate for the first 10,000 accounts, or portion thereof, with decreasing rates applicable only on additional accounts in the additional tiers. References in this Supplementary Material to the number of accounts means the number of accounts holding securities of the issuer at any nominee that is providing distribution services without the services of an intermediary, or when an intermediary is involved, the aggregate number of nominee accounts with beneficial ownership in the issuer served by the intermediary.

(ii) In the case of a meeting for which an opposition proxy has been furnished to security holders, the Processing Unit Fee shall be \$1.00 per account, in lieu of the fees in the above schedule.

(C) The following are supplemental fees for intermediaries:

(i) \$22.00 for each nominee served by the intermediary that has at least one account beneficially owning shares in the issuer;

(ii) an Intermediary Unit Fee for each set of proxy material, based on the following schedule according to the number of nominee accounts through which the issuer's securities are beneficially owned:

- a. 14 cents for each account up to 10,000 accounts;
- b. 13 cents for each account above 10,000 accounts, up to 100,000 accounts;
- c. 11 cents for each account above 100,000 accounts, up to 300,000 accounts;
- d. 9 cents for each account above 300,000 accounts, up to 500,000 accounts;
- e. 7 cents for each account above 500,000 accounts.

To clarify, under this schedule, a member may charge the issuer the tier one rate for the first 10,000 accounts, or portion thereof, with decreasing rates applicable only on additional accounts in the additional tiers.

(iii) For special meetings, the Intermediary Unit Fee shall be based on the following schedule, in lieu of the fees described in (ii) above:

- a. 19 cents for each account up to 10,000 accounts;
- b. 18 cents for each account above 10,000 accounts, up to 100,000 accounts;
- c. 16 cents for each account above 100,000 accounts, up to 300,000 accounts;
- d. 14 cents for each account above 300,000 accounts, up to 500,000 accounts;
- e. 12 cents for each account above 500,000 accounts.

To clarify, under this schedule, a member may charge the issuer the tier one rate for the first 10,000 accounts, or portion thereof, with decreasing rates applicable only on additional accounts in the additional tiers. For purposes of this paragraph, a special meeting is a meeting other than the issuer's meeting for the election of directors.

(iv) In the case of a meeting for which an opposition proxy has been furnished to security holders, the Intermediary Unit Fee shall be 25 cents per account, with a minimum fee of \$5,000.00 per soliciting entity, in lieu of the fees described in (ii) or (iii) above, as the case may be. Where there are separate solicitations by management and an opponent, the opponent is to be separately billed for the costs of its solicitation.

(2) Charges for Proxy Follow-Up Material

For each set of follow-up material, a Processing Unit Fee of 40 cents per account, except for those relating to an issuer's annual meeting for the election of directors, for which the Processing Unit Fee shall be 20 cents per account.

(3) Charge for Providing Beneficial Ownership Information

Six and one-half cents per name of non-objecting beneficial owner ("NOBO") provided to the issuer pursuant to the issuer's request. Where the non-objecting beneficial ownership information is not furnished directly to the issuer by the member, but is furnished through an agent designated by the member, the issuer will be expected to pay in addition the following fee to the agent:

- (A) 10 cents per name for the first 10,000 names or portion thereof;
- (B) 5 cents per name for additional names up to 100,000 names; and
- (C) 4 cents per name above 100,000;

with a minimum fee of \$100 per requested list.

Any member that designates an agent for the purpose of furnishing requesting issuers with beneficial ownership information pursuant to SEA Rule 14b-1(c) and thereafter cancels that designation or appoints a new agent for such purpose should promptly inform interested issuers.

When an issuer requests beneficial ownership information as of a date which is the record date for an annual or special meeting or a solicitation of written shareholder consent, the issuer may ask to eliminate names holding more or less than a specified number of shares, or names of shareholders that have already voted, and the issuer may not be charged a fee for the NOBO names so eliminated. In all other cases the issuer may be charged for all the names in the NOBO list.

(4) Charges for Interim Report, Post Meeting Report and Other Material

For interim reports, annual reports if processed separately, post meeting reports, or other material, a Processing Unit Fee of 15 cents per account.

(5) Preference Management Fees

With respect to each account for which the nominee has eliminated the need to send materials in paper format through the mails (or by courier service), a Preference Management Fee in the following amount:

(A) For each set of proxy material described in paragraph (a)(1)(B) of this Supplementary Material, 32 cents; provided, however, that if the account is a Managed Account (as defined in paragraph (a)(7) of this Supplementary Material), the Preference Management Fee shall be 16 cents.

(B) For each set of material described in either paragraph (a)(2) or paragraph (a)(4) of this Supplementary Material, the Preference Management Fee shall be 10 cents.

To clarify, the Preference Management Fee is in addition to, and not in lieu of, the other fees provided for in this Supplementary Material.

(6) Notice and Access Fees

When an issuer elects to utilize Notice and Access for a proxy distribution, there is an incremental fee based on all nominee accounts through which the issuer's securities are beneficially owned as follows:

(A) 25 cents for each account up to 10,000 accounts;

(B) 20 cents for each account over 10,000 accounts, up to 100,000 accounts;

(C) 15 cents for each account over 100,000 accounts, up to 200,000 accounts;

(D) 10 cents for each account over 200,000 accounts, up to 500,000 accounts;

(E) 5 cents for each account over 500,000 accounts.

To clarify, under this schedule, a member may charge the issuer the tier one rate for the first 10,000 accounts, or portion thereof, with decreasing rates applicable only on additional accounts in the additional tiers.

Follow up notices will not incur an incremental fee for Notice and Access.

No incremental fee will be imposed for fulfillment transactions (i.e., a full package sent to a notice recipient at the recipient's request), although out of pocket costs such as postage will be passed on as in ordinary distributions.

(7) Fee Exclusion in Certain Circumstances

Notwithstanding any other provision of this Supplementary Material, no fee shall be imposed for a nominee account that is a Managed Account (as hereinafter defined) and contains five or fewer shares or units of the security involved.

For purposes of this Supplementary Material, the term "Managed Account" shall mean an account at a nominee which is invested in a portfolio of securities selected by a professional adviser, and for which the account holder is charged a separate asset-based fee for a range of services which may include ongoing advice, custody and execution services. The adviser can be either employed by or affiliated with the nominee, or a separate investment advisor contracted for the purpose of selecting investment portfolios for the managed account. Requiring that investments or changes to the account be approved by the client shall not preclude an account from being a "Managed Account," nor shall the fact that commissions or transaction-based charges are imposed in addition to the asset-based fee.

Notwithstanding any other provision of this Supplementary Material, no fee shall be imposed for any nominee account which contains only a fractional share, i.e., less than one share or unit of the security involved.

(8) Enhanced Brokers' Internet Platform Fee

During the period ending December 31, 2018, there shall be a supplemental fee of 99 cents for each new account that elects, and each full package recipient among a brokerage firm's accounts that converts to, electronic delivery while having access to an Enhanced Brokers' Internet Platform ("EBIP"). This fee does not apply to electronic delivery consents captured by issuers (for example, through an open-