

# Research Objectivity Standards





Setting the global standard for investment professionals

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## CFA Institute Research Objectivity Standards

### Guiding Principles

CFA Institute has been concerned for some time that allegations of ethical misconduct and lack of objectivity and independence of research analysts weaken investor confidence in the financial markets and taint the reputations of all investment professionals. CFA Institute believes that the vast majority of investment professionals, particularly CFA Institute members who must attest annually to their adherence to the CFA Institute *Code of Ethics* and *Standards of Professional Conduct*, have professional integrity and should be able to conduct their professional activities free from pressure to bias their research and recommendations.

Therefore, the guiding principles that support the CFA Institute-ROS directly reflect the CFA Institute *Code of Ethics*:

- To act with integrity, competence, dignity, and in an ethical manner when dealing with the public, clients, prospects, employers, employees, and fellow CFA Institute members.
- **To practice and encourage others to practice in a professional and ethical manner that will reflect credit on CFA Institute members and their profession.** [emphasis added]
- To strive to maintain and improve their competence and the competence of others in the profession.
- To use reasonable care and exercise independent judgment.

These principles, in concert with the CFA Institute mission “to advance the interests of the global investment community by establishing and maintaining the highest standards of professional excellence and integrity,” provide the motivation and philosophical basis for undertaking this project to develop the CFA Institute-ROS.

## **Comparison with the New York Stock Exchange and National Association of Securities Dealers Rules**

In the United States, the New York Stock Exchange (NYSE) and the National Association of Securities Dealers (NASD) recently issued new rules for their members relating to the issues of analyst independence and objectivity. CFA Institute commented on the adequacy of these rules when proposed by the NYSE, NASD, and the U.S. Securities and Exchange Commission. CFA Institute was generally supportive of these rules, which closely reflect the recommendations of the CFA Institute Task Force on Analyst Independence and the CFA Institute-ROS in their draft form. (The CFA Institute comment letter is posted on the CFA Institute web site: [http://www.aimr.org/advocacy/.](http://www.aimr.org/advocacy/))

Despite the implementation of the NYSE/NASD rules, CFA Institute still sees a definite need to go forward with the CFA Institute-ROS. As a global organization, CFA Institute believes that the ethical conflicts facing research analysts are worldwide and not just relevant to those working in the United States. The CFA Institute-ROS are designed so that there will be no conflict for firms between the NYSE/NASD rules and the CFA Institute-ROS.

## **Overview of the CFA Institute Research Objectivity Standards**

The CFA Institute-ROS are intended to be specific, measurable standards for managing and disclosing conflicts of interest that may impede a research analyst's ability to conduct independent research and make objective recommendations. Based on the ethical principles of placing the interests of investing clients before one's own, or the firm's, and of full and fair disclosure of conflicts of interest, the CFA Institute-ROS provide ethical standards and accompanying specific recommended practices to guide investment firms worldwide, and their respective employees, in achieving objectivity and independence of research reports.

Firms that adopt the CFA Institute-ROS demonstrate their commitment to manage conflicts of interest effectively and to provide full and fair disclosure of these conflicts to all investors who have access to their research. CFA Institute believes that firms that claim adoption will benefit from the competitive advantage that a commitment to, and reputation for, integrity yields.

A fundamental principle of ethical investment practice is that the best interests of the investing client must always take precedence over the interests of investment professionals and their employers. Every investment professional is personally responsible for ensuring that his or her independence and objectivity is maintained when preparing research reports, making investment recommendations, and taking investment action on behalf of clients. The CFA Institute Code of Ethics and Standards

of Professional Conduct (CFA Institute Code and Standards), to which all CFA Institute members, Chartered Financial Analyst™ (CFA®) charterholders, and CFA candidates must adhere, already embody these principles. Therefore, the CFA Institute-ROS are designed to complement, not replace, the CFA Institute Code and Standards. CFA Institute believes that firms that comply with the CFA Institute-ROS will provide an appropriate working environment for their investment professionals -- one that promotes ethical behavior and facilitates compliance with the CFA Institute Code and Standards.

Adoption of the CFA Institute-ROS cannot ensure the accuracy of research reports and recommendations. Future events are inherently uncertain. Regardless of the comprehensiveness and sophistication of the methodology used in the financial analysis, the actual event will often differ from the forecast on which investment recommendations are made. However, CFA Institute believes that firms that adopt the CFA Institute-ROS will instill confidence in investors and demonstrate that their research and recommendations have a reasonable and adequate basis, clearly differentiate between fact and opinion, and fully convey the opinion of the author(s).

Finally, CFA Institute recognizes that no finite set of guidelines or recommended practices will be exhaustive, nor will it address all future developments in the investment industry's structure and practices. Good ethics is always a work-in-progress. Therefore, CFA Institute encourages firms that adopt the CFA Institute-ROS to strive continuously to comply not only with the principles set forth in the Standards themselves, but also with the recommended procedures for compliance. In doing so, CFA Institute recommends that firms work to achieve the following objectives when designing policies and procedures to implement the CFA Institute-ROS:

- A. To prepare research reports, make investment recommendations, and take investment actions; and develop policies, procedures, and disclosures that always place the interests of investing clients before their employees' or the firm's interests.
- B. To facilitate full, fair, meaningful, and specific disclosures of potential and actual conflicts of interest of the firm or its employees to its current and prospective clients.
- C. To promote the creation and maintenance of effective policies and procedures that would minimize and manage conflicts of interest that may jeopardize the independence and objectivity of research.
- D. To support self-regulation through voluntary industry development of, and adherence to, specific, measurable, and demonstrable standards that promote and reward independent and objective research.

- E. To provide a work environment for all investment professionals that supports, encourages, and rewards ethical behavior and supports CFA Institute members, CFA charterholders, and CFA candidates in their adherence to the CFA Institute *Code and Standards*.

### *Definitions*

The following terms are used in the CFA Institute-ROS with the meanings specified:

**Compliance and legal department:** Department within a firm responsible for (1) implementing and enforcing a firm's policies and procedures and (2) ensuring that a firm and its employees are in compliance with applicable laws, rules, and regulations.

**Corporate issuer:** Company or corporation obtaining funding from public capital markets.

**Covered Employee:** Firm employee who (1) conducts research, writes research reports, and/or makes investment recommendations; or assists in the research process; (2) takes investment action on behalf of clients or the firm, or who comes in contact with investment recommendations or decisions during the decision-making process; or (3) may benefit, personally or professionally, from influencing research reports or recommendations.

**Immediate family:** Individual(s) whose principal residence is the same as the principal residence of the subject person.

**Investment Advisory Relationship:** Asset management relationship that entails entire, shared, or partial investment discretion over client funds.

**Investment banking:** Corporate finance activities, such as acting as an underwriter in an offering for a subject company, acting as a financial adviser in a merger or acquisition, providing venture capital, lines of credit or other similar products, making a market in a security, or serving as a placement agent for corporate issuers.

**Investment manager:** Individual employed by an investment management firm (e.g., mutual fund, investment adviser, pension funds) to research securities and/or take investment action to purchase or sell securities for client accounts or for the firm's own account, whether or not such person has the title of "investment manager."

**Personal investments and trading:** Purchases and sales of a particular security including maintaining long-, short-, and other derivative positions in which an individual has a financial interest.

**Public appearance:** Participation in a seminar; open forum (including an interactive electronic forum); radio, television, or other media interview; or other public speaking activity in which a research analyst or investment manager makes a recommendation or offers an opinion.

**Quiet period:** Period during which covered employees are prohibited from issuing research reports or recommendations on, and publicly speaking about, a specific subject company.

**Research analyst:** Person who is primarily responsible for, contributes to, or is connected with, the preparation of the substance of a research report or the basis for a recommendation, whether or not any such person has the title of “research analyst.”

**Research report:** Written or electronic communication that firms sell or distribute to clients or the general public, which presents information about a corporate issuer and may express an opinion or make a recommendation about the investment potential of the corporate issuer’s equity securities, fixed income securities, or derivatives of such securities.

**Restricted period:** A period of time during which a firm prohibits its covered employees from trading specified securities.

**Subject company:** Corporate issuer whose securities are the subject of a research report or recommendation.

**Supervisory analyst:** Designated person responsible for reviewing research reports to assess and maintain the quality and integrity of research reports.

## **Investment Banks, Broker-Dealers and Other Firms that Sell Research**

The following standards are applicable to firms, such as investment banks, broker-dealers, and independent research firms, that employ investment professionals to research issuers and make recommendations about these issuers' securities, and that sell these research reports and recommendations for either hard currency or soft commissions ("sell-side" firms).

### **REQUIREMENTS**

#### **1.0 Research Objectivity Policy**

**Firms must have:**

- (a) A formal written policy on the independence and objectivity of research (Policy) that must be:**
  - i. Made available to clients and prospective clients (both investing and corporate); and**
  - ii. Disseminated to all firm employees;**
- (b) Supervisory procedures that reasonably ensure that the firm and its covered employees comply with the provisions of the policy and all applicable laws and regulations; and**
- (c) A senior officer of the firm who attests annually to clients and prospective clients to the firm's implementation of, and adherence to, the Policy.**

#### **2.0 Public Appearances**

**Firms that permit research analysts and other covered employees to present and discuss their research and recommendations in public appearances must require these employees to fully disclose personal and firm conflicts of interest to the host or interviewer and, whenever possible, to the audience.**

#### **3.0 Reasonable and Adequate Basis**

**Firms must require research reports and recommendations to have a basis that can be substantiated as reasonable and adequate. An individual employee (supervisory analyst who is someone other than the author) or a group of employees (review committee) must be appointed to review and approve all research reports and recommendations.**

#### **4.0 Investment Banking**

**Firms that engage in, or collaborate on, investment banking activities must:**

- (a) Establish and implement effective policies and procedures that:
  - i. Segregate research analysts from the investment banking department; and**
  - ii. Ensure that investment banking objectives or employees do not have the ability to influence or affect research or recommendations;****
- (b) Implement reporting structures and review procedures that ensure that research analysts do not report to, and are not supervised or controlled by, investment banking or another department of the firm that could compromise the independence of the analyst; and**
- (c) Implement procedures that prevent investment banking or corporate finance departments from reviewing, modifying, approving, or rejecting research reports and recommendations on their own authority.**

#### **5.0 Research Analyst Compensation**

**Firms must establish and implement salary, bonus, and other compensation for research analysts that:**

- (a) Align compensation with the quality of the research and the accuracy of the recommendations over time; and**
- (b) Do not directly link compensation to investment banking or other corporate finance activities on which the analyst collaborated (either individually or in the aggregate).**

#### **6.0 Relationships with Subject Companies**

**Firms must implement policies and procedures that manage the working relationships that research analysts develop with the management of subject companies.**

**Research analysts must be prohibited from:**

- (a) **Sharing with, or communicating to, a subject company, prior to publication, any section of a research report that might communicate the research analyst's proposed recommendation, rating, or price target; and**
- (b) **Directly or indirectly promising a subject company or other corporate issuer a favorable report or a specific price target, or from threatening to change reports, recommendations, or price targets.**

## **7.0 Personal Investments and Trading**

**Firms must have policies and procedures that:**

- (a) **Manage covered employees' "personal investments and trading activities" effectively;**
- (b) **Ensure that covered employees do not share information about the subject company or security with any person who could have the ability to trade in advance of ("front run") or otherwise disadvantage investing clients;**
- (c) **Ensure that covered employees and members of their immediate families do not have the ability to trade in advance of or otherwise disadvantage investing clients relative to themselves or the firm;**
- (d) **Prohibit covered employees and members of their immediate families from trading in a manner that is contrary to, or inconsistent with, the employees' or the firm's most recent, published recommendations or ratings, except in circumstances of extreme financial hardship; and**
- (e) **Prohibit covered employees and members of their immediate families from purchasing or receiving securities prior to an IPO for subject companies and other companies in the industry or industries assigned.**

## **8.0 Timeliness of Research Reports and Recommendations**

**Firms must issue research reports on subject companies on a timely and regular basis.**

## **9.0 Compliance and Enforcement**

**Firms must:**

- (a) Have effective enforcement of their policies and compliance procedures to ensure research objectivity;**
- (b) Implement appropriate disciplinary sanctions for covered employees, up to and including dismissal from the firm, for violations;**
- (c) Monitor and audit the effectiveness of compliance procedures; and**
- (d) Maintain records of the results of internal audits.**

## **10.0 Disclosure**

**Firms must provide full and fair disclosure of all conflicts of interest to which the firm or its covered employees are subject.**

## **11.0 Rating System**

**Firms must establish a rating system that:**

- (a) Is useful for investors and for investment decision-making; and**
- (b) Provides investors with information for assessing the suitability of the security to their own unique circumstances and constraints.**

## **Recommended Procedures for Compliance**

### **1.0 Research Objectivity Policy**

An effective Research Objectivity Policy would clearly identify and describe the job title, function and department of covered employees. It should also identify whether covered employees are personally subject to a code of ethics and standards of professional conduct and provide the code and standards, if applicable. Covered employees should include those who conduct research, write research reports, and make recommendations, those who come in contact with research and recommendations, and those who may benefit from influencing research and recommendations.

Covered employees should be regularly trained on their responsibilities under the Policy and be required to attest annually in writing to their understanding of and adherence to it.

Full disclosure of the conflicts of interest that covered employees may face is a critical element of any Policy. These conflicts may include collaboration with investment banking or corporate finance; participation in marketing activities; necessary ongoing

working relationships with corporate issuers; personal investments and trading; and firm investments and trading. The Policy should discuss each conflict that a firm's covered employees may face and how the firm's policies and procedures manage those conflicts effectively.

Since compensation is a major motivator of employee decision-making and actions, the Policy should clearly describe the factors on which compensation of research analysts is based.

Firms should also disclose in the Policy the conditions under which a research report can be purchased or acquired by clients, prospective clients, and investors in general.

It is recommended that firms post the Policy on their web site for easy access by clients and prospective clients.

## **2.0 Public Appearances**

A public appearance includes participation in a seminar; forum (including an interactive electronic forum); radio, television, or other media interview; or other public speaking activity in which a research analyst makes a recommendation or offers an opinion.

At a minimum, firms that permit covered employees to present and discuss research and recommendations in public or open forums (whether the audience consists of investment professionals, investing clients, or the general investing public) have a responsibility to ensure that the audience of such presentations has sufficient information to make informed judgments about the objectivity of the research and recommendations. Firms should also recognize that their employees have a responsibility to provide sufficient information to the audience to assess the suitability of the investment in light of their specific circumstances and constraints. Speakers should remind audience members to judge the suitability of the investment in light of their own unique situation.

Covered employees who make public appearances should be prepared to make full disclosure of all conflicts of interest, either their own or their firms', about which they could reasonably be expected to know. Firms should require research analysts who participate in public appearances to make the following disclosures to the interviewer or the audience as appropriate: (1) whether the research analyst knows (or has reason to know) whether the subject company is an investment banking or other corporate finance client of the firm; and (2) whether the research analyst has participated, or is participating, in marketing activities for the subject company.

Firms should provide the full research reports on the subject companies discussed to members of the audience at a reasonable price. At a minimum, the covered employee

should disclose to the interviewer or audience whether a written research report is available to members of the audience who are not clients of the firm, the approximate cost, and how a viewer, listener, or reader might acquire the report.

Firms should make copies of the full research report available for purchase or review; for example via the firm's website.

### **3.0 Reasonable and Adequate Basis**

Firms should develop detailed, written guidance for research analysts, supervisory analysts, and review committees that establish due diligence procedures for judging whether or not there is a reasonable and adequate basis for a particular recommendation.

When recommending a purchase, sale, or change in recommendation, firms should provide, or offer to provide, supporting information to investing clients. When making a recommendation, firms should disclose the current market price of the security in question.

### **4.0 Investment Banking**

Collaboration between the research and investment banking activities of the firm creates severe conflicts of interest for research analysts. Firms need effective policies and procedures in place to safeguard the independence and objectivity of research analysts. Specifically, firms should prohibit research analysts from sharing with, or communicating to, members of the investment banking or corporate finance department, prior to publication, any section of the research report that might communicate the research analyst's proposed recommendation. The compliance or legal department should act as an intermediary for all communications between the research analyst and investment banking or corporate finance. Firms may permit investment banking or corporate finance personnel to review a research report only to verify factual information or to identify potential conflicts of interest. It is recommended that all written and oral communications between a research analyst and investment banking or corporate finance be documented and conducted with the compliance or legal department acting as an intermediary.

Firms should implement quiet periods for initial public offerings (IPOs) and secondary offerings of securities. Quiet periods should be of sufficient length to ensure that research reports and recommendations will not be based on inside information gained by the research analyst through investment banking sources. However, firms may issue an information-only research report concerning the effects of a significant event on a subject company if authorized by the compliance or legal departments. Quiet periods of

30 calendar days from issuance for IPOs and at least 10 calendar days from issuance for secondary offerings are recommended.

It is recommended that firms prohibit research analysts from participating in marketing activities, including “roadshows,” for IPOs and secondary offerings in order to further the integrity of the ensuing quiet period. If firms permit research analysts to participate in such activities, the research analysts should disclose this participation in all interviews and public appearances.

## **5.0 Research Analyst Compensation**

Firms should develop measurable criteria for assessing the quality of research including the reasonableness and adequacy of the basis for any recommendation and the accuracy of recommendations over time. Firms should implement compensation arrangements that depend on these measurable criteria and that are applied consistently to all research analysts. It is recommended that such criteria form a part of the Policy and be made available to clients and prospective clients.

Although direct linking of analyst’s compensation with investment banking and corporate finance activities is prohibited, firms should disclose the extent to which research analyst compensation in general is dependent upon the firm’s investment banking revenues.

## **6.0 Relationships with Subject Companies**

In order to conduct quality research and develop a reasonable and adequate basis for a recommendation, research analysts, who rely on company financial reports and other documents for their research and as part of the basis for their recommendation, need the ability to communicate with subject-company management and participate fully in conference calls and other subject-company investor and analyst-relations activities. Maintaining appropriate working relationships with subject-company personnel is an important aspect of the research analyst’s responsibilities.

Firms should establish and implement policies and procedures that govern these relationships, including policies regarding material gifts, company-sponsored and -paid trips, and communications with company management. Firms should have a clear, written definition of what constitutes “material.”

Firms should implement procedures that ensure that only those sections of the report containing facts that could be reasonably checked or verified by the subject company are shared prior to publication.

It is recommended that the compliance or legal department receive a draft research report before sections are shared with the subject company, approve in advance all changes to a research report or recommendation that occur as a consequence of subject-company verification, and that the research analyst provide written justification for any changes that occur after verification by the subject company. It is also recommended that firms retain supporting documentation including the original report, the sections shared with the subject company, and any subsequent changes to the report or recommendation.

## **7.0 Personal Investments and Trading**

Permitting research analysts and other covered employees to invest and trade in the securities of subject companies and industries may better align their personal interests with the interests of investing clients provided that precautions are taken to ensure that the interests of investing clients are always placed before the interests of the employee, members of their immediate families, and the firm.

Firms that permit covered employees and members of their immediate families to invest and trade in the securities, including derivative securities, of subject companies should require notification to, and approval by, the compliance or legal department in advance of all trades of securities in subject companies in the industry or industries assigned to that covered employee.

Firms should have specific policies and procedures that adequately prevent “front running” of investing client trades. These procedures should include restricted periods before and after issuing a research report. Restricted periods of at least 30 calendar days before and 5 calendar days after report issuance are recommended, with exceptions permitted on the announcement of significant news or events by the subject company if investing clients are given adequate notice and the ability to trade. However, restrictions on purchases or sales of securities need not apply to the securities of a diversified investment company or other investment fund over which the covered employees or members of their immediate families have no investment discretion or control.

When research analysts are permitted to invest and trade in the securities of the companies they cover, it is critical that firms prohibit them from trading contrary to the published recommendations of the firm on these companies. When research analysts trade contrary to their own investment recommendations, investing clients and prospective investing clients are rightly concerned about the quality and independence of the recommendation. Although there may be legitimate investment-management objectives for selling a security that the analyst recommends that investing clients

purchase (e.g., the need to re-balancing a diversified portfolio), investors are sent a mixed message that may cause concern and confusion.

There is one instance in which research analysts may be permitted to sell contrary to their recommendation. This is the case where the analyst would suffer “extreme financial hardship” if he or she could not liquidate these securities. To be clear and consistent about how this exception is applied, firms should have clear definitions of what constitutes extreme financial hardship and should also require a significant change in the employee’s personal financial circumstances. Advance approval by the compliance or legal departments should be required. Appropriate documentation of the hardship conditions and the decision process should be retained.

Firms should require covered employees to provide to the firm or its compliance or legal department a complete list of all personal investments in which they or members of their immediate families have a financial interest. This list should be provided on a regular basis, but at least annually.

Firms should establish policies and procedures that prevent short-term trading of securities by covered employees. It is recommended that covered employees be required to hold securities for a minimum of 60 calendar days, except in the case of extreme financial hardship.

## **8.0 Timeliness of Research Reports and Recommendations**

Firms have a fiduciary responsibility to investing clients to provide them with adequate and timely information on subject companies. To this end, firms should require research reports to be issued and recommendations or ratings to be confirmed or updated on a regular basis. It is recommended that reports and recommendations be issued at least quarterly, with additional updates recommended when there is an announcement of significant news or events by, or that might impact, the subject company.

Firms should not quietly and unobtrusively discontinue coverage of a subject company. When coverage of a subject company is being discontinued, firms should require the research analyst to issue a “final” research report that includes a recommendation. The final report should clearly explain the reason for discontinuing coverage.

## **9.0 Compliance and Enforcement**

Firms should disseminate a list of activities that would be considered violations and resulting disciplinary sanctions to all covered employees. Firms should also

disseminate a list of activities that would be considered violations and resulting disciplinary sanctions to all clients (both investing and corporate) and prospective clients. It is recommended that firms provide this information on their web sites in conjunction with the publication of the research objectivity policy.

## **10.0 Disclosure**

To be full and fair, disclosures should be comprehensive and complete, be presented prominently in the supporting documents or on the firm's web site, be written in plain language that is easily understood by the average reader, and be designed to inform rather than obscure the nature of the conflicts of interest faced by the covered employee or the firm. It is recommended that such disclosure, or a page reference to the disclosure, be made on the front of the research report.

Firms that engage in investment banking or other corporate finance activities should disclose whether the subject company is currently an investment banking or other corporate finance client (corporate client) of the firm. It is recommended that firms disclose in the research report whether they have received compensation during the previous 12 months or expect to receive compensation in the next 3 months from a subject company that is a corporate client.

Firms should review all of their communications with investing clients to determine the most appropriate method of communicating conflicts of interest. Such communications would include advertisements, market letters, research reports, sales literature, electronic communications, and communications with the press and other media. In addition to disclosures in research reports, firms should determine the appropriate communications method(s) to inform investing clients of the following:

1. Whether the firm makes a market in securities of a subject company;
2. Whether the firm managed or co-managed a recent initial public or secondary offering of a subject company;
3. Whether the research analyst or firm owns securities any financial instrument that might reasonably be expected to benefit from the recommendation; or
4. Whether the firm, an allied or affiliated firm, or the covered employee or a member of that employee's immediate family is a director, officer, or advisory board member of the subject company.

Firms should ensure that all conflicts of interest are disclosed in research reports. It is recommended that firms disclose the following in the research reports of all subject companies:

1. Whether the subject company is a corporate client;

2. Whether the firm or any of its affiliates holds one percent (1%) or more of any class of the outstanding common equity of the subject company as of five (5) business days prior to the issuance of the research report;
3. Whether the firm makes a market in the securities of the subject company;
4. Whether the firm permits the author(s) or members of their immediate families to invest or trade in the securities of the subject company;
5. Whether the author(s) or members of their immediate families have a financial interest in any financial instrument that might reasonably be expected to benefit from the recommendation;
6. Whether firm management, or the author(s) or members of their immediate families, are directors, officers, or advisory board members of the subject company; and
7. Whether the author(s) of the report received a material gift from the subject company in the previous 12 months.

When the subject company is also a corporate client, it is recommended that firms also disclose the following in research reports and on their web sites:

1. The nature of the corporate client relationship (e.g., initial public offering, merger and acquisition, etc.);
2. Whether the firm received fees or revenues from the subject company in the previous 12 months or is expected to receive fees or revenues in the next 3 months;
3. Whether the author(s) of the report assisted the firm in non-research activities and the specific nature of those activities (e.g., evaluated a subject company for acceptability as a corporate client, marketing activities); and
4. Whether the compensation of the author(s) was dependent upon participation in investment banking or corporate finance activities.

Firms should provide appropriate statistical or other quantitative and qualitative presentations of information about their recommendations or ratings. In some jurisdictions, firms are required to provide distributions of their ratings by category and how these ratings have changed over time. Firms should provide information about prices of the securities of the subject company. It is recommended that price information be presented for a period of at least three years prior to the issuance of the research report. Firms should also provide information in connection with these price charts that identifies ratings and the dates of rating changes and provide information that identifies when and if the author(s) or research analysts changed the rating during that period.

Firms should disclose the valuation methods used to determine price targets and provide a description of the risk that may impede achieving those targets.

## 11.0 Rating System

One-dimensional rating systems do not provide sufficient information with which investors can make informed investment decisions. Therefore, firms should implement a rating system that incorporates the following: (1) recommendation or rating categories, (2) time horizon categories, and (3) risk categories.

Recommendation or rating categories may be absolute (e.g., buy, hold sell) or relative (e.g., market outperform, neutral, or underperform). If the recommendation categories are relative, the firm should clearly identify the relevant benchmark, index, or objective.

Time horizon categories should clearly identify whether the time horizon measures the period over which the expected price target would be achieved or sustained.

Firms should require that communications of a firm's rating or recommendation, including discussions in public appearances, always include all three elements of the rating.

Firms should prohibit covered employees from communicating a rating or recommendation that is different from the current published rating or recommendation.

Firms should provide clients and prospective clients with a complete description of the firm's rating system on request. Firms should regularly inform clients and prospective clients of the availability of this description and how a client or prospective client can acquire this description.