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Securities Industry and
Financial Markets Association

Research Analyst Symposium:
Putting the Pieces Together

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Dialogue with the Regulators Panel Discussion

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Agenda

- Current Regulatory Landscape
- Rules 472 and 2711 Proposed Changes
 - Discussion of Key Issues and Comments
- Other Developments
 - Supervision of Third-Party Research
 - Non-U.S. Research Analyst Proposal
 - Proposed New Rule 472A
- Questions

Current Regulatory Landscape

- SRO Consolidation Front and Center
- Single Rulebook on the Horizon
- Pending Proposed Changes to Rules 2711 and 472
 - **Some Rules Still Differ**
- New Proposal to Adopt Rule 472A

Rules 472 and 2711 Proposed Changes

- Research Report – Current Definition
 - A “research report” means a written or electronic communication that includes an analysis of equity securities of individual companies or industries, and that provides information reasonably sufficient upon which to base an investment decision. Interpretative exceptions:
 - Reports discussing broad-based indices that don’t recommend or rate individual securities
 - Reports on economic, market or political conditions that don’t recommend or rate individual securities
 - Technical analysis of a sector, index or industry
 - Reports distributed to fewer than 15 investors
 - Internal communications
- Exclusions from the definition of “Research Report”
 - Open-end registered investment companies
 - Public direct participation programs

Rules 472 and 2711

Proposed Changes Cont'd

- Exception to registration and qualification requirements for non-research personnel who produce “research reports”
- Prohibition on retaliation vs. analysts expanded to all employees, not just bankers
- Prohibition on pre-publication review of research reports by investment banking and all non-research personnel but L&C
- Alternative Disclosure Method -Web Publication of Conflict Disclosures –with prominent warning on cover that the Firm and/or research analyst has a conflict of interest
- Prohibition on analysts engaging in communications about a transaction with customer in the presence of banking personnel or company management expanded to include communications with sales personnel.

Rules 472 and 2711

Proposed Changes Cont'd

- IPO quiet periods shortened 40 days to 25 days
- Elimination of quiet periods following secondary offerings
- Exemption from personal trading restrictions when Firms who choose to prohibit analysts from owning shares of companies they cover adopt policies that permit analysts to divest their holdings controlled manner.

Rules 472/2711 – Proposed Changes that Differ

- Quiet Periods - Lock-Up Agreements
 - NASD replaces quiet period with certification requirement
 - NYSE reduces quiet period from 15 to 5 days (before or after the expiration, waiver or termination)
- Significant Event Exception
- Other Changes related to Personal Trading by Research Analysts
 - NASD eliminates 20% asset diversification threshold and permits analysts to invest in any fund so long as neither the analyst or household member is made aware of the funds' holdings or transactions other than through periodic reports and sales materials
 - NYSE believes 20% threshold must be retained

Discussion of Key Issues and Comments

- Amendments to the Definition of the term “Research Report”
- Extension of Prohibition on Pre-Publication Review
- Web-based Disclosure of Conflicts of Interest
- Analyst Communications in Presence of Investment Banking Personnel
- Quiet Periods Relating to Lock-Up Agreements
- Significant News or Events Exception from Quiet Periods
- Investment Fund Exception for Personal Trading

Other Developments

- Supervision of Third-Party Research Reports
- Non-U.S. Research Analyst Proposal
- Bifurcate NYSE Rule 472 into two rules
 - Rule 472A governing research reports and analysts
 - Further Amendments?
 - Rule 472 governing non-research communications with the public

Questions

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