



**Comments Received in Response to**

**IIROC Notice 15-0217 – Rules Notice - Request for Comments – Research Report Quiet Periods**

On September 24, 2015, the Investment Industry Regulatory Organization of Canada (“IIROC” or “we”) issued IIROC Notice [15-0217](#) requesting comments on amendments to Dealer Member Rule section 3400.14 (“Amendments”). IIROC received nine comment letters from:

- Cormark Securities Inc. (“Cormark”)
- ITG Canada Corp. (“ITG”)
- BMO Capital Markets (“BMO”)
- TD Securities Inc. (“TD”)
- National Bank Financial Inc. (“National”)
- CIBC World Markets Inc. (“CIBC”)
- RBC Dominion Securities Inc. (“RBC”)
- Scotia Capital Inc. (“Scotia”)
- GMP Securities LP (“GMP”)

A copy of each comment letter is publicly available on the IIROC website ([www.iiroc.ca](http://www.iiroc.ca) under the heading “Notices” in the “Tool Bar” on the right hand side, and the sub-heading “Dealer Rules – All”, and title “Request for Comments - Research Report Quiet Periods”, following the link to [“Related Documents”](#)).

The following table presents a summary of the comments received on the Amendments together with the responses of IIROC to those comments.

Text of Amendment	Summary of Comment	IIROC Response and Additional Commentary
<p><b>Requirement 14</b></p> <p>14. No Dealer Member may issue a research report for an equity or equity related security regarding an issuer for which the Dealer Member acted as manager or co-manager of</p> <p>(i) an initial public offering of equity or equity related securities, for 10 calendar days following the date of the offering; or...</p>	<p>Six commenters requested a 25-day quiet period in order to harmonize with current practice in the United States (“US”).</p> <p>Supporting this view, reference was made to Rules 174 and 405 of the US Securities Act of 1933 which result in the lengthening of the effective quiet period from 10 days (as set out under FINRA’s rules) to 25-days.</p> <p>One commenter noted that in the US members of the underwriting syndicate typically contract in order to agree to a 25-day effective quiet period despite the 10-day requirement set out in FINRA rule 2241 due to SEC legislation. And, because there is no equivalent SEC legislation in Canada, that IIROC should build a lengthier quiet period of 25 days into its rules rather than rely on underwriting syndicates to operationalize the quiet period.</p> <p>One commenter noted that that a 25-calendar-day quiet period would have to be followed by Canadian Dealer Members (“DMs”) as a matter of practice in cross-border initial public offerings (“IPOs”). Whereas another commenter suggested the potential for bifurcated research distribution.</p>	<p>Our Proposed Amendments seek to harmonize with the FINRA rule 2241, which prescribes a 10-day minimum quiet period for IPOs. We expect Canadian DMs may harmonize with the US practice in the context of cross-border IPOs, including by way of contract to lengthen the quiet period on a case-by-case basis. Consistent with the approach taken by FINRA, this approach avoids amending IIROC Dealer Member Rules from time to time in response to new interpretations of US rules or additional/amended US legislation. We do not believe that a lengthier quiet period, agreed to by contract between members of an underwriting syndicate, will have any negative effects on DMs, market structure or competition.</p> <p>We do not see the potential for bifurcated research distribution as a practical concern. We understand cross-border offering participants are typically asked to agree to a lengthier quiet period contractually.</p>



## Attachment B

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	<p>One commenter referred to the practical influence of 25-day research restrictions imposed through SEC rules and noted that this is applied in respect of “Emerging Growth Companies” (as defined in the US JOBS Act) which have no mandated quiet period following an IPO. They also noted that Canadian firms may need to self-restrict for 25 days to avoid potential leakage into the US.</p> <p>Two commenters made specific reference to the difference between the US and Canadian regimes, in support of a lengthier quiet period in the context of domestic Canadian IPOs. They both noted that the Canadian market is distinct from the US market in operational scope, regulatory regime and practice.</p> <p>For example, trading in US markets typically commences on the date of filing the final prospectus, whereas, in Canada it commences 7-14 days after the date of filing the final prospectus. One of the two commenters also noted that there is typically no grey market during this settlement time frame. As such, the 10-day period could expire before trading began and therefore before the market had established a fair value without influence from research product.</p> <p>In addition, the common practice in the US is to file a preliminary prospectus a number of months before filing a final prospectus, giving analysts early access to corporate information. By contrast, in Canada (under the more expedited review process) a preliminary prospectus is filed about 4-5 weeks before filing a final prospectus, resulting in materially less time for research due diligence.</p> <p>Seven commenters noted that a 25-day quiet period would allow for a longer due diligence period and therefore would result in higher quality research reports.</p> <p>In support of this commenters cited the following concerns with a 10-day quiet period:</p> <ul style="list-style-type: none"> <li>logistical challenges may arise given the need for review, feedback and report approval by research management. Specifically, comprehensive research reports may require site visits, management meetings, review of the issuer’s competitors, product analysis, preparing financial forecasts and valuations and time to allow</li> </ul>	<p>We anticipate that DMs will achieve practical harmonization in cross-border IPOs, as is the case with harmonization in the context of the US JOBS Act where the lengthier timeframe prevails.</p> <p>We agree that there are differences in the US and Canadian regimes and that this results in different practical considerations for DMs in the context of a domestic Canadian distribution.</p> <p>We further note that DMs may increase the 10-day quiet period, through agreement with other members of an underwriting syndicate, which would result in additional time to prepare research in the event that such time was required in the specific circumstances.</p> <p>To the extent that the 10-day period was not reasonable or practical, we expect that the timing of research report dissemination would be regulated by those practical considerations and that a level playing field would, in effect, be maintained by the Dealer Members.</p> <p>We propose to maintain a watching brief in 2016 and, to the extent that the practical differences between the US and Canadian regimes result in a significant negative effect on investors, DMs, market structure or competition, we may consider lengthening the quiet period, in respect of domestic IPOs, as part of proposed revisions to the full rule review (consistent with our commitment to review the full Dealer Member Rule 3400, as noted in our <a href="#">Policy Priorities</a>).</p> <p>The scope of our watching brief will be to monitor the timing and quality of research relating to domestic and cross-border IPOs and secondary offerings in order to ensure that we will make adjustments to the rule requirements only where necessary and in response to data-driven evidence of adverse negative effects on investors, DMs, market structure or competition which are disproportionate to the benefits of alignment with the US regime and the benefit of efficient dissemination of information under the Amendments.</p> <p>We understand that firms may require longer to prepare research in certain circumstances. As such, we do not mandate the 10-day period as the maximum length of time in which research must be distributed. To the extent market forces pressure firms towards 10 days, this may be addressed by firms independently of having it prescribed in the Dealer Member Rules. In this way, we rely on the market regulating the appropriate lengthening of time, beyond the 10-day minimum, if necessary, and do not believe there would be significant negative effects on DMs, market structure or competition in connection with such a lengthening of the quiet period.</p> <p>As discussed above, we propose to maintain a watching brief in 2016 and</p>



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	<p>supervisory review. It may therefore be impractical to gain sufficient access to management to complete due diligence, build financial models and prepare research within 10-days;</p> <ul style="list-style-type: none"> <li>analysts may need to start to do work earlier, including before the transaction is publicly announced; and</li> <li>the potential for investor harm arises with a diminished due diligence period which could lead to dilution in the quality of research product. A key component noted here was access to issuer management and their conclusion was that a 25-day window would afford research analysts between 55 and 65 days to conduct a full review; and while this is significantly shorter than the US process affords, it would be sufficient.</li> </ul> <p>One commenter acknowledged that the 10-day timeframe was a minimum, but believes that it will become the industry norm, as the expiration of the quiet period is a fixed date known by all in advance and DMs initiating coverage promptly will be better positioned for greater trading market share and potentially be viewed more favourably by the corporate issuer. That said, the commenter acknowledged that 40-day quiet period may be excessive and not in the investing public's interest for the distribution of timely information, but that quality of research product should be of the utmost importance for Canadian investors and DMs.</p>	<p>to the extent that we see a dilution in the quality of research or any other negative effects on investors, DMs, market structure or competition, we will take this into account when proposing revisions to the full Dealer Member Rule 3400.</p>
	<p>One commenter was concerned that a 10-day quiet period could adversely affect some research firms as time constraints on an issuer's management could lead to such management prioritizing their responses to certain firms.</p>	<p>We believe that the effect on competition of a shorter minimum quiet period is a positive one and do not see the prioritization of responses as a significant negative effect on DMs, market structure or competition.</p>
<p><b>Requirement 14</b></p> <p>14. No Dealer Member may issue a research report for an equity or equity related security regarding an issuer for which the Dealer Member acted as manager or co-manager of [...]</p> <p>(ii) a secondary offering of equity or equity related securities, for 3 calendar days following the date of the offering; ...</p>	<p>One commenter was concerned with the shortening of quiet periods from 10 to 3 days in the context of secondary offerings.</p> <p>In contrast, two commenters fully support changing the research quiet period from 10 to 3 days in respect of secondary equity offerings to reflect the current FINRA requirements.</p>	<p>We do not believe that there is any significant negative effect on investors, market structure, competition or DMs as a result of the shortening of quiet periods from 10 to 3 days in the context of secondary offerings.</p> <p>As such, we propose to make no further changes to this requirement. However, as discussed above, we intend to maintain a watching brief on research regarding secondary offerings and would consider making a data-driven amendment to this provision, following analysis of any potential negative effects which emerge over the watching brief period.</p>
<p><b>General Comments</b></p>	<p>Five commenters stated their support for creating a regulatory framework that ensures a level playing field or harmonizes research report dissemination between Canada and the United States.</p>	