



National Investor Relations Institute

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NIRI Guidelines Regarding Company-Sponsored Research

With the advent of MiFID II, sell-side analyst coverage for many EU issuers has dropped significantly. Sell-side coverage has also declined in the United States.¹

As MiFID II, commission compression and other technical and structural changes press asset managers and brokers to unbundle research costs, there is a growing likelihood that more listed companies, most notably micro-, small-, and mid-cap issuers, may lose sell-side coverage. The loss of such coverage, especially for smaller issuers, creates a disadvantage in the capital marketplace and reduces the visibility of such companies to investors.

As a result, public companies (issuers) may decide to pay for research from third-party firms.

The National Investor Relations Institute (NIRI) provides the following guidelines to assist companies considering commissioning such research.²

1. Issuers should engage only research firms that have adopted written ethical standards that address analyst independence and how the research firm mitigates conflicts of interest.
2. Issuers should engage only research firms that agree to produce objective and thorough research reports that fully disclose any matters that could reasonably be expected to impair their objectivity.
3. Research firms should act as “arms-length” outsiders, working with material information that is publicly available.
4. Issuers should compensate the research firm in cash – not in stock or stock warrants.

¹ See, e.g., *IR Magazine*, "Mifid II continues global spread, albeit with regional nuance, says expert," July 2, 2019, available at: <https://www.irmagazine.com/corporate-access-mifid-ii/mifid-ii-continues-global-spread-albeit-regional-nuance-says-expert>

² These guidelines supplement the “Best Practice Guidelines Governing Analyst/Corporate Issuer Relations” (2004), which were prepared by the CFA Institute and NIRI, and are available at: <https://www.niri.org/NIRI/media/NIRI/Advocacy/CFAINIRIGuidelines.pdf>

5. Issuers shall not provide any compensation to the research firm that is contingent on the content or conclusions of the research (or the resulting impact on the issuer's share price).
6. Issuers should not attempt to explicitly or implicitly influence the research, recommendations, or behavior of the research firm analysts who are preparing the sponsored research.

The cover page of the commissioned research report (and any updates) should:

1. Clearly indicate the name of the issuer that commissioned the report.
2. Confirm that all compensation received by the research firm from the issuer for said research was in cash, not stock (or stock warrants).
3. Prominently display the name and contact information of the research firm.

In addition, the research firm should provide the following information in the "Disclosures" section or at the end of the commissioned report (or any updates):

1. The nature and extent of any personal, professional, or financial relationship the research firm or its parent, subsidiaries, agents, or trading entities has with the issuer, its personnel, parent, subsidiaries, or agents.
2. Any other matters that could reasonably be expected to impair the research firm's objectivity in drafting the report.
3. Disclosure of any agreement, condition, or limit on the ability of the research firm to trade in the stock of the issuer covered by the report.
4. A summary of the research firm's standards and policies to ensure editorial independence (e.g., analyst independence is enforced by research fees set (or paid) in advance; analysts have full discretion on price targets.)
5. The research analysts' credentials, including professional designations and experience, that qualifies them to produce the report.
6. Whether the report is a one-time publication or if the research firm will provide continuing coverage. If the research firm plans to provide ongoing coverage, it should disclose how to obtain updates.
7. The research firm's distribution methods and channels for sponsored research.
8. The research firm's rating system and distribution of ratings among issuers paying for research coverage.

Questions about the ethics of engaging in sponsored research can be addressed to the Chair of the NIRI Ethics Council, who is listed on this webpage:

<https://www.niri.org/about-niri/ethics-council.aspx>

Approved by NIRI's Board of Directors, March 2020.