

Veritas moves into big leagues RBC deal doubles its size

Scott Adams, National Post

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It's just a small announcement for a bank, but it could have far-reaching consequences for the kind of stock research that the average investor receives in Canada.

Clients of RBC Investments, the wealth management arm of the Royal Bank of Canada that includes the bank's network of financial advisors, are about to get an ongoing look at what independent research is all about.

Yesterday, RBC Investments confirmed that it has signed an exclusive deal to receive research from **Veritas Investment Research Corp.**, a Toronto-based equity research firm that doesn't participate in investment banking. The deal provides enough funds to **Veritas** for it to double in size. RBC has not taken a stake in **Veritas**.

"It is important to note that the ownership and management structures of **Veritas** remain intact," said **Veritas** president **Michael Palmer** in the letter to the firm's clients. "RBC will have no input into our recommendations or publications. Its only role will be to provide us with sufficient funds to add four to six analysts to our team and provide sustained coverage of close to 100 stocks."

Veritas, which typically focuses on accounting issues, is run by **Mr. Palmer, Anthony Scilipoti** and **William Marshall**. Some of its best recent work has been on companies such as Biovail Corp, Royal Group Technologies Ltd. and Molson Inc.

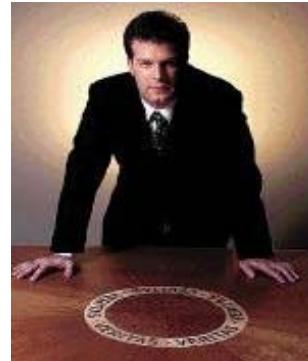
"What this does is change the landscape of investment research in Canada," **Mr. Scilipoti** said in an interview. "Independent research is no longer a fledgling."

RBC Investment's financial advisors have already been receiving **Veritas** research on a restricted basis for two years and found it useful enough to expand and cement a deal.

What makes this deal interesting is that it mirrors what has been happening in the United States, where major brokerages have been asked to fund independent research houses as part of the US\$1.4-billion settlement with New York Attorney General Eliot Spitzer over research practices.

While brokerages around the world, including ones in Canada, have been trying to erect stronger Chinese Walls between research and investment banking, the fact remains that the chances for conflicts of interest aren't eliminated as long as investment banking pays for the salaries and bonuses of research analysts. Investment banking remains far more profitable than trading operations of most brokerages, so it contributes most of the profits that go into the pools of money to pay research analysts, as well as the traders and investment bankers.

The deal is good for RBC Investments because it provides their clients with a diversity of research and helps overcome any perception of conflicts of interest that its analysts have over in RBC Capital Markets, which is the Royal Bank arm that holds trading, research and investment banking.



CREDIT: Chris Bolin,
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Veritas' Anthony Scilipoti says the research landscape has changed.

As for RBC Investment's clients, it should make for some interesting comparison reading the next time that an RBC Capital Markets analyst issues a "strong buy" on a company that **Veritas** picks apart as having questionable accounting.