

MEMO# 20933

March 7, 2007

Institute Letter on NASD and NYSE Proposals Relating to Research Analyst Conflicts of Interest

[20933]

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TO: SEC RULES MEMBERS No. 30-07
CLOSED-END INVESTMENT COMPANY MEMBERS No. 16-07
ETF ADVISORY COMMITTEE No. 10-07
EQUITY MARKETS ADVISORY COMMITTEE No. 11-07
UNIT INVESTMENT TRUST MEMBERS No. 4-07 RE: INSTITUTE LETTER ON NASD AND NYSE
PROPOSALS RELATING TO RESEARCH ANALYST CONFLICTS OF INTEREST

As we previously informed you, the Securities and Exchange Commission has published for comment proposed amendments to NASD and NYSE rules addressing research analyst conflicts of interest. [\[1\]](#) The Institute has filed a comment letter on the proposal. The most significant aspects of the comment letter are summarized below and a copy of the letter is attached.

The comment letter supports the proposed exclusion from the definition of “research report” for sales material about certain registered open-end investment companies. The letter recommends, however, that sales material about all registered investment companies be excluded from the definition. The letter states that uniform treatment of all investment companies under the rules is warranted to avoid confusion and uncertainty on the rules’ application. It also states that distinguishing between different types of registered investment companies for purposes of the rules could place these investment companies at a competitive disadvantage to other investment companies that are not subject to the rules’ requirements.

The letter states that the concerns that led to the enactment of the research analyst rules did not relate to any type of registered investment company but, instead, directly evolved from the conflicts raised by securities offered by corporate issuers and the interaction between investment bankers and research analysts in this area. In addition, the letter states that open-end funds that are not listed or traded on an exchange and other registered investment companies are subject to the same or similar NASD and SEC rules, regulations and review with respect to their advertising and sales literature. Thus, the letter concludes that, given the reasoning behind the conflict of interest rules and experience with the application of the rules to date, NASD and the NYSE should exclude all registered investment company sales material and similar communications from the definition of “research report.”

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[Attachment](#)

endnotes

[\[1\]](#) Memorandum to SEC Rules Committee No. 19-07, Closed-End Investment Company Committee No. 6-07, ETF Advisory Committee No. 8-07, Equity Markets Advisory Committee No. 10-07 and Unit Investment Trust Committee No. 1-07, dated February 23, 2007 [20899].

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