

MEMO# 21215

June 7, 2007

SEC Chairman Cox Calls for Examination of Soft Dollars

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TO: SEC RULES MEMBERS No. 57-07
INVESTMENT COMPANY DIRECTORS No. 10-07
INVESTMENT ADVISER MEMBERS No. 17-07
SMALL FUNDS MEMBERS No. 36-07
CLOSED-END INVESTMENT COMPANY MEMBERS No. 32-07
EQUITY MARKETS ADVISORY COMMITTEE No. 32-07 RE: SEC CHAIRMAN COX CALLS FOR EXAMINATION OF SOFT DOLLARS

SEC Chairman Cox recently sent letters to the Chairmen and Ranking Members of the Senate Banking Committee and House Financial Services Committee urging Congress to consider legislation that would repeal or substantially revise Section 28(e) of the Securities Exchange Act of 1934, which provides a safe harbor for soft dollar arrangements. A copy of Chairman Cox's letter is attached. [\[1\]](#)

Chairman Cox stated that the soft dollar safe harbor "hurts investors and U.S. capital markets by protecting arrangements that involve substantial conflicts of interest, may contribute to higher brokerage costs, is difficult to administer, and may operate to impede the further development of efficient markets for brokerage as well as certain advisory services." The Chairman noted that his request to Congress was reflective of his own viewpoint and not necessarily the other SEC Commissioners or the Administration.

Chairman Cox reiterated his views on soft dollars in a speech on May 31 to the National Italian-American Foundation. [\[2\]](#) In his remarks, the Chairman stated that soft dollars "need to see the light of day" and that "[t]his witch's brew of hidden fees, conflicts of interest, and complexity in application is at odds with investors' best interests." Chairman Cox also noted some of the inherent conflicts of interest in the use of soft dollars and the potential negative effect on advisers' incentives to mitigate particular costs and trading

activity.

It is not clear at this time what, if any, further action will be taken on this matter.

Heather L. Traeger
Assistant Counsel

[Attachment](#)

endnotes

[1] See, eg., Letter to Honorable Christopher Dodd, Chairman, Committee on Banking, Housing and Urban Affairs, U.S. Senate, dated May 17, 2007. Identical letters were sent to Senate Banking Committee Ranking Member Richard Shelby (R-AL), House Financial Services Committee Chairman Barney Frank (D-MA), and House Financial Services Committee Ranking Member Spencer Bachus (R-AL).

[2] Chairman Cox's remarks can be found on the SEC's website at <http://www.sec.gov/news/speech/2007/spch053107cc.htm>.

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