

MEMO# 14962

July 26, 2002

PROPOSED AIMR RESEARCH OBJECTIVITY STANDARDS

[14962] July 26, 2002 TO: SEC RULES COMMITTEE No. 62-02 INVESTMENT ADVISERS COMMITTEE No. 14-02 COMPLIANCE ADVISORY COMMITTEE No. 53-02 RE: PROPOSED AIMR RESEARCH OBJECTIVITY STANDARDS The Association for Investment Management and Research ("AIMR") has published for comment proposed "Research Objectivity Standards."¹ According to AIMR, the proposed Standards are intended to be specific, measurable standards for managing and disclosing conflicts of interest that may impede a research analyst's ability to conduct independent research and make objective recommendations. Comments on the proposed Standards must be received by AIMR no later than October 17, 2002. We have scheduled a conference call for Thursday, August 15, at 2:30 pm Eastern to discuss the proposed Standards and the Institute's comment letter. If you would like to participate on the call, please contact Monica Carter Johnson by phone at 202-326-5823 or by e-mail at mcarter@ici.org by August 9. Detailed information regarding the conference call will be sent shortly. The proposed Standards are divided into four sections, with each section tailored for a different type of firm or industry participant. Specifically, sections are drafted for (1) investment banks, broker-dealers, and other firms that sell research, (2) investment management firms and other firms that take investment actions, (3) corporate issuers, and (4) media. Summarized below are the proposed Standards applicable to "investment management and other firms that take investment action" on behalf of clients. According to AIMR, these include investment or fund managers, mutual funds, or trusts.

I. Research Objectivity Policy Under the proposed Standards, firms must have (1) a formal written policy on the independence and objectivity of research that must be made available to clients and prospective clients and disseminated to all firm employees, (2) supervisory procedures that reasonably

1 The proposed Standards can be found on AIMR's website at <http://www.aimr.com/pdf/standards/aimr-ros.pdf>

2 ensure that the firm and its covered employees comply with the provisions of the policy and all applicable laws and regulations, and (3) a senior officer of the firm attest annually to clients and prospective clients to the firm's implementation of, and adherence to, the policy. Covered employees include those who "conduct research, make or act on their own or others' recommendations, those who come in contact with research and recommendations, and those who may benefit from influencing research and recommendations."

II. Public Appearances Under the proposed Standards, firms that permit investment managers and other covered employees to present and discuss their research and recommendations in public appearances must require these employees to disclose fully personal and firm conflicts of interest to the audience. A public appearance includes "participation in a seminar; forum (including an interactive electronic forum); radio, television, or other media interview; or other public speaking activity in which a research analyst makes a recommendation or offers an opinion."

III. Relationships with Research Analysts at

Investment Banks, Broker-Dealers, and Other Firms that Sell Research The proposed Standards would require firms to implement policies and procedures that address the working relationships that covered employees have with research analysts at investment banks, broker-dealers or other firms that sell research. In particular, covered employees would be prohibited from (1) decreasing or eliminating brokerage, or threatening to do so, unless a research analyst maintains or changes a recommendation, (2) informing a corporate issuer of an impending change in a recommendation, and (3) encouraging a corporate issuer or other third party to retaliate against a research analyst for a recommendation or rating or change in a recommendation or rating. IV. Personal Investments and Trading Under the proposed Standards, firms must have policies and procedures that (1) address covered employees' personal investments and trading activities, (2) ensure that covered employees and members of their immediate families do not have the ability to trade in advance of or otherwise disadvantage investing clients relative to themselves or the firm, and (3) prohibit covered employees and members of their immediate families from purchasing or receiving securities prior to an IPO for subject companies and other companies in the industry or industries in which discretionary investing client funds are invested. V. Disclosures The proposed Standards would require firms to provide full and fair disclosure of all conflicts of interest to which the firm or its covered employees are subject. According to the Standards, to be full and fair, disclosures should be comprehensive and complete, be presented prominently in documents prepared for and presented to investing clients or on the firm's web site, be written in plain language that is easily understood by the average reader, and be 3 designed to inform rather than obscure the nature of the conflicts of interest faced by the covered employee or the firm. VI. Compliance and Enforcement Under the proposed Standards, firms must (1) have effective enforcement of their policies and compliance procedures to ensure research objectivity, (2) implement appropriate disciplinary sanctions for covered employees, up to and including dismissal from the firm, for violations, (3) monitor and audit the effectiveness of compliance procedures, and (4) maintain records of the results of internal audits. Ari Burstein Associate Counsel