



Repeal of Section 28(e) Would De-fund the Independent Research Industry

To Restore Trust, Congress Should Foster an Investment Research Industry that Works for Investors

Investorside strongly supports efforts to increase transparency and accountability of soft dollars. Reported abuses of soft dollars could be deterred with more transparency and accountability; enabling investors to be better consumers of their commissions spent on research and government to be better enforcers of the rules.

Investorside strongly opposes repeal of 28(e) as anti-investor protection. The section 28(e) market mechanism supplies investors with most all of the nation's independent research voices. Government policy should strengthen investor protection by fostering, not undermining, the important "check and balance" of *independent* research.

Why would Congress want to ban a 210 year-old free market? Paying for research with trading commissions has been in existence and thriving since 1792 when the first trade in America occurred under the buttonwood tree at the foot of Wall Street. Repeal of 28(e) would harm investors in many ways.

Repeal of Section 28(e) would:

- **Increase investor vulnerability to fraud** a la Enron, WorldCom etc. by kneecapping independent research, one of the only independent checks and balances in *the still extremely conflicted system.*
- **Destabilize the entire investment system** by eliminating the linchpin \$9 billion, 100,000 person commission market place that the U.S. capital markets system, and 90 million American investors, rely on to help protect their financial and retirement security.
- **De-fund the independent research industry** almost completely, and perversely grant a de facto government preference for conflicted, company-subsidized, investment banking research. Just talk of eliminating the primary source of compensation of independent research has the unintended destructive and chilling effect on the use of, and investment in independent research.
- **Make the market less efficient** by eliminating market incentives to pay for research performance and risk taking; question "the company line;" lower research costs for investors through cost sharing; and outsource specialized research that can respond quickly to market changes and demand.
- **Be extremely anti-competitive** by: (a) creating a huge barrier to entry to competitive research voices by dramatically increasing the scale necessary to be a viable competitor to investment banking research; and (b) picking winners and losers through legislative fiat – protecting index funds and large fund groups from competition from smaller active money management firms.

Investorside was founded on a simple but powerful idea: investor trust in research will return when research works for investors and is not conflicted with investment banking – as an *estimated 95%* of investment research currently is. Investorside helps investors by:

- Creating an easy way for investors to discern which research works for investors (investorside) versus which works *also* for companies (companyside); and
- Providing a convenient electronic mall, www.investorside.org, where investors can find research that is aligned with their interests. (Investorside has 52 certified independent research providers as of 11-03.)

Investorside is the only organization currently certifying research providers as free of investment banking conflicts and working for investors. Investorside employs a robust certification process for approving the use of the Investorside trademark in commerce to fairly represent and truthfully advertise as on the side of investors.

Questions? Please contact Scott Cleland, Chairman of Investorside or Joy Howell at 202-828-7800