



April 22, 2005

Hon. William H. Donaldson
Chairman
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Dear Chairman Donaldson,

We have learned that many buy side firms impose artificial caps on the amount of their commissions that can pay for third-party research (independent research), while they impose no such cap on the amount that can be paid for proprietary research (“sell-side” research). This industry practice, limiting only third-party research with a cap or quota policy, is *per se* discriminatory. Not only is it an anti-competitive practice that undermines investor protection and efficient markets, it also means that investment research may not be paid for based on competitive merit or value created, but based on business conflicts.

This discriminatory practice ignores and flouts your recent public statement that: “It would be a mistake to inhibit the access of investors to third-party research.” It also runs counter to SEC policy that there should be no distinction between third-party research and proprietary research in the marketplace. Restrictive caps and policies on third-party research market share would ensure that independent research could never become an effective competitive check and balance on research affiliated with investment banking. It is an invisible muzzle on the market’s best watchdog – independent research.

A. Survey Results Show Harm Due to Discrimination against Independent Research

To quantify the impact of this discrimination, the Investorside Research Association conducted a survey of its 67 members. The results strongly suggest that independent research is being harmed by misunderstandings about forthcoming SEC guidance on soft dollars. **Attachment I** compiles the answers from the 24 respondent member firms. We have highlighted the key findings:

- 100 percent of the survey respondents report that client firms have imposed discriminating caps or limits on the amount paid for third-party or independent research.
- 100 percent of the survey respondents report that client firms have imposed discriminating caps or limits on the number of third-party or independent research providers paid through research vote or brokerage lists.

- 92 percent of the survey respondents report that client firms have imposed discriminating policies requiring only third-party or independent research be paid with hard dollars, while proprietary or sell-side research continues to be paid with soft dollars.

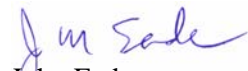
B. Recommendations to Stop Discrimination against Independent Research

- First, we urge you to include in the preamble of your soon-to-be-proposed rule on Section 28(e) a policy statement that *a priori* commission caps, quotas or policies favoring one type of investment research over another are *per se* discriminatory and will not be tolerated by the Commission. If the SEC does not affirmatively state it opposes discriminatory treatment and disclosure of third-party research relative to proprietary research, longstanding anticompetitive industry practices based on conflicts of interest will continue to undermine investor protection and investor trust in research.
- Second, we urge your Office of Compliance to investigate and halt this emerging discriminatory practice which runs counter to SEC policy and investor protection. To ensure this practice does not reemerge after an initial sweep, we recommend it be part of the regular audit and oversight process.

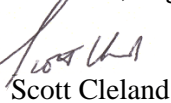
It is clear that if the Commission is not vigilant in fostering a competitive and efficient investment research market, the inherent business conflicts of interest that have so ill-served investors in the past will continue largely unabated.

Thank you for your prompt attention to this important matter.

Sincerely,



John Eade,
Co-Founder and Chairman, Investorside Research Association
President, Argus Research Corporation



Scott Cleland
Co-Founder and Director, Investorside Research Association
Chief Executive Officer, Precursor



Stanton Green
Director, Investorside Research Association
Chief Executive Officer and President, Vista Research LLC



Lisa Shalett
Director, Investorside Research Association
Chairman and Chief Executive Officer, Sanford C. Bernstein, LLC



Howard Schilit
Director, Investorside Research Association
Founder and Chairman, Center for Financial Research and Analysis

CC:

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