

## How Anti-Competitive Regulation/Practices Keeps Investment Research Conflicted

### 1. How did investment research get so badly conflicted and so distrusted by investors?

- In large part because regulation:
  - Encourages and perpetuates financial conflicts of interests that hurt investors;
  - Inhibits the emergence of a competitive investor-aligned research industry; and
  - Enables Wall Street to control tens of billions of dollars in investors' commissions for the benefit of themselves and their client companies, and not for investors' benefit.

### 2. Why is 95% of the investment research market dominated by investment bankers?

- In large part because regulation:
  - Protects investment banking research from pure research competition;
  - Institutionalizes the practice of misleading investment research to promote banking;
  - Ties payment for research to access to investment banking and proprietary trading;
  - Devalues research by condoning the industry-standard practice of anti-competitive dumping of subsidized and conflicted research on the research market; and
  - Fosters a research market where price has no relation to cost and quality doesn't matter.

### 3. How is government regulation responsible for the lack of investor trust in research?

#### A. Regulation is a barrier to competitive entry because it:

- Requires a broker dealer to be licensed to do investment banking to be authorized to collect research commissions from funds and investors;
- Inhibits emergence of innovative or investor-oriented business models through one-size-fits-all broker dealer licensing; and
- Discourages independent research firms from becoming broker dealers because the licensing exam requires knowledge of almost 900 pages of investment banking regulations that are mostly irrelevant and unnecessary to the provision of pure research.

#### B. Lax law enforcement provides little deterrence to anti-competitive behavior because:

- Minimal past enforcement of fair representation and truth in advertising laws has enabled misleading research to become the industry standard and resulted in investors' wholesale mistrust of research; and
- Non-existent regulatory awareness of anti-competitive industry practices has enabled Wall Street and company interests to run capital markets for their benefit, not for the benefit of the 85 million public investors.

#### C. Government requires no accountability of public investor commissions, which:

- Allows broker dealers to routinely mingle conflicted commissions from banking, trading and research into one pot of money without separate accounting that investors can monitor and government can audit to police conflicts of interest; and
- Enables easy diversion of public investor commissions for purposes other than what investors expect their commissions are used for.