

## Essentials of a Permanent Solution to Misleading Research

The essential principles of a lasting solution to restoring trust in research are:

- Empowering investors to be more-discerning consumers of investment research;
- Enabling competition to better protect investors' research interests; and
- Providing government the enforcement tools to detect/deter future abuse of investor trust.

### 1. **Ensure investors are not misled by conflicted research.**

- Current disclosure requirements are more about indemnifying research providers than ensuring fair representation and truthful advertising of research to investors.
- Government currently provides no help to investors trying to easily identify which research providers are working for investors and which are working for companies.

### 2. **Ensure competition provides market discipline to protect investor interests.**

- Anti-competitive industry practices and reinforcing regulation keep investment banking research dominant with 95% share and prevent market forces from naturally meeting investor demand for research that investors can trust.
- Regulation sustains an artificial research market where investment banking heavily subsidizes research for marketing purposes, creating a market where price has no relation to cost, quality does not matter, and untrustworthy research providers cannot fail.

### 3. **Ensure government can detect/deter future schemes that abuse investors' trust.**

- There's minimal deterrence to research conflicts because Wall Street knows there's minimal accountability of the tens of billions of dollars in public commissions.
- Conflict scandals will recur as long as the Government allows conflict of interest schemes to reward handsomely with little risk of detection or prosecution.
- As long as government allows firms to mingle public commissions of conflicted banking, trading and research businesses without the most basic accountability of separate and transparent accounting, investors will remain easy prey to conflict of interest schemes.

Like a stool that requires three legs to stand permanently, *all three* of the above elements to restore investor trust are necessary for any solution to stand the test of time.