



September 6, 2006

Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

SUBJECT: FILE NUMBER S7-13-06

Comments on guidance regarding client commission arrangements under Section 28(e)

Dear Ms. Morris,

We are grateful for the opportunity to again comment on the interpretive release with respect to client commission arrangements under Section 28(e) of the Securities Exchange Act of 1934, published by the Securities and Exchange Commission ("SEC").

1. EuroIRP & its previous comments on the October 2005 proposed interpretive release

EuroIRP is the European trade association for independent research firms, which seeks to: enhance the awareness and reputation of independent research; work with regulators and investors to promote the awareness and acceptance of payment structures; improve the regulatory and fiscal environment in which independent research firms operate.

We responded to the SEC's proposed interpretive release in a letter on November 24 2005. In our letter we applauded the SEC for clarifying that Section 28(e) will apply to independent, third-party and full-service broker-dealer research, but made a number of observations about "Section G: Third-Party Research and Commission-Sharing Arrangements (CSAs)". We highlighted that despite the statement that the proposed interpretive guidance was consistent with the FSA's rules, there were in fact material differences, and that the guidance created or sustained three negative consequences;

- I. The four minimum activities for introducing broker-dealers on p.46 would limit the ability of investment managers to use this mechanism to pay for independent and third-party research.
- II. The guidance would result in the non-standardisation and confusion in payment mechanisms between the US and UK, with CSAs the mechanism of choice in the UK, but severely limited in scope in the US.
- III. The guidance would perpetuate an un-level playing field for research, as independent and third-party research firms without execution functions would be unlikely to meet the four minimum activities requirements, making it harder to get paid for their research.

We therefore asked the SEC to reconsider its position on CSAs and the minimum activities, arguing that CSAs provide a valuable combination of high quality research and best execution, by separating purchasing decisions.

2. Comments on the July 2006 interpretive release

We thank the SEC for acknowledging and reacting to the large number of respondents concerns around the potential unwarranted consequences of the proposed interpretation, such as reducing independent research. We applaud the SEC for modifying its interpretation of “provided by” and “effecting” under 28(e), recognising the benefits to investment managers of functional separation of trade execution and research, and therefore permitting flexibility in payment structures, which we believe will serve the best interests of investors.

We understand that the SEC is somewhat limited by the statutory term “effecting”, thereby requiring at least one of the four minimum functions be performed by the research provider and steps taken to see that the others are appropriately allocated. Nevertheless, we see the revised interpretation of meeting one rather than all four of the requirements as a material improvement. Independent research firms will be better able to meet this reduced requirement. It should enable investment managers to use at least some commission sharing mechanisms to pay for independent research under 28(e).

However, in the UK there are two main CSA structures; individual and pooled. Under the individual structure the primary agreement is between the executing broker and the research provider. These feature monthly reporting and the trading process is auditable, hence it should be possible to meet one of the minimum activities requirements. Under the pooled structure (cited on p.55 of the release), which has become the primary CSA mechanism as the UK market has unbundled this year, the trading process is not auditable from the research providers side in the same way. It would therefore appear to be harder for one of the minimum activities requirements to be met under this structure. Given its increasingly widespread use in the UK, we ask the SEC to clarify its expectations for meeting one of minimum activities requirements under the pooled structure cited on p.55.

We are supportive of the modifications to the SEC’s interpretation of “provided by”, seeing the three attributes as reasonable requirements for the respective parties to meet.

3. Registered broker-dealer requirements for independent research firms

We ask the SEC to clarify whether the firm receiving commissions for “providing” the research has to itself be registered as a broker-dealer? Several of our member firms have raised concerns regarding this issue.

Whilst we understand that this issue is covered more directly by Section 15(a) of the Exchange Act, it is linked to the use of client commissions under 28(e). A strict interpretation under Section 15(a) that a firm “providing research” is using it “to induce or attempt to induce the purchase or sale of, any security”, thereby must be registered as a broker-dealer, is damaging to the independent research community, imposing an additional blanket regulatory burden on what are often small firms without the support capabilities of traditional broker-dealers. The language directly linking research with an “inducement” to transact goes against current market practice and unbundling in the UK, where the purchasing decision for research and execution are now separated, and the research is not directly linked to a specific transaction, rather investment managers are encouraged to focus on best execution and accumulate commissions to separately allocate for value-added research.

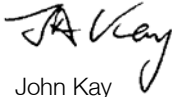
Whilst the current uncertainty on this issue in the US is allowed to continue it can only perpetuate an unlevel playing field to the detriment of independent research firms. We request that the SEC give this issue careful attention.

4. Conclusion

The modifications made to the interpretation of “provided by” and “effecting” in this release represent a significant improvement and better reflect the changes in market structure. The interpretation is now more in line with the UK’s regulatory efforts in the area of unbundling, fostering a more consistent global approach to regulation and helping money managers operate consistent payment mechanisms between the US and UK. We look forward to commenting on the SEC’s proposals on transparency and disclosure, which is the next step in improving the use of dealing commissions for the purchase of research and execution.

We would welcome the opportunity to share our observations with the SEC on the positive effects unbundling and CSAs have had on the UK market.

Yours sincerely,

A handwritten signature in black ink, appearing to read "John Kay". The signature is stylized and cursive.

John Kay
Chairman