

persons, officers, or employees from influencing the activities of research analysts and the content of research reports prepared by the associated person, and to inform associated persons as to whether the associated person has any officers (or persons performing similar functions) or employees in common with the broker or dealer who can influence the activities of research analysts or the content of research reports and, if so, the identity of those persons. Broker-dealers may incur costs in providing this notification to each of its associated persons. As noted previously, the staff estimates that the paperwork costs for broker-dealers of complying with the notification requirements in dollars would be approximately \$513,427.00. Any additional costs should not be significant in part because associated persons of an SRO member are required under SRO rules to provide prompt notice to his or her employer of employment with any other persons as a result of a business activity.⁷⁶

With respect to public appearances, current SRO rules require analysts to make certain disclosures during public appearances, such as the member's or the analyst's ownership interests in the subject company. SRO rules also require analysts to disclose any other actual, material conflict of interest of which the research analyst knows, or has reason to know, at the time of the public appearance.⁷⁷

Broker-dealers should already have in place procedures necessary to comply with many components of Regulation AC due to existing obligations under SRO rules, although these procedures might require some minor modifications to conform with Regulation AC. As noted previously, the Commission estimates that the annual paperwork costs in dollars of complying with the regulation would be approximately \$4,682,821.

B. Benefits

We believe that investor confidence in the integrity of research has suffered because there is evidence that, in some cases, research analyst objectivity has been compromised due to, among other things, analysts' personal compensation and firms' investment banking relationships with issuers that are the subjects of research reports. Requiring research analysts to certify that the views expressed in research reports reflect their personal views, and requiring disclosure of information regarding whether analyst compensation

is related to the specific recommendations made, should help bolster investor confidence in the quality of research. This, in turn, should help increase investor confidence in the securities markets.

The Commission requested comment on whether the certification and disclosure requirements, if adopted, would promote investor confidence in the views expressed by research analysts and provide investors with useful information with which to evaluate potential biases. Ten commenters expressed support for Regulation AC. Generally, these commenters were of the view that Regulation AC would promote the integrity of research and investor confidence.⁷⁸ Three commenters did not agree that Regulation AC would advance investor protection and/or investor confidence to any significant degree.⁷⁹

Regulation AC requires that broker-dealers and covered persons include certifications in research reports regarding the truthfulness of the views expressed in research reports and whether or not the analyst received compensation in connection with his or her specific recommendations or views. Many investors rely on the research reports and recommendations provided by their brokers and covered persons. To the extent that the Regulation AC requires disclosures that provide more transparency than provided by current regulation, these disclosures should provide investors with important information with which to determine the value of the research available to them.⁸⁰

Regulation AC may result in an increase in the overall quality of the research available to the public because broker-dealers and covered persons would be in violation of Regulation AC when issuing research reports unless the reports include the required certifications and disclosures. The requirement that the research analyst (or analysts) primarily responsible for preparing the research report personally certify that the views expressed in the report accurately reflect his or her personal views creates an incentive for analysts to examine, even more carefully, the basis and foundations for his or her recommendations in preparing research reports.

Regulation AC may also result in an increase in the quality of research because of competitive reasons. Firms

that publish research reports that do not contain certain analyst certifications will be in violation of the regulation, and firms whose research analysts' compensation is related to the specific recommendations or views provided in research reports (to the extent allowed by SRO rules) may lose some business to firms that are less conflicted. Regulation AC is intended to enhance investor confidence in the integrity of the research available to them. We believe that by requiring research analysts to certify as to the truthfulness of the views expressed in research reports, investor confidence in the securities markets should be enhanced, thereby leading to the benefit of more liquid and efficient markets. The Commission does not have data to quantify the value of the benefits described above. The Commission requested, but did not receive, comment on how it may quantify these benefits. The Commission also requested, but did not receive, comment concerning any benefits, not already identified, that may result from the adoption of Regulation AC.

V. Regulatory Flexibility Act Certification

Pursuant to section 605(b) of the Regulatory Flexibility Act,⁸¹ the Commission certified that Regulation AC will not have a significant economic impact on a substantial number of small entities. This certification, including the reasons supporting the certification, were set forth in the Proposing Release.

The Commission solicited comments on the potential impact of Regulation AC on small entities in the Proposal. No comments were received that discussed the Regulatory Flexibility Act Certification. However, in response to other comments, the Commission has revised its estimates and believes that the total burden in hours required to comply with proposed Regulation AC would be approximately 5.78 hours per year, per small firm, as compared to the original estimate of two hours and two minutes per year, per small firm.

VI. Consideration of Burden on Competition, and Promotion of Efficiency, Competition and Capital Formation

Section 3(f) of the Exchange Act⁸² requires us, when engaging in rulemaking where we are required to consider or determine whether an action is necessary or appropriate in the public interest, to consider whether the action will promote efficiency, competition,

⁷⁶ See NASD Rule 3030.

⁷⁷ NASD Rule 2711(h); NYSE 472(k)(1).

⁷⁸ See AIMR, CSFB, Goldman, ICAA, ICI, Merrill, SIA, SSB, Schwab, and TBMA.

⁷⁹ See David Norr, NASAA, and Thomson Financial.

⁸⁰ See Securities Exchange Act Release No. 45908 (May 10, 2002), 67 FR 34968 (May 16, 2002).

⁸¹ 5 U.S.C. 605(b).

⁸² 15 U.S.C. section 78c(f).