

THE ALLIANCE IN SUPPORT OF INDEPENDENT RESEARCH

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**ICI Proposal Will Harm Independent Research, Competition, Investors,
According to The Alliance in Support of Independent Research**

Washington, D.C., December 16, 2003- The Alliance in Support of Independent Research today announced its opposition to a proposal by the Investment Company Institute (“ICI”) that called for the Securities and Exchange Commission to limit the ability of mutual funds and other fiduciary money managers to obtain independent research from broker-dealers.

Lee Pickard, Counsel to the Alliance in Support of Independent Research, Managing Partner of Pickard and Djinis LLP and former Director of the SEC’s Division of Market Regulation, said, “If acted upon, the Investment Company Institute’s proposal would cripple the independent research industry. The proposal would also impair the ability of small money managers and their investment funds to compete with their larger peers. Finally, it would limit the ability of small broker-dealers to compete with large Wall Street firms, ultimately resulting in higher commission rates to investors.”

The ICI’s proposal would essentially limit the availability of the safe harbor provided under Section 28(e) of the Securities Exchange Act of 1934 to research produced by a broker-dealer’s in-house research department. Mr. Pickard, who headed market regulation at the SEC at the time the safe harbor rule was instituted, noted that the proposal would all but eliminate the ability of broker-dealers to provide the kind of independent research recently embraced by the securities industry and regulatory agencies in the global research analyst settlement. Many independent research providers depend upon Section 28(e) arrangements to expose their ideas to a broader range of potential clients and as a payment mechanism for their research activities. Restricting such arrangements in the manner suggested by the ICI would result in the demise of many of these independent research providers, leaving large Wall Street firms as the principal source of research available to fiduciaries and their mutual fund investors.

The Alliance further believes that the ICI’s proposal would create inappropriate incentives for money managers to use brokerage firms that bundle execution and other proprietary services. In these bundled arrangements, the money manager and, consequently, fund boards and investors are left to guess about what types of services the broker is providing and the value placed on those services. By contrast, a money manager engaged in an independent research arrangement is provided with detailed information regarding the types and value of execution and research services provided by the broker. In addition, the Alliance in Support of Independent Research supports enhancing the disclosure to fund boards and investors

of all arrangements whereby money managers receive execution and research services – proprietary and third party alike. While the Alliance calls for increased transparency, the ICI would rather wrap commissions in an opaque bundle.

The ICI's proposal, in the Alliance's view, would hamper the ability of small money managers to compete with larger firms, limiting innovation and choice in the investment industry. Firms without a large client base over which to spread the resulting increase in overhead expenses will be forced to either raise advisory fees or limit their use of investment research. In either instance, investors suffer.

The ICI's proposal would also impair the ability of small and medium size broker-dealers to compete for securities transaction business with larger firms. Many small broker-dealers lack the resources to employ an internal research staff. The only way such brokers can compete with their larger peers is to contract to buy the research of independent research providers. Competition between brokers lowers securities transactions costs. Eliminating the ability of smaller broker-dealers to compete with their larger peers will ultimately result in higher costs to funds and other investors.

The Alliance in Support of Independent Research believes that the ICI's proposal would harm independent research, competition and investors. The proposal is also premature and without factual basis. Legislation requiring the SEC to study Section 28(e) arrangements recently passed the House and is being considered by the Senate. There is no reason to make major changes to a practice which has served the markets well for almost thirty years especially when independent research arrangements have not been the source of any of the controversies plaguing the securities markets in recent months.

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The Interstate Group,
A Division of Morgan Keegan & Company, Inc.
Grady G. Thomas, Jr., President

Westminster Research Associates, Inc.,
Part of BNY Securities Group
John D. Meserve, President

Our members are involved in a significant portion of the arrangements under which fiduciaries such as mutual fund managers, investment advisers, banks and other fiduciaries are provided with independent research services and products for the benefit of their managed accounts.

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