



Gimme Credit™

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August 8, 2017

Chair Jay Clayton

U.S. Securities and Exchange Commission

This letter is submitted in response to the SEC's June 1 invitation for comments on the standards of conduct applicable to broker-dealers and investment advisers when they provide advice to retail investors.¹

My name is Carol Levenson. I am the co-founder and Director of Research of Gimme Credit. I have been an active participant in the corporate bond market since 1984. Gimme Credit is an independent credit research provider to brokers, wealth managers and investment advisers. We publish analyses of and investment recommendations on corporate bonds. Our research is produced by a team of experienced corporate credit analysts. (See www.gimmecredit.com.)

Since its inception in 1994, the company has maintained a strict code of independence. Unlike other providers of corporate bond research – such as brokers, investment banks, investment advisers and credit rating agencies -- Gimme Credit has no conflicts of interest that may mitigate the integrity of our investment recommendations. We have no inventory of bonds. We do no underwriting. We have no bond portfolio. We do not get paid by the corporations for analyzing and recommending the bonds they issue. All of our research is published generally to all of our subscribers.

We feel that the current standards of conduct (including those imposed by the DOL Fiduciary Rule) do not adequately address potential conflicts of interest with respect to recommendations by a broker-dealer or financial advisor to its clients.

- Currently, broker dealers and financial advisors are required to determine whether a recommendation is suitable for its client, but are not required to disclose whether the recommendation to invest is based on any independent research that is free of conflicts of interest. Studies have shown that independent research may be more reliable and a better indicator of performance of securities.
- Such a required disclosure would give the customer more transparency and the ability to evaluate the basis for a corporate bond recommendation from a broker-dealer or financial advisor, and would likely incentivize the use and reliance on independent bond research in a recommendation.
- This conflict of interest issue is the basis of FINRA Rules 2241 and 2242, which require research analysts to disclose potential conflicts of interest in the publication of research reports, however, no such requirement extends to the broker-dealer that uses such report as a basis of his or her recommendation to a client.

Our proposed solution: Require any broker dealer or financial advisor making a recommendation with respect to the purchase or sale of a corporate bond to disclose, at the time of such recommendation, whether or not such recommendation has relied, at least in part, on independent research that is free of conflicts of interest. This would not change the landscape of the current regulatory regime, but would rather close an unintended gap in the current disclosure requirements.

Carol Levenson, CFA
Director of Research
Gimme Credit

ⁱ Have potential conflicts of interest related to the provision of investment advice to retail investors in various circumstances been appropriately identified and, if so, have they been appropriately addressed? Are there particular areas where conflicts are more prevalent, have greater potential for harm, or both? To what extent are retail investors being, or expected to be, harmed by these conflicts currently and in the future? For example, do certain types of relationships result in systematically lower net returns or greater degrees of risk in retail investors' portfolios relative to other similarly-situated investors in different relationships? Are there steps the Commission should take to identify and address these conflicts? Can they be appropriately addressed through disclosure or other means? How would any such steps to address potential conflicts of interest benefit retail investors currently and over time? What costs or other consequences, if any, would retail investors experience as a result of any such steps? For example, would broker-dealers or investment advisers be expected to withdraw from or limit their offerings or services in certain markets or products?