October 1, 2008

Ms. Florence Harmon
Acting Secretary
Office of the Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: File No. S7-22-08

Dear Ms. Harmon:

The Investorside Research Association ("Investorside") is pleased to have this opportunity to comment on the U.S. Securities and Exchange Commission's Proposed Guidance Regarding the Duties and Responsibilities of Investment Company Boards of Directors with Respect to Investment Adviser Portfolio Trading Practices, File No S7-22-08 (the "Proposed Guidance").

The Investorside Research Association is a non-profit trade group, whose membership has grown steadily since inception in 2001, that certifies investment research firms that do not engage in investment banking or issuer-paid research activities. Our association is comprised of 76 "independent" member firms that work solely for investors, and that maintain business models revenue dependent and financially aligned with investor interests.

Investorside deeply appreciates the Commission's reaffirmation of its longstanding policies to protect and enhance the integrity of investment research. Investorside believes that the SEC's goals of protecting investors are best served by promoting a healthy independent research industry that provides a broad range of perspectives to the investor community and serves as the market's watchdog, providing an early warning system for investors to identify the next Fannie Mae, Century Financial, Enron, Tyco or subprime debacle. Given recent events in the global market place, which have fundamentally and permanently altered the traditional sell-side research industry, we believe the need for a healthy, competitive and vibrant independent investment research industry is more critical than ever.

Following are Investorside's comments on the Proposed Guidance.

The Proposed Guidance Fails to Address the Lack of Transparency of Proprietary Research Arrangements

While Investorside agrees with the Commission's goal to provide additional guidance to mutual fund directors regarding investment adviser trading practices and soft dollar arrangements, we have concerns about the approach taken in the Proposed Guidance. In particular, Investorside is concerned that the Proposed Guidance does nothing to address the lack of transparency existing in many proprietary research arrangements. This lack of transparency in proprietary research arrangements, in contrast to the transparency of independent arrangements, has led to a higher level of scrutiny of independent research arrangements by regulators and fund boards, simply because there is more information and data available to review. This higher level of scrutiny has led to a “chill” in the use of independent arrangements by some money managers, who choose to follow the path of least resistance and limit their use of independent arrangements while continuing to participate in proprietary research arrangements. Indeed, despite the SEC’s position, most recently articulated in the Commission’s July 2006 guidance on Section 28(e),[1] that the Section 28(e) safe harbor applies equally to proprietary and third party research arrangements, Investorside members still encounter investment managers who claim that they do not participate in soft dollar arrangements when, at the same time, they routinely trade through, and receive proprietary research from, broker-dealers who offer research and investment banking services – thus putting independent research firms, who focus purely on research, at a distinct competitive disadvantage.

The Tone of the Proposed Guidance Suggests a Bias Against the Use of Brokerage Commissions to Purchase Research

Investorside is also concerned that the tone of the proposed guidance seems to suggest a bias against the receipt of investment research under the Section 28(e) safe harbor. Investorside notes that Section 28(e) was adopted to promote the use of commissions to fund research purchases, based on Congress’ fear that sources of research would dry up, and competition among investment managers would be harmed, if commissions were not available to investment managers to fund the purchase of research used in the investment decision making process. Accordingly, Investorside asks that the Commission clarify in any final release that the use of commissions to fund the purchase of research under the Section 28(e) safe harbor is a legitimate and beneficial use of such commissions. We believe, given the current market events, that the need for independent, third party research has never been greater and that every effort should be made to “level the playing field” for all providers of research.

Investorside Suggests the Commission Reformulate its Guidance Based on the Principles of Governance, Accountability, Transparency and Competitive Fairness

In view of our comments above, we ask that the Commission reformulate its guidance to mutual fund boards based on the principles of governance, accountability, transparency, and competitive fairness. In this regard, we suggest that the Commission provide general guidance to mutual fund board members regarding their obligations to funds and fund shareholders. Investorside considers the following obligations of mutual fund directors to be paramount:

- The duty to be reasonably well informed regarding the operations of the fund
- The obligation to serve the best interests of the fund and its investors
- The obligation to know and address conflicts of interests to investor shareholders
- The duty to protect investor resources and the long term interests of investors

Investorside notes that fund boards face various obstacles in attempting to satisfy these obligations in overseeing the trading practices of fund advisers, including the following:

- The technical complexity of the subject matter
- A lack of transparency in client commission arrangements, particularly with respect to proprietary arrangements
- A lack of independent information resources

[1] SEC Rel. No. 34-54165 (July 18, 2006).

To provide assistance to fund boards in overcoming these obstacles, Investorside suggests that the Commission take the following steps:

- Work with industry groups whose interests are aligned with investors such as Investorside, the CFA Institute and others to improve fund director education and awareness through meetings, workshops and published guidance such as a "best practices" governance checklist
- Increase access to critical information needed by fund boards to make well informed decisions by requiring transparency in proprietary research arrangements

Conclusion

Investorside believes that the Commission's goal to provide guidance to fund directors regarding investment adviser trading and soft dollar practices is a good one. Our concern, however, is that the tone of the Proposed Guidance is too negative in addressing the use of fund commissions to purchase research services, and that this tone could negatively impact the independent research industry, to the detriment of investors. We are also concerned that the Proposed Guidance does nothing to solve the biggest dilemma facing fund boards in analyzing the use of fund commissions to purchase research, i.e., the opacity of proprietary research arrangements.

Investorside looks forward to a further dialogue to address education and training initiatives for mutual fund board members. We would welcome an opportunity to visit the Commission and its Staff to discuss our organization, our members, and our ideas, including those mentioned above.

Sincerely,

Richard Leggett

Rich Leggett
Chairman, Investorside Research Association

cc: The Honorable Christopher Cox
The Honorable Kathleen L. Casey
The Honorable Elisse B. Walter
The Honorable Luis A. Aguilar
The Honorable Troy A. Paredes
Andrew J. Donohue, Director, Division of Investment Management