REUTERS

Phillip K Lynch Chief Executive Officer

January 18, 2006

Mr. Jonathan G. Katz
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-9303

Re: Commission Guidance Regarding Client Commission Practices under Section 28(e) of the Securities Exchange Act of 1934 (File No. S7-09-05)

Dear Secretary Katz:

I. Introduction

Reuters America LLC ("Reuters") is pleased to offer its views on the above-captioned proposed guidance by the Securities and Exchange Commission (the "SEC" or "Commission"). Reuters is a subsidiary of Reuters Group PLC. Although best known as the world's largest news agency, more than 90% of Reuters Group revenue derives from our financial services business. Professionals in the equities, fixed income, foreign exchange, money, commodities and energy markets use Reuters products. Our open technology, based on industry standards, enables our customers to integrate our information with content from other sources. We provide financial institutions with specially designed tools to help them reduce risk and distribute and manage the ever-increasing volumes of market data.

As the world's leading provider of market data, Reuters has a unique perspective. Reuters knows that timely and reliable quote and price information is of crucial importance to market participants. Professional asset managers and retail investors alike rely on this information to make investment decisions and evaluate the quality of the executions they receive. Broad dissemination of information improves the efficiency of markets and increases investor confidence, leading ultimately to greater liquidity.

For these reasons, and as described in greater detail below, Reuters supports the interpretation proposed by the Commission that would continue to allow asset managers to use client commission dollars to obtain research services, including market, financial, economic, and similar data.

II. Client Commission Practices Increase Competition

Section 28(e) of the Securities Exchange Act of 1934[1] permits asset managers to obtain research and related services together with trade execution services and to pay for both with

[1] 15 U.S.C. Sec. 78bb(e).

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client commission dollars. These practices have often been referred to as "soft dollar" arrangements, while the Commission now uses the term "client commission" practices. Reuters believes that Congress enacted Section 28(e) because trade execution and research are two examples of costs incurred by asset managers in order to serve, and for the benefit of, their clients. As the Commission states in its proposed guidance, asset managers may "pay higher commissions on behalf of a client than otherwise are available to obtain brokerage and research services, if managers make [a] good faith determination regarding the reasonableness of commissions paid."[2]

Reuters believes soft dollar arrangements promote competition in the financial services industry, thereby reducing costs and increasing returns for investors. Smaller investment advisers may have worthwhile investment strategies while lacking the economies of scale to afford in-house research departments. Soft dollar arrangements allow such advisers to use independent research to compete with larger advisory firms.

Similarly, smaller brokerage firms, regional brokers and execution-only brokers typically do not have the resources to provide the full range of services offered by diversified firms. They may deliver best execution of customers' orders without offering proprietary research products. These smaller firms typically "team up" with independent research providers and information providers to compete with their larger, full service competitors. By supplying customers with independent research through soft dollar arrangements, these firms can ensure that institutional trades are not directed to large, multi-service firms purely based on the availability of proprietary research.

Finally, soft dollar arrangements are an important distribution mechanism for independent research. They allow providers of independent research to join with brokerage firms to distribute their products. This is important, given that diversified brokerage firms can "bundle" their proprietary research services with their trade execution services. The ability to use client commissions to pay for independent research is essential to providing a competitive marketplace for research and to reducing the reliance on proprietary research.

Asset managers enjoy flexibility under Section 28(e) with regard to their use of client commission dollars. Fund managers may purchase brokerage, research and information services individually, at separately negotiated rates. Asset managers may also purchase them in packages at a combined rate. Reuters believes this allows for a more competitive marketplace, to the benefit of investors.

III. Comments on SEC Guidance

Reuters agrees that it is appropriate for the Commission to review the scope of "brokerage and research services" under Section 28(e) in light of changes in technology and industry practice. In general, Reuters believes that the guidance proposed by the Commission will benefit investors by discouraging significant conflicts of interest on the part of asset

[2] Commission Guidance Regarding Client Commission Practices Under Section 28(e) of the Securities Exchange Act of 1934, Release No. 34-52635 (October 19, 2005) ("Proposed Guidance"), at 9.

managers using client commissions while encouraging the use of research in managing client accounts.

A. Congressional Recognition that Brokerage and Research Services Benefit Customers

In enacting Section 28(e), Congress recognized the value of research to asset managers in managing client accounts. Section 28(e) is a "safe harbor" from liability for breach of fiduciary duty solely on the basis of paying commissions greater than the lowest available for "brokerage and research services," so long as an asset manager determines in good faith that the commission is reasonable in relation to the value of the services received. Reuters believes that Section 28(e) reflects recognition on the part of Congress that brokerage services and research services both benefit clients and are both therefore an appropriate use of client commission dollars.

B. Definition of "Research Services"

Reuters believes that the guidance proposed by the Commission regarding the eligibility criteria for "research services" will benefit investors, both by discouraging conflicts of interest on the part of asset managers and by ensuring that asset managers continue to benefit from varied sources of investment research.

Reuters strongly supports the position taken by the Commission including market data and economic data within the scope of "research." Market data both serves to keep investment professional informed of market developments and allows for legitimate pricing functions. The Reuters service is a dynamic research device that enhances the performance of investment professionals. Reuters provides investment professionals with market data that is enhanced in terms of functionality, information parameters, and aggregation across asset classes. In addition, Reuters supplies pricing, fundamental data, company data, analysis, news, graphs, charts – all examples of "informational content." They all help an asset manager formulate overall investment strategies and decide whether to engage in specific securities transactions. As the Commission has concluded, they all may "provide [a] money manager with lawful and appropriate assistance in making investment decisions."[3]

Similarly, Reuters supports the Commission's proposed exclusion from the scope of "research" of physical overhead and computer hardware ("products with inherently tangible or physical attributes"). Market data vendors increasingly provide their services by integrating them into end users' broader information systems, rather than through discrete delivery channels such as single-purpose terminals. This underscores the appropriateness of requiring asset managers to pay for computer hardware with their own funds rather than with client commission dollars.

Reuters is pleased that the Commission proposes to continue to allow broker-dealers to provide third-party research to their customers under the safe harbor. As described above, this will benefit investors both by promoting the distribution of independent research and by enhancing the competitiveness of smaller brokers and investment advisors. Finally, Reuters

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[3] Id. at 31.

strongly agrees that electronic research should be treated the same as traditional paper-based research for purposes of determining eligibility under Section 28(e).

C. Transparency

Reuters believes that transparency is essential to investor protection and informed decision-making. The Commission states that it "recognizes that improvements may be necessary in disclosure and documentation of client commission practices."[4] Reuters supports increased disclosure concerning client commission practices, so that investors have the information they need to make meaningful evaluations and comparisons of investment performance. If the information is available in a clear format, investors will be equipped to evaluate whether their fiduciaries are using commission dollars appropriately.

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Reuters agrees with the Commission that the marketplace currently is characterized by uncertainty regarding whether various products and services may be paid for with client commission dollars. The Commission points out that this may result in the use of client commission dollars to pay for items outside the safe harbor. Reuters is also concerned that the uncertainty may cause asset managers to forego permissible services that would help them deliver enhanced returns to their clients. Reuters therefore commends the Commission for publishing the proposed guidance and supports its early adoption to bring certainty to this issue.

Attached please find an appendix that lists Reuters' responses to some of the specific questions posed in the proposed Guidance.

Sincerely,

[4] Id. at 24 n.72.

APPENDIX

1. Does the Commission's interpretation offer sufficient guidance with respect to the types of "advice," "analyses," and "reports" that are eligible as "research services" under Section 28(e)?

The Commission should consider clarifying that where the design of an electronic process embodying artificial intelligence yields benefits comparable to those produced by the human expression of reasoning or knowledge, such computer-generated analysis can produce meaningful conclusions on investment decisions and should be within the definition of "research services" under Section 28(e).

2. How would investors, money managers, broker-dealers, and others be affected by the Commission's interpretive guidance that client commissions cannot be used to obtain computer equipment as "research" under Section 28(e)?

Reuters supports the Commission's proposed exclusion of computer equipment from the scope of "research." Market data vendors increasingly provide their services by integrating them into end users' broader information systems, rather than through discrete delivery channels such as single-purpose terminals. Computer equipment seems more akin to an asset manager's operational overhead. Guidance that places computer equipment outside the scope of "research" seems unlikely to reduce the flow of "reasoning or knowledge" to asset managers to the detriment of investors.

3. Does the Commission's interpretation offer appropriate guidance as to the eligibility of market data and trade analytical software under Section 28(e)?

Reuters believes the Commission has offered appropriate guidance as to the eligibility of market data. The Commission has correctly concluded that market data is a "research service" that provides an asset manager with lawful and appropriate assistance in making investment decisions. As described above, Reuters service is a dynamic research device that enhances the performance of investment professionals through the provision of traditional research products as well as various types of data and analysis.

Reuters believes the Commission should continue to allow asset managers to purchase trade analytical software and services using client commissions. Post-trade execution quality analytics help asset managers compare the execution services provided by different brokers and determine whether a broker is in fact providing "best execution." In Reuters view, these services relate to trade execution and are of benefit to investors. For that reason, it is appropriate that they be deemed a "research" or "brokerage" service and paid for with investors' commission dollars.

4. Does the Commission's interpretation offer sufficient guidance about third-party research and commission-sharing arrangements?

Reuters supports the Commission's approach on third-party research and believes the proposed interpretation offers sufficient guidance. As described above, this will benefit investors both by promoting the distribution of independent research and by enhancing the competitiveness of smaller brokers and investment advisors.

5. How does the Commission's interpretive guidance differ from the approaches that other regulators, SROs, market participants, trade organizations, and investor advocacy groups have adopted or recommended with respect to client commission practices?

Reuters agrees with the conclusion by the Commission that the proposed guidance "is generally consistent with" the rules adopted by the United Kingdom Financial Services Authority earlier this year regarding client commissions.[5] Market data services supplied by vendors typically reflect parameters such as message size, message update frequency, and source of information set by vendors and customers. Therefore, they can be paid for with client commissions under the FSA rules provided an asset manager reasonably determines that the service constitutes a "research service." Reuters market data services are carefully designed and controlled to interface with clients' information technology systems; Reuters also offers services specifically tailored for portfolio managers and for portfolio manager/traders

6. Concerns have been expressed by some industry participants and others that mass-marketed publications (publications that are widely circulated to the general public and intended for a broad, public audience) are part of a firm's overhead and should not be paid for with client commissions. To what extent are these being paid for with client commissions? Are the purposes and uses of these types of publications distinguishable from those of traditional research products? Should the Commission provide further guidance in this area?

The Commission has given appropriate guidance with respect to when mass-marketed publications may be paid for with client commissions. Under the proposed interpretation, a money manager would be required to determine first that a mass-marketed publication is an eligible product or service, that is, that it constitutes "advice," "analyses," or "reports" within the meaning of Section 28(e). Second, the manager must determine that the publication "actually provides lawful and appropriate assistance in the performance of his investment decision-making responsibilities." Finally, the manager must determine that the amount of client commissions paid is reasonable. If the manager can meet these three steps, there appears to be no reason to treat mass-marketed publications differently from other forms of research.

7. Should the Commission afford firms time to implement the interpretation? In commenting, please provide specific examples of any potential implementation issues.

As the Commission has noted, the marketplace currently is characterized by uncertainty regarding whether various products and services may be paid for with client commission dollars. The Commission points out that this may result in the use of client commission dollars to pay for items outside the safe harbor. Reuters is also concerned that the uncertainty may cause asset managers to forego permissible services that would help them deliver enhanced returns to their clients. Reuters therefore supports prompt adoption of the proposed guidance to bring certainty to this issue.

[5] Id. at 20; see U.K. Financial Services Authority "Feedback on CP 05/5 and Final Rules (July 2005)..