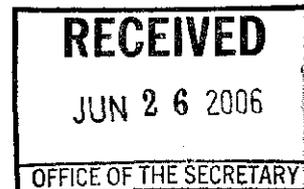


United States Senate

WASHINGTON, DC 20510



June 7, 2006

87-09-05

The Honorable Christopher Cox
Chairman
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

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CHAIRMAN'S
CORRESPONDENCE UNIT

Dear Mr. Chairman:

We write to urge the Securities and Exchange Commission (SEC) to issue the final rule on the use of client commissions to support investment research. When you testified before the Senate Banking Committee on April 25, 2006, you indicated that the Commission would reach a final conclusion "in the near future" on the proposed rule on the use of client commissions to support investment research. While that news was reassuring, we continue to grow concerned about the strength of the research industry in the United States as it operates in an environment without final guidance. We are especially concerned since this proposed rule was issued on October 19, 2005 and the comment period closed on November 25, 2005.

During the more than three years the Commission reviewed industry practices and Commission policy in this area, the use of research commissions for all equity research stopped growing and began to decline, in some instances precipitously. Independent research has been hurt the most. For example, Greenwich Associates, the most authoritative source in the research business, recently issued data that shows a steep decline in total commissions for independent research from \$1.518 billion to \$970 million from 2003 to 2006. Change in any business is constant, of course, and can often lead to better products and services. In this instance, however, many asset managers have reduced or eliminated research commissions as they wait for final guidance from the Commission.

As early as this week, Bloomberg reported that many research functions are being cut or exported to India. Independent research services cannot step in as the sell side retracts because they are not sure they can get paid. Moreover, not enough attention is being paid to increasing performance quality, partially due to the uncertainties of regulatory treatment. Until the Commission acts, the market for institutional research will not stabilize and recover.

The use of commissions to acquire research has been a part of the securities industry since its inception hundreds of years ago. Indeed, we believe that without commissions supporting research, the investing public would be greatly disadvantaged. Thankfully, the proposed SEC interpretive release clarifies the rules of compliance so that only legitimate research and brokerage services can be funded with commissions.

The final issuance of this rule is imperative to the integrity of the markets, to institutional investors and to the firms producing investment research, especially independent researchers. With more than half of the American households investing mainly through mutual funds, it is vital that investment professionals have access to research through the use of existing commissions as a tool achieve positive investment returns for their investors.

We strongly urge the Commission to issue a final rule in the coming weeks. We look forward to continue working with you on this very important issue and ask that you contact our offices if you have any further questions.

Sincerely,



Charles E. Schumer
United States Senator



John E. Sununu
United States Senator

Cc: Commissioner Paul S. Atkins
Commissioner Roel C. Campos
Commissioner Cynthia A. Glassman
Commissioner Annette L. Nazareth