

## Plan Sponsors and Fund Managers Favor Guidance on Commission Disclosure

**Greenwich, CT—June 6, 2007**—A majority of investment managers and pension plan sponsors wants the U.S. Securities and Exchange Commission to provide more definitive guidelines on the level of disclosure required in the use of client commissions to pay for equity research, according to a new study by Greenwich Associates and Capital Institutional Services (CAPIS).

More than 60% of the investment managers and more than two-thirds of the plan sponsors interviewed by Greenwich Associates say they favor regulatory intervention that would help clarify what needs to be disclosed regarding commissions paid to equity brokers for trade execution and research.

"The results of today's survey are particularly relevant given SEC Chairman Cox's recently expressed concerns regarding the use of client commissions to pay for research," says CAPIS CEO Kristi Wetherington. "In fact, it is my belief that the best way to preserve the value of the practice, while still addressing the issues raised by the Chairman, is for the SEC to issue additional guidance on the topic of disclosure. Based on today's findings, it seems that plan sponsors and many investment managers have also come to the conclusion that the disclosure issue is best settled by SEC guidance."

To gain insight into the disclosure issue, Greenwich Associates interviewed 43 institutional investment managers and 37 plan sponsors between February and April 2007. Study participants were asked about their current disclosure practices and their views on the likelihood, desirability and potential effects of mandatory disclosure. The results of this research were clear: A majority of study participants supports SEC involvement, with plan sponsors looking to the SEC to establish clear and specific guidelines and investment managers favoring a more limited regulatory framework.

### Current Disclosure Practices: A Lack of Consensus

Among the plan sponsors interviewed in the study, just over half say their investment managers disclose total commissions and another 38% say their managers will disclose that information upon request. Only 20% say their investment managers split out the amount of commissions paid for research in general or third party research in particular; between 40% and 50% say their managers do not disclose commission data at this level of detail. Among the investment managers interviewed in the study, 35% say they regularly report to clients the total amount of commissions they pay to brokers — the most basic level of commission disclosure — and nearly a quarter take the next step and split out the total amount of commissions paid for research.

### Disclosure Earns Strong Support from Plan Sponsors

Among participating plan sponsors, 55% believe that the mandatory disclosure of commissions for both research and trading will benefit plan sponsors and, ultimately, plan participants. A full 86% of participating plan sponsors say investment managers should be required to disclose the total amount of commissions they pay to brokers. More than 60% believe managers should be required to split out the amount of commissions paid for research overall and for third party research as a separate line item, and more than half want to see managers report total commissions paid to executing brokers for proprietary research.

Although support for mandatory disclosure is less widespread among investment managers, the research results show more managers to be in favor rather than against disclosure. Half of participating investment managers support disclosure requirements for total commissions, 41% think managers should be required to split out commissions paid for research overall, half support mandatory disclosure for commissions used for third party research and 45% think managers should be required to report the amount paid to executing brokers for proprietary research. In each case, approximately one-fifth to one-third said they disagreed. Investment managers also see the potential for negative consequences. Forty percent of investment managers think that the use of proprietary research will decline as a result of increases in disclosure, and almost 30% believe that greater disclosure will lead to reductions in overall commissions and lower quality of research, which will in turn have a negative impact on investment performance.

“There is real concern in the industry that if disclosure rules are not handled properly they will benefit large funds and brokers disproportionately,” says CAPIS COO Jim Morrow. “It is important to bear in mind that any new disclosure policy will impose costs, and these costs could be more onerous for small funds and investment managers.”

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