



May 16, 2008

Nancy Morris, Secretary
U. S. Securities and Exchange Commission
100 F Street NW
Washington, DC 20549-1090

Subject: File Number S7-10-00, Release No. 2711- Proposed Amendments to Form ADV

Dear Ms. Morris:

Integrity Research Associates, LLC is an information and solutions provider specializing in the investment research industry. Institutional investor clients use Integrity's services to find new research providers and monitor existing ones. Integrity currently covers over 1,700 research firms in the U.S., Europe and Asia, the majority of which are third party research providers, unaffiliated with investment banks.

We commend the Securities and Exchange Commission for its desire to improve client disclosure by amending the form and content of Part 2 of Form ADV. It is clear that a "plain English" description will provide investors with more valuable insight than is available in the current "check the box" disclosure format. In addition, providing investors with the ability to electronically access an adviser's brochure through the SEC website should be a useful feature for many investors. However, we do have a few concerns about the proposed amendments which we have outlined below.

I. Confusion and Inaccuracies

The proposed amendments to Part 2 of Form ADV do not address the significant confusion and inaccuracies that have been included and reported to investors as part of existing disclosure. This view was made clearly by Ms. Lori Richards, the director of the SEC's office of compliance inspections and examinations in 2006, as quoted in a July 2006 Crain article written by Sara Hansard. Ms. Richards commented,

"One very common misperception among investment advisers is that when they obtain research from a proprietary broker-dealer, they don't consider that to be a soft-dollar transaction," she said. "That's a misunderstanding. If they are acquiring research with client commission dollars, they're engaged in a soft-dollar transaction."

Unfortunately, it appears that this confusion continues today. Data collected from the Investment Adviser Registration Depository as of September 30, 2007 showed that only 60% of investment advisers registered with the Commission report that they use soft dollars.

This figure is surprisingly low. We are certain that more than 60% of investment advisers pay in excess of \$.01 to \$.015 per share in commissions (the lowest commission rate available). In addition, we suspect that most advisers also receive research from the sell-side brokers they transact with. As a result, Form ADV clearly understates investment advisers' use of soft dollars to pay for proprietary brokerage research.

II. Limited and Unequal Disclosure

We wholeheartedly agree with the SEC's stated desire to require full disclosure of arrangements that involve significant conflicts of interest. Consequently, we were surprised to discover that the Commission chose only to require disclosure of "third-party" arrangements rather than include sell-side research as well. Clearly, the conflicts of interest associated with paying for third-party research with client commissions are identical to the conflicts associated with paying for proprietary brokerage research in this manner.

This is disconcerting given the fact that the amount of "paid up" soft dollars commissions spent on third-party research is dwarfed by the amount of soft dollars spent on proprietary sell-side research. Our estimates conservatively suggest that institutional investors spend four to five times more client commissions on proprietary brokerage research than they do on third-party research.

We are also concerned that by requiring the disclosure of soft dollars spent on third-party research and not proprietary research, the Commission is unintentionally creating an unlevel playing field for third-party research providers. Certainly, if advisers feel that disclosure is an administrative burden, they will favor using proprietary research instead because less disclosure is required.

III. Market Led Solution?

The SEC is supporting market-led solutions to increase transparency of equity commissions. It has assisted the implementation of client commission arrangements (CCAs) in the U.S. which can facilitate "best execution" by allowing clients to consolidate trading with high quality counter-parties while setting aside a pool of commission monies to pay research providers. CCAs are creating a more transparency around research payments, and investment advisors are beginning to contemplate "best research" practices analogous to their "best execution" procedures. The adoption of CCAs has grown and is estimated by brokers offering CCAs as encompassing around 40% of their client base in the U.S.

Many investors are taking a “wait and see” attitude on commission transparency, however, and it is likely that the adoption of CCAs will plateau near current levels of market penetration. Without more proactive SEC guidance on commission disclosure, market-led solutions will falter.

IV. A View from Overseas

Recently, we had the opportunity to speak with staff members of the Financial Services Authority at an industry conference in London to discuss various developments in the UK and US related to commission transparency. They were curious why the SEC had not yet established a commission disclosure regime in the United States that was comparable to the rules in the UK, France or Canada. After explaining our views, the FSA staff members queried, “Why should anyone be afraid of commission transparency? All they need to do is look at what has taken place in the UK. Nothing terrible has befallen the banks, brokers, or investment managers.”

We would go further to say that the UK is further advanced in market-led commission transparency. Equity commission rates have been falling and there is a more transparent basis for valuing research as investors proactively engage the brokerage firms in regular discussions on the value and cost of their research. As market mechanisms are being adopted, brokers are getting better insight into what types of research institutional investors value. Brokerage research has become more ideas-focused and less oriented toward lower-value ‘maintenance’ research. Investors now find it easier to reward smaller regional brokerage firms and third-party research firms for good research. We believe that the Commission will need to implement a more robust commission disclosure framework for market mechanisms to apply to brokerage research in the U.S.

Like the FSA staff members, we wonder what is keeping the Commission from providing U.S. investors with the same amount of transparency that is currently mandated by the Financial Services Authority (FSA), the Autorité des Marchés Financiers (AMF), and the Canadian Securities Administrators (CSA).

V. Summary

We believe the SEC is justified in taking steps to improve the disclosure for clients with amendments to Part 2 of Form ADV. However, we also feel that the Commission has an opportunity to provide a level of disclosure that will give U.S. investors something that UK, French, and Canadian investors already have – and that is accurate and transparent information about how their advisers are spending their commission assets, regardless of whether it is on third-party or proprietary research. We encourage the Commission to consider providing investors with this level of additional disclosure.

We appreciate this opportunity to comment on the SEC's proposed amendments to Part 2 of Form ADV. If you have any questions about this letter, please feel free to contact me at (212) 845-9088 ext. 801.

Very Truly Yours

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