



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

Re: File No. S7-10-00: Comments on Proposed Amendments to Form ADV

Dear Ms. Morris:

Thank you for the opportunity to comment on File No S7-10-00, which proposes amendments to Part 2 of Form ADV. As the president of Carolina Capital Markets, Inc. (“CCM”), an institutional fixed-income broker-dealer providing execution and independent third-party research to money managers under the Section 28(e) safe harbor, I would like to address one element of the Part 2A, Item 12 disclosure requirements that we believe to be of particular importance and which we support wholeheartedly.

Under the heading "Research and Other Soft Dollar Benefits" the adviser is asked to disclose if he receives "research or other products or services other than execution from a broker-dealer or a third party in connection with *client* securities transactions" The adviser is further instructed that his disclosure "must include all soft dollar benefits ... including, in the case of research, both proprietary research (created or developed by the broker-dealer) and research created or developed by a third party." We believe this is an important clarification of a point that has escaped many advisers: namely, that proprietary "sell-side" research received in consideration of transactions with a broker-dealer is a soft-dollar benefit and, as such, is subject to the same scrutiny and requires the same disclosures as third party benefits, such as independent research, paid for by a broker-dealer from client brokerage commissions. Speaking to this issue, an SEC official was quoted in a trade publication as stating that "one very common misperception among investor advisers is that when they obtain research from a proprietary broker dealer, they don't consider that to be a soft dollar transaction. ... That's a misunderstanding. If they're receiving research with client commission dollars, then they are involved in a soft dollar transaction."¹

Since the “Global Settlement of 2003” with the major investment banking firms, we believe that there has been a marked decline in the quantity and quality of sell-side fixed income research as many of the “best and brightest” analysts have migrated to independent research platforms. Unfortunately for investors, high quality independent research is costly and the

¹ Hansard, Sara. “Advisers misreport use of soft dollars,” www.Investmentnews.com, July 24, 2006.

decline in fixed income management fees has put it beyond the reach of many small and mid-sized money managers.

In July, 2006, the SEC provided some relief to money managers in the form of new guidance on the use of client commission arrangements.² In this release the Commission pointed to the “broad array of independent research products and services” that may be “particularly beneficial to the advised accounts ...” and stated flatly that “(w)e believe that the safe harbor encompasses third-party research and proprietary research on equal terms.”

We believe it is imperative that money managers understand that independent, third party research is available to them under the same safe harbor provisions that allow them to receive bundled proprietary research from full service brokers. The proposed changes to Form ADV that I have cited will help to clarify this issue and increase advisers’ awareness of the research options available to them.

Sincerely,

Thomas G. Shugrue
President

¹ (17 CFR Part 241 “Commission Guidance Regarding Client Commission Practices Under Section 28(e) of the Securities Exchange Act of 1934; Final Rule.