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Invested in America

June 18, 2025

Submitted via email to: PubCom@finra.org
Jennifer Piorko Mitchell
Office of the Corporate Secretary
FINRA
1700 K Street, NW
Washington, DC 20006-1506

Re: FINRA Regulatory Notice 25-06: FINRA Requests Comment on Modernizing FINRA Rules, Guidance and Processes to Facilitate Capital Formation

Dear Ms. Mitchell:

The Securities Industry and Financial Markets Association ("SIFMA" or "we")[1] appreciates the opportunity to respond to the request for comment by the Financial Industry Regulatory Authority, Inc. ("FINRA") in Regulatory Notice 25-06 ("Regulatory Notice 25-06"),[2] which requests comments on its rules and related guidance governing (i) capital acquisition brokers and other limited purpose broker-dealers, (ii) research analysts and research reports, and (iii) capital raising, including the FINRA Corporate Financing Rules,[3] in an effort to further facilitate capital formation. We note that SIFMA also previously provided comment letters dated August 7, 2023, in response to Regulatory Notice 23-09 and March 20, 2025, in response to Regulatory Notice 24-17.[4]

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[1] SIFMA is the leading trade association for broker-dealers, investment banks, and asset managers operating in the U.S. and global capital markets. On behalf of our industry's nearly one million employees, we advocate for legislation, regulation and business policy affecting retail and institutional investors, equity and fixed income markets, and related products and services. We serve as an industry coordinating body to promote fair and orderly markets, informed regulatory compliance, and efficient market operations and resiliency. With offices in New York and Washington, D.C., SIFMA is the U.S. regional member of the Global Financial Markets Association.

[2] *See* FINRA Regulatory Notice 25-06 (March 20, 2025), *available at*: https://www.finra.org/rules-guidance/notices/25-06.

[3] FINRA Rules 5110 (Corporate Financing Rule – Underwriting Terms and Arrangements), 5121 (Public Offerings of Securities with Conflicts of Interest) and 5123 (Private Placements of Securities) (collectively, the "Corporate Financing Rules").

[4] *See* letter from Joseph Corcoran to Jennifer Piorko Mitchell regarding FINRA Regulatory Notice 23-09 dated August 7, 2023, *available at*: https://www.finra.org/sites/default/files/NoticeComment/SIFMA_8.7.23_23-09_Comment%20Letter.pdf; letter from Joseph Corcoran to Jennifer Piorko Mitchell regarding FINRA Regulatory Notice 24-17, *available at*: https://www.finra.org/sites/default/files/NoticeComment/SIFMA%20Comment%20Letter%20-%20Regulatory%20Notice%2024-17%282024513759.12.docx%29%20Final%203-20-2025.pdf.

As requested in Regulatory Notice 25-06, Questions B.1-B.6, this letter sets forth SIFMA's comments with respect to FINRA Rule 2241 (Research Analysts and Research Reports) and FINRA Rule 2242 (Debt Research Analysts and Debt Research Reports)[5] (together, the "Research Rules") against the backdrop of the 2003 Global Research Settlement (the "Global Settlement") as amended in 2010 ("2010 Amendment"), and related authorities governing the preparation and distribution of equity and debt research reports by member firms.

I. Introduction

SIFMA supports FINRA's ongoing efforts to review and consider modifying its rules, including the Research Rules, to increase efficiency and reduce unnecessary costs and burdens on the capital-raising process without compromising protections for investor clients and issuers. Research remains essential to the capital-raising process by providing investors with objective and reliable information about the market and issuers when making an investment decision. SIFMA further supports FINRA's recognition in Regulatory Notice 25-06 that the research business and the role of research analysts have undergone significant changes since FINRA adopted the Research Rules and that the Research Rules have not been "substantially revisited in recent years while the research business has evolved."[6]

SIFMA believes that the proposed modifications and clarifications of the Research Rules detailed below are of significant importance to increasing the efficiency and effectiveness of FINRA's regulation of research analysts and the preparation and distribution of equity and debt research, and capital formation generally, while continuing to promote the independence of research departments, objectivity and transparency in research reports, establish important standards of conduct for its members, mitigate conflicts, and maintain appropriate protections for investors and issuers.

II. The 2010 Amended Global Settlement is no longer necessary

In response to FINRA's question in B.1. of Regulatory Notice 25-06, SIFMA does not believe that retaining the requirements of amended Global Settlement is necessary for the ongoing regulation of research. When the Global Settlement was entered into in October 2003 between the SEC, the New York Attorney General, the New York Stock Exchange, the National Association of Securities Dealers (FINRA's predecessor), other regulators and a group of major financial institutions (the "Settling Firms"), the expectation was that the terms agreed to would soon be the subject of industry-wide rules that would supersede the provisions of the Global Settlement. This expectation was stated explicitly in Addendum A to the Global Settlement: "[i]n the event that the SEC adopts a rule or approves an SRO rule or interpretation with the stated intent to supersede any

[5] Member firms would benefit from a review of the burdensome institutional investor exemption requirements under FINRA Rule 2242, which do not provide commensurate investor and/or issuer protections.

[6] *See* Regulatory Notice 25-06 at 6.

of the provisions of this settlement, the SEC or SRO rule or interpretation will govern with respect to that provision of the settlement and such settlement will be superseded."[7]

Pursuant to the 2010 Amendment, the Court approved the removal of certain prohibitions in Addendum A, which the Court viewed as no longer necessary in light of the existing FINRA Rule 2711.[8] The Court added additional language into Addendum A to state that, assuming that new research rules proposed by FINRA in Regulatory Notice 08-55 were implemented, it was the expectation of the parties to the Global Settlement that the remaining operative provisions would be eliminated, unless the SEC believes it would not be in the public interest.[9] FINRA Rule 2241, which was approved by the SEC in 2015, is the culmination of what was proposed by Regulatory Notice 08-55[10] and is a consolidated, comprehensive rule that expanded upon the provisions set forth in Rule 2711 and applies to all firms, including the Settling Firms.

It is our view that, with the adoption of FINRA Rule 2241, the remaining terms of the Global Settlement are no longer necessary or justifiable from an investor protection or market integrity perspective. Retaining the Global Settlement alongside FINRA Rule 2241 perpetuates a fragmented regulatory structure that only serves to create confusion and add unnecessary cost without any commensurate benefit. We are of the view that FINRA Rule 2241 has superseded the remaining provisions of Addendum A to the Global Settlement.

III. Certain prescriptive and technical requirements of the content and presentation of the disclosures under FINRA Rules 2241(c) and 2242(c), together with the full scope of information required to be captured by the rule, warrant revision.

3.1 Certain prescriptive content standards set forth in FINRA Rules 2241(c)(4) and 2242(c)(4) should be replaced with a "standard" disclosure and, where necessary, disclosed pursuant to a principles-based obligation.

FINRA Rule 2241(c)(4)(C), (D), (E), (F) and (G), and corresponding FINRA Rule 2242(c)(4)(C), (D), (E), and (F) ("Other Business Disclosures"), should be replaced with a "standard" disclosure informing research recipients that members may have business relationships with the covered issuer and that the members may make a market or beneficially own the securities of the covered issuer,[11] and where necessary, supplement such standard disclosure with additional disclosure

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[7] *See* Petition to the Honorable William H. Pauley III, United States District Judge for the Southern District of New York (Aug. 3, 2009) at 3, *available at*: https://corpgov.law.harvard.edu/wp-content/uploads/2010/03/Request-to-modify-2003-settlement.pdf (the "2009 Petition").

[8] *See* Order of William H. Pauley III regarding the Global Research Settlement, SDNY (Mar. 15, 2010), *available at*: https://www.sec.gov/info/smallbus/acsec/acsec-020112-global-settlement.pdf.

[9] *Id*. at 15.

[10] FINRA Regulatory Notice 08-55 (Oct. 14, 2008), *available at*: https://www.finra.org/rules-guidance/notices/08-55.

[11] For example, such disclosure can read: "[FINRA member] and its affiliates do and seek to do investment banking and other business with issuers covered in its research reports and receive compensation from issuers for such businesses. [FINRA member] and its affiliates may also, in the ordinary course of their businesses, make a market in the securities and/or beneficially own securities of the subject company. To avoid the potential for a conflict of

describing specific circumstances that member firms determine result in a material conflict of interest using a principles-based approach.[12]

SIFMA appreciates that the requirements of the Other Business Disclosures are meant to protect the integrity of research reports and agrees that effective disclosures capturing conflicts of interest are essential to ensure investors have sufficient information to evaluate the credibility and objectivity of the research reports. However, many of the specific mandated conflicts of interest disclosures derive from businesses that practically can have no effect on research analysts' preparation of research reports. Member firms already comply with other provisions of the Research Rules that require comprehensive policies and procedures and internal controls governing research independence, including information barriers between research analysts and other business units of the member firm. Accordingly, member firms' time and resources spent on identifying and disclosing specified but immaterial conflicts of interest based on information that is unknown to the research analyst and, therefore, does not influence the views of the research reports they prepare, do not make a meaningful contribution to FINRA's goal of investor protection.

In addition, the costs and resources member firms dedicate to the requirements under the Other Business Disclosures, as currently drafted, are largely disproportionate to their benefits. For example, FINRA Rules 2241(c)(4)(D) and 2242(c)(4)(D) require a member to disclose whether it "or its affiliates have received from the subject company any compensation for products and services other than investment banking services in the previous 12 months." Compliance with this rule is costly and burdensome for member firms as it requires them to consistently monitor and update their reporting systems for business relationships or securities interests that are typically immaterial in the context of the firms' enterprise-wide operations, often depending on data from systems that are not maintained by the members themselves or designed with a view to compliance with these disclosure rules.

For these reasons, we strongly urge FINRA to replace the Other Business Disclosures (i.e., FINRA Rule 2241(c)(4)(C), (D), (E), (F), and (G) and corresponding FINRA Rule 2242(c)(4)(C), (D), (E), and (F)) with a disclosure framework pursuant to which member firms would provide a standard disclosure, as described above, and, where necessary, supplement such standard disclosure with

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interest related to any such business relationships, activities or ownership interest, [FINRA member] has implemented policies and procedures reasonably designed to protect the objectivity of the views of its research analysts with respect to covered issuers or securities, and to maintain the independence of the [FINRA member] research department."

[12] This approach is consistent with the principles-based disclosure framework under FINRA Rules 2241(c)(4)(I) and 2242(c)(4)(H), which require members to disclose any other material conflicts of interest applicable to the member or analyst preparing the research report. For example, member firms will typically disclose in research reports, pursuant to FINRA Rules 2241(c)(4)(I) and 2242(c)(4)(H), whether they have acted as a financial adviser to the covered issuer in connection with a merger or acquisition involving such issuer. In our experience, although disclosure of such relationships is not expressly required under the Research Rules, research clients see these disclosures as helpful. Therefore, removing the prescriptive elements of the disclosure requirements under the current Research Rules would have the added benefit of providing flexibility for FINRA member firms to tailor their disclosures in a manner that is most responsive to research clients' interests.

additional disclosure describing specific circumstances that member firms determine result in a material conflict of interest using a principles-based approach.

This approach would balance the objective of ensuring that research recipients are aware of any conflicts of interest applicable to the research-producing member while also (i) providing members flexibility to assess whether that member's relationship or interest warrants disclosure in additional detail in a research report, and (ii) benefiting research recipients by presenting them only with information about a member's potentially material conflicts of interest.

3.2 FINRA Rules 2241(c)(4)(B) and 2242(c)(4)(B) are not applicable given existing Research Rule requirements to separate investment banking and research.

FINRA Rules 2241(c)(4)(B) and 2242(c)(4)(B) require members to disclose on their research reports whether the research analyst responsible for preparing the report receives compensation based upon the member's investment banking, sales and trading, or principal trading revenues. However, given the requirements of other provisions of the Research Rules, FINRA member firms have robust policies and procedures to ensure that research analyst compensation is not based on investment banking or trading revenues. In particular, FINRA Rules 2241(b)(2)(E) and 2242(b)(2)(F) prohibit the compensation of research analysts to be based "upon specific contributions to a member's investment banking service [or principal trading] activities."[13] Therefore, given the existing Research Rule requirements and corresponding compliance programs maintained by member firms in response to such requirements, we respectfully request that FINRA remove the disclosure requirements under FINRA Rules 2241(c)(4)(B) and 2242(c)(4)(B).

3.3 The prescriptive requirements for presenting the content in research reports under FINRA Rule 2241(c)(3) and FINRA Rules 2241(c)(6) and 2242(c)(6) should be replaced with a "clear and prominent" standard.

FINRA should consider modernizing certain prescriptive elements of the Research Rules governing the presentation of the content that must be included in research reports, which, for example, require certain reports to include a line graph of the security's daily closing prices.[14] While SIFMA agrees that the information required to be disclosed under FINRA Rule 2241(c)(3) is helpful in providing comprehensive information to investors, the prescriptive technical requirement that such information be presented in the form of a line graph restricts members' ability to present such information in a form that may be more intuitive or clear to readers in the context of the specific report. Indeed, compliance with the technical elements of these rules creates challenges, particularly in instances where members reformat the structure or style of their research reports, without a clear benefit to research recipients.

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[13] *See* FINRA Rule 2241(b)(2)(E); FINRA Rule 2242(b)(2)(F).

[14] In particular, FINRA Rule 2241(c)(3) requires members to include in research reports containing a rating or price target, and where the member has assigned a rating or price target to such security for at least a year, a line graph of the security's daily closing prices for the shorter period of the period that the member has assigned any rating or price target or three years.

In our experience, the information required under FINRA Rule 2241(c)(3) can often be presented in alternative formats that are clearer and more intuitive to investors, including via a link to the relevant information that is available in electronic formats, which are also visually and operationally more practical. Providing a prominent link to the information rather than requiring the information to be embedded in the report achieves the same purposes without introducing information that may make the key contents of the research report less accessible.

In addition, under FINRA Rules 2241(c)(6) and 2242(c)(6), the content and disclosures required under FINRA Rule 2241(c) and 2242(c) must be presented on the front page of research reports. Today, research reports are often accessed and read on firm-operated electronic platforms. While we appreciate that the current rule provides certain accommodations for electronic research reports,[15] as a technical matter, when research reports are physically printed from these electronic platforms, it can be challenging for members to ensure that disclosures remain on the front page such printed reports.

Therefore, FINRA should consider updating the requirements under FINRA Rule 2241(c)(3) and FINRA Rules 2241(c)(6) and 2242(c)(6) to require firms to present the content in a "clear and prominent manner." The foregoing proposals would effectively update the relevant FINRA rules to reflect the way that changes in technology have affected research distribution and consumption, and ease operational and technical burdens for research providers by eliminating outdated elements of the rule.

3.4 The definition of "affiliate" needs to be clarified.

Member firms would benefit from guidance regarding the definition of "affiliate," under the disclosure requirements of FINRA Rules 2241(c)(4) and 2242(c)(4). While FINRA Rule 2241 Supplementary Material .06 states that "with respect to paragraphs (c)(4)(F) and (d)(1)(B), beneficial ownership shall be computed in accordance with the same standards . . . under Section 13(d) of the [Securities Exchange Act of 1934 (the 'Exchange Act')]," [16] it is unclear whether the definition of "affiliated person" under the Exchange Act should apply when considering the disclosure requirements with respect to affiliates. Notably, the Exchange Act, through incorporation of the definition of "affiliated person" under the Investment Company Act of 1940, defines this term to include "any person directly or indirectly owning, controlling, or holding with power to vote, five per centum or more of the outstanding voting securities of such other person" (emphasis added). However, the term "affiliate" as used in the context of other FINRA rules, such as FINRA Rule 5121, is based on the definition of "control" thereunder, which is defined as "beneficial ownership of ten percent or more of the outstanding common equity of an entity" (emphasis added) or ownership of the right to receive ten percent or more of the distributable profits or losses of a partnership or preferred equity of another entity. As such, there is currently ambiguity with respect to how a member should determine its affiliates for the purposes of FINRA Rules 2241 and 2242. For the foregoing reasons, we are of the view that, for purposes of

[15] For example, FINRA Rule 2241(c)(6)-(7) provide for hyperlinking to the required disclosures for electronic research reports.

[16] *See* FINRA Rule 2241 Supplementary Material .06.

consistency with existing FINRA rules, the definition of "affiliate" should be consistent with such definition under FINRA Rule 5121 and account for entities under common control with the FINRA member firm based on a beneficial ownership of ten percent or more of the outstanding common equity of an entity.

IV. Securities held by research analysts or members of the research analysts' household in Managed Accounts and Permissible Funds, each defined below, should be excluded from the disclosure requirements under FINRA Rules 2241(c)(4)(A) and 2242(c)(4)(A).

FINRA Rules 2241(c)(4)(A) and 2242(c)(4)(A) require member firms to disclose any financial interest in the debt or equity securities of the subject company and the nature of such interest held by the research analyst or a member of the research analyst's household.

FINRA should consider amending these rules to provide exclusions for securities held by the research analyst or a member of the research analyst's household either through a fund or managed account that satisfy the following criteria: (i) the fund's or managed account's trading activities are entirely directed by a registered investment adviser; and (ii) the fund's or managed account's stated investment objective or target allocation is not materially similar to the research analyst's coverage universe or sector. Any fund or managed account satisfying the applicable criteria set forth in (i) and (ii), a "Permissible Fund" or "Managed Account."

This proposed approach would tailor the due diligence and controls that members must perform to only conflicts that could impact the contents of a research report. A research analyst's financial interest in a particular security generally only affects his or her preparation of a research report to the extent that he or she has investment discretion with respect to such security. Further, the current disclosure requirements require member firms to identify the potential positions held by analysts and members of their households across a potentially intricate network of financial accounts in which the research analyst or their household member must continuously be aware of any positions giving rise to a conflict of interest, even when such analysts or household members do not have visibility on timing of trade executions.

V. FINRA should consider additional exclusions from research analysts' personal trading restrictions.

As a general matter, FINRA Rules 2241(b)(2)(J) and 2242(b)(2)(J) require member firms to restrict or limit "research analyst account" trading in securities, any derivatives of such securities and funds whose performance is materially dependent upon the performance of securities covered by the research analyst. FINRA should consider amending these rules to include exclusions from the trading restrictions for securities held by the research analyst through a Permissible Fund or Managed Account based on the same proposed standards articulated in Section IV above.

5.1 Interests in Permissible Funds held by research analysts in research analyst accounts or debt research analyst accounts should be excluded from the trading restrictions under FINRA Rules 2241(b)(2)(J) and 2242(b)(2)(J).

The potential conflicts of interest that arise from personal trading activities of research analysts are largely limited in the context of the trading of fund interests, because research analysts do not have investment authority over the securities of funds, irrespective of how such securities perform following the publication of a research report. In practice, the restriction on research analysts' ability to trade fund interests imposes additional monitoring costs and burdens for both member firms and research analysts. Such monitoring is sometimes also impractical given that funds may provide limited and delayed disclosure of their portfolio holdings.

Therefore, consistent with the standard for fund interests held by research analysts for purposes of a member firm's disclosure obligations articulated in Section IV above, SIFMA respectfully requests that FINRA amend FINRA Rules 2241(b)(2)(J) and 2242(b)(2)(J) to clarify that research analysts' accounts may trade securities of Permissible Funds.

Incorporating these proposed standards to FINRA Rules 2241(b)(2)(J) and 2242(b)(2)(J) would provide additional clarification with respect to funds that would not be deemed "materially dependent" upon the performance of securities covered by a research analyst. The additional flexibility introduced by these proposed standards is warranted given the current burdens associated with complying with this requirement and because research analysts' lack of investment discretion adequately mitigates the risk for such analysts to benefit from their position as an analyst.

5.2 FINRA should exclude Managed Accounts from the definition of "research analyst account" under FINRA Rule 2241(a)(9) and "debt research analyst account" under FINRA Rule 2242(a)(2).

As noted above, FINRA Rules 2241(b)(2)(J) and 2242(b)(2)(J) require member firms to have policies and procedures that restrict "research analyst accounts" from trading in securities, any derivatives of such securities, and funds whose performance is materially dependent upon the performance of securities covered by the research analyst. The definitions of "research analyst account" under FINRA Rule 2241(a)(9) and "debt research analyst account" under FINRA Rule 2242(a)(2) pose operational challenges for research analysts and member firms because managers exercising discretion over these accounts transact in securities across all accounts they manage and not on an account-by-account basis. As a result, security-specific restrictions on an individual account may not be considered by the investment manager.

Moreover, because account statements detailing the security holdings of their Managed Accounts may not be delivered before an analyst publishes a research report, and in fact there may be significant gaps in time, instances may arise in which the research analyst and member firm would be temporarily unaware of such holdings. The inclusion of Managed Accounts also subjects the research analyst to an ongoing obligation to communicate investment restrictions to their investment managers of the analyst's coverage universe, which may not be communicated in time for the investment manager to apply them. In addition, FINRA member firms are required to

maintain and implement policies that prohibit the ability of a research analyst to communicate changes in investment coverage in advance of the publication of the report.

For these reasons, FINRA should exclude Managed Accounts in which a research analyst has a financial interest from the definitions of "research analyst account" and "debt research analyst account" because a third-party investment manager (that is not a member of the research analyst's household) exercises discretion over the investments in the account, and, therefore, the research analyst has fully and irrevocably delegated authority over the transactions in securities made on behalf of the account, irrespective of how such securities perform following the publication of a research report.

VI. Limited research analyst information should be permitted to be included in pitch materials and rules relating to research analysts' communications during the solicitation period should be expanded in a way that does not compromise their independence.

6.1 Member firms should be able to include limited information regarding research analysts in pitch materials, provided that such information meets certain criteria.

FINRA Rule 2241(b)(2)(L) requires members to have policies and procedures that restrict or limit activities by research analysts that can reasonably be expected to compromise their objectivity. According to Supplementary Material .01, pitch materials may not include information about a member's research capacity in a manner that suggests that the member may provide favorable research coverage. Specifically, Supplementary Material .01 provides that "a member would be permitted to include in the pitch materials the fact of coverage and the name of the research analyst. . . ."[17]

As a practical matter, the universe of information a member may disclose in pitch materials that would not be interpreted as implying favorable research is unclear. This lack of clarity causes inconsistent practices among member firms in a manner that imposes additional costs and burdens on member firms, especially those with global research platforms, given that non-U.S. jurisdictions generally have less restrictive rules and interpretations regarding information about research and analysts that is permissible in pitch materials.

It is our view that certain information regarding a member firm's research analysts should be permissible where the information is widely available or previously published and available to clients through the firm's normal distribution channels. Pitch materials that include all published ratings of companies in the vetting analyst's coverage universe and previously published research content which the investor client has access to and which is provided in a manner consistent with investor clients' access to that same research (i.e., without cherry picking content or reports, or modifying reports) should not be considered to imply favorable coverage.

[17] FINRA Rule 2241 Supplementary Material .01.

Therefore, Supplementary Material .01 should be amended to permit: (i) an assigned vetting analyst's biographical and basic information related to his or her coverage, including the name, title and contact information, as well as the analyst's coverage universe and current ratings; or (ii) where no vetting analyst has been assigned, the basic information of all analysts on the relevant sector's coverage team along with their contact information, coverage universe and current ratings.

6.2 Research analysts should be permitted to coordinate with investment banking on logistics of meetings during the solicitation period for an IPO of any issuer given that such activity by itself does not implicate any conflict of interest.

SIFMA respectfully requests FINRA to clarify that investment banking and research personnel may coordinate logistics for meetings with a current or prospective client. Currently, Supplementary Material .03(a) under FINRA Rule 2241 states that "no research analyst may engage in any communication with a current or prospective customer in the presence of investment banking department personnel or company management about an investment banking services transaction."[18] This restriction is meant to address the risk that "the presence of investment bankers or issuer management. . . could compromise a research analyst's candor when talking to a current or prospective customer about a deal."[19] However, communications related to coordinating logistics for separate meetings between a firm's investment banking and research personnel and a client should not be a violation of Supplementary Material .03(a), as coordinating logistics does not involve substantive communications with a client. Therefore, clarification that investment banking and research personnel may coordinate logistics for meetings would ease administrative burdens on member firms that, in the ordinary course, hold separate meetings with clients to discuss upcoming transactions.

VII. The requirement for the member firm's board or senior executive officer to approve research analysts' compensation should be eliminated.

Under FINRA Rule 2241(b)(2)(F) and FINRA Rule 2242(b)(2)(G), research analysts' compensation must be approved by a committee that reports to the member's board of directors ("Board"), or, if the member has no Board, a senior executive officer of the member, on an annual basis. The requirement for the committee to report the compensation to the Board does not have a clear rationale as, in some cases, it forces the Board, which is typically responsible for the supervision of the compensation process at a firm-wide level, to micromanage the compensation process for a subset of broker-dealer employees where the requirements under other FINRA rules governing research analyst compensation adequately protect the independence of research analyst compensation.

In addition, given the reasoning above and the requirement that the committee exclude representation from a member's investment banking department, as well as the rigorous

[18] FINRA Rule 2241 Supplementary Material 03(a).

[19] Text of Proposed Rule Change to Proposed Rule Change to Adopt FINRA Rule 2241 (Research Analysts and Research Reports) in the Consolidated FINRA Rulebook, SR-FINRA-2014-047 (Nov. 2014) at 25, *available at*: https://www.finra.org/sites/default/files/SR-FINRA-2014-047.pdf.

background that firms gather in order to determine analysts' compensation, SIFMA respectfully requests that FINRA modify this requirement such that the relevant compensation committee need not report to the Board or senior executive officer. The requirement that research analyst compensation be approved by a committee that excludes investment banking personnel is already sufficient to address research independence, and the process by which research analyst compensation is determined is already well documented pursuant to firms' recordkeeping practices.

VIII. Foreign sovereign bonds issued by a foreign government should be excluded from the definition of "debt security."

FINRA Rule 2242(a)(4) provides an exclusion from the definition of "debt security" for any "'U.S. Treasury Security' as defined in paragraph (p) of [FINRA] Rule 6710."[20] SIFMA respectfully requests that a similar exclusion be provided for foreign sovereign bonds issued by a foreign government.

SIFMA understands that in adopting the current definition of "debt security," FINRA considered exclusions for foreign sovereign debt but that such exclusion would be "far too broad and that investors would benefit from the proposal's protections with respect to research on such securities."[21] However, an exclusion for certain sovereign bonds would be particularly beneficial to members that provide market commentary on currency and interest rate markets. It is essential that such members be able to speak about activity in the sovereign bond markets as these markets are closely linked to prices and trades in currency and interest rate markets.

While the current exclusion for U.S. Treasury Securities was adopted pursuant to FINRA's concern with "[interfering] with the markets involving direct obligations of the U.S.,"[22] as a practical matter, this exclusion's utility for members is largely based on the ability of members to discuss U.S. Treasury Securities in providing analysis on the U.S. interest rate market. A similar benefit should be afforded to analyses of foreign markets because the costs and resources required to ensure that such analyses conform with the requirements of FINRA Rule 2242 are a significant deterrent for member firms that wish to provide similar information relating to foreign markets and impedes firms' ability to deliver such information in a timely manner. To address FINRA's concerns that an exclusion for foreign sovereign bonds would be too broad, SIFMA proposes that such exclusion be limited to foreign sovereign bonds that represent debt obligations issued by a foreign government. This limitation would significantly reduce the scope of securities eligible for

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[20] FINRA Rule 6710(p) defines U.S. Treasury Security to mean "a security, other than a savings bond, issued by the U.S. Department of the Treasury to fund the operations of the federal government or to retire such outstanding securities. The term "U.S. Treasury Security" also includes separate principal and interest components of a U.S. Treasury Security that has been separated pursuant to the Separate Trading of Registered Interest and Principal of Securities (STRIPS) program operated by the U.S. Department of Treasury."

[21] Regulatory Notice 12-09 at 3, *available at*: https://www.finra.org/sites/default/files/NoticeDocument/p125615.pdf.

[22] *Id*.

the exclusion as it would exclude debt obligations that are only guaranteed by a foreign government.

IX. Principal trading personnel should be able to relay customer feedback they receive in connection with debt research analysts' evaluation and compensation.

FINRA Rule 2242(b)(2)(G) states that, when reviewing debt analyst compensation, "sales and trading personnel, but not personnel engaged in principal trading activities, may provide input to debt research management into the evaluation of the debt research analyst in order to convey customer feedback; provided, however, that final compensation determinations must be made by research management, subject to review and approval by the committee." To the extent that member firms are prohibited from using customer feedback obtained by principal traders that facilitate customer transactions, the member firm's ability to gather information about its debt research analysts from customers is severely compromised, because principal traders are an important channel for customer feedback.

As a general matter, the debt trading markets are primarily principal markets, given the institutional nature of such markets, trade sizes and the absence of exchanges. Therefore, the exception applied to "personnel engaged in principal trading activities" under FINRA Rule 2242(b)(2)(G) largely limits firms' ability to gather any feedback from sales and trading personnel in reliance on FINRA Rule 2242(b)(2)(G) overall. In addition, principal traders often directly interact with customers and therefore are the most natural point of contact for customers to provide feedback regarding the performance of a debt research analyst, as customers do not always involve other sales and trading personnel.

SIFMA understands that the current restriction is meant to address the risk that a principal trader could improperly influence debt research if they are permitted to provide input into a debt research analyst's compensation and might selectively relay customer feedback. We note that since our proposal in the 2014 Comment Letter, member firms have continued to develop their practices pertaining to the separation of research and sales and trading such that, in practice, debt research analysts are insulated from the influence of principal traders, pursuant to requirements such as FINRA Rule 2242(b)(2)(D), which prohibits debt research analysts from being supervised by principal traders. In addition, member firms remain subject to FINRA Rule 2242, which requires members to have other controls, including information barriers, to prevent influence by principal traders on debt research.

The risk associated with permitting principal traders to relay customer feedback on debt research analysts is addressed by the fact that debt research management is ultimately responsible for the evaluation of debt research analysts, and that, pursuant to FINRA Rule 2242(b)(2)(G), debt research analyst compensation is reviewed and approved by a committee that must exclude principal traders. The independence of debt research reports is also preserved by the requirements of FINRA Rule 2242(b)(2)(A), which prohibits principal traders from prepublication review, clearance, or approval, and knowledge of publication timing of debt research reports. In this regard, the totality of the requirements set forth in other provisions of FINRA Rule 2242 effectively eliminates the risk of improper influence that would arise from permitting principal traders to relay customer feedback to debt research management.

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SIFMA appreciates this opportunity to comment on Regulatory Notice 25-06 and thanks FINRA in advance for its consideration of this submission. SIFMA would be pleased to discuss any of these points further and provide additional information that would be helpful. Please do not hesitate to contact the undersigned or SIFMA's outside counsel on this matter, Jennifer Morton or Richard Alsop of Allen Overy Shearman Sterling US LLP, at (212) 848-5187 or (212) 848-7333, respectively.

Sincerely,

Joseph Corcoran
Managing Director and Associate General Counsel
SIFMA

cc: Robert W. Cook, President and Chief Executive Officer, FINRA
Robert L.D. Colby, Chief Legal Officer, FINRA
Gabriela Aguero, Senior Vice President, Corporate Financing, FINRA