



U.S. Securities and Exchange Commission

## Small Business Capital Formation Advisory Committee

February 28, 2023

The Honorable Gary Gensler  
Chair  
U.S. Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549-1070

Dear Chair Gensler:

On behalf of the SEC Small Business Capital Formation Advisory Committee, we are pleased to submit the below recommendation approved at the Advisory Committee's February 7, 2023 meeting, where the Committee discussed concerns over the lack of independent equity research from broker dealers, particularly for smaller public companies, and steps the SEC could take to address related challenges.

The Committee heard from speakers who presented background history on equity research activities provided by registered broker dealers, the regulatory landscape, and the diminution over time in the level of research covering smaller public companies. Members also discussed the importance of high quality independent research to investors, who often use that research when making their investment decisions.

The Committee further drilled down into the European Union framework for regulation "Markets in Financial Instruments Directive" or "MiFID II", which includes a restriction on the ability of asset managers regulated under the regime to pay for research out of client funds. In particular, Committee members discussed the SEC staff's recent position that has provided temporary relief to registered broker dealers who otherwise would be captured by the definition of "investment adviser" under the Advisers Act, potentially resulting in equity research firms being held to a fiduciary standard when publishing research on the companies they cover under certain circumstances. Committee members expressed concern that if such SEC relief expires in July 2023, some research providers may choose to stop writing research on smaller companies. Without the extension of the temporary relief, the Committee's concern is that the availability of investment research for small companies could be further reduced.

The Committee believes that high quality equity research is important for a healthy small cap market and encourages the SEC to extend the staff relief until a more comprehensive look has been taken at how to improve the availability of research, particularly for small companies.

Respectfully submitted on behalf of the Advisory Committee,

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Committee Chair

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Committee Vice Chair

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