



National Investor Relations Institute

225 Reinekers Lane, Suite 560, Alexandria, VA 22314
(703) 562-7700; FAX (703) 562-7701
Website: www.niri.org

October 31, 2017

The Honorable Jay Clayton
Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Subject: SEC Announces Measures to Facilitate Cross-Border Implementation of the European Union's MiFID II's Research Provisions

Dear Chairman Clayton:

On behalf of the National Investor Relations Institute¹ (NIRI), I am writing to thank the staff of the Securities and Exchange Commission for issuing three no-action letters on October 26 regarding the European Union's Markets in Financial Instruments Directive (MiFID II). Given the decline in sell-side research coverage in recent years, NIRI is grateful that the Commission has stepped in to protect investors from the disruption that would have resulted if broker-dealers had abruptly discontinued coverage of small-cap and mid-cap issuers to comply with MiFID II.

The Commission has long recognized the importance of equity research in ensuring the fair valuation of companies.² However, a variety of factors, such as a shift to passive investing strategies and cuts in trading commissions, have contributed to a reduction in the number of sell-side research analysts who cover companies. Within the past 18 months, several brokerage firms, including BB&T, Avondale Partners, and Nomura, have closed their research divisions. According to a Reuters analysis, the number of companies in the small-cap Russell 2000 index

¹ Founded in 1969, the National Investor Relations Institute (NIRI) is the professional association of corporate officers and investor relations consultants responsible for communication among corporate management, shareholders, securities analysts, and other financial community constituents. NIRI is the largest professional investor relations association in the world, with more than 3,300 members representing over 1,600 publicly held companies and \$9 trillion in stock market capitalization.

² In *Dirks v. SEC*, 463 U.S. 646, 657 (1983), the U.S. Supreme Court (citing the Commission) stressed the critical role that analysts play in gathering information and assessing companies ("market efficiency in pricing is significantly enhanced by [analysts'] initiatives to ferret out and analyze information, and thus the analyst's work redounds to the benefit of all investors.").

The Honorable Jay Clayton

October 31, 2017

Page 2

that lack any formal Wall Street analyst coverage has risen 30 percent over the past three years.³ This trend likely would have accelerated if the Commission had not granted the no-action relief on MiFID II sought by industry groups representing broker-dealers and investment managers. In June 2017, a McKinsey & Co. report estimated that MiFID II would prompt the 10 largest sell-side firms to lay off hundreds of analysts and reduce their spending on equity research by \$1.2 billion.⁴

NIRI members, who include many IR professionals at small- and mid-cap issuers and IR counselors who advise companies that don't have full-time IR officers, have seen first-hand the challenges that companies face when they lack sell-side research coverage. Companies with no analyst following have significantly greater difficulty in attracting new investors, as many institutional fund managers won't invest in issuers that lack coverage. The erosion of research coverage also is harmful to retail shareholders as they are left with fewer independent sources of information about a company's prospects. Without this information, these investors likely will miss out on the greater investment returns that many small companies generate as they grow.

During the 30-month period of no-action relief, NIRI encourages the Commission staff to work with broker-dealers, independent research providers, investment managers, IR professionals, and European regulators to develop recommendations to promote more research coverage of small- and mid-cap companies in both the United States and Europe. As a helpful first step, the Commission should convene a roundtable on equity research to hear the views of market participants.

Please feel free to contact us at NIRI if you need additional information or are interested in discussing these issues further. Thank you for your consideration of our views on this matter.

Sincerely,



Gary A. LaBranche, FASAE, CAE
President and CEO
National Investor Relations Institute

³ See Reuters, "Funds target 'unknown' stocks as Wall Street cuts analyst jobs," August 7, 2017, available at: <https://www.cnbc.com/2017/08/07/reuters-america-funds-target-unknown-stocks-as-wall-street-cuts-analyst-jobs.html>

⁴ See Bloomberg News, "Banks to Cut \$1.2 Billion in Research Spending, McKinsey Says," June 21, 2017, available at: <https://www.bloomberg.com/news/articles/2017-06-21/banks-to-cut-1-2-billion-in-research-spending-mckinsey-says>

The Honorable Jay Clayton
October 31, 2017
Page 3

cc: The Honorable Kara M. Stein
The Honorable Michael S. Piwowar
William Hinman, Director, Division of Corporation Finance