



NASAA

---

**NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION, INC.**

750 First Street N.E., Suite 1140  
Washington, D.C. 20002  
202/737-0900  
Fax: 202/783-3571  
www.nasaa.org

December 19, 2014

*Submitted electronically to rule-comments@sec.gov*

Brent J. Fields, Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

RE: Release No. 34-73623, File Number SR-FINRA-2014-048

Dear Mr. Fields:

On behalf of the North American Securities Administrators Association (“NASAA”),<sup>1</sup> I hereby submit the following comments in response to Release No. 34-73623, File Number SR-FINRA-2014-048, entitled *Notice of Filing of a Proposed Rule Change to Adopt FINRA Rule 2242 (Debt Research Analysts and Debt Research Reports)* filed on November 18, 2014 (“The Proposal”).<sup>2</sup> The Proposal contemplates a new rule that would address the conflicts of interest present between a firm’s investment banking and debt trading business and a firm’s debt research analysis department. NASAA appreciates the opportunity to offer its comments.

The conflicts of interest present between a firm’s investment banking business and its equity research department are well documented and subject to a significant regulatory regime. In the Proposal, FINRA seeks to create a similar regulatory regime to address the conflicts of interest between a firm’s investment banking and debt trading departments and a firm’s debt research department. While the conflicts of interest are not identical given the differences between the equity and debt markets and the way research affects each, NASAA generally supports the Proposal, as reducing and mitigating the conflicts of interest in the debt markets serves an important investor protection goal.

The Proposal contemplates a regulatory regime very similar to the regulatory regime utilized to address similar conflicts of interest related to research in the equity markets. The regulatory scheme contained in the Proposal would be based on a policies and procedures approach. While NASAA supports new rules aimed at addressing these conflicts of interest in

---

<sup>1</sup> NASAA is the association of the 67 state, provincial, and territorial securities regulatory agencies of the United States, Canada, and Mexico. NASAA serves as the forum for these regulators to work with each other in an effort to protect investors at the grassroots level and to promote fair and open capital markets.

<sup>2</sup> Notice of Filing of a Proposed Rule Change to Adopt FINRA Rule 2242 (Debt Research Analysts and Debt Research Reports), 79 Fed. Reg. 69905 (Nov. 24, 2014).

---

President: William Beatty (Washington)  
President-Elect: Judith M. Shaw (Maine)  
Past-President: Andrea Seidt (Ohio)  
Acting Executive Director: Joseph Brady

Secretary: Kathryn Daniels (Ontario)  
Treasurer: Michael Rothman (Minnesota)  
Ombudsman: Keith Woodwell (Utah)

Directors: Joseph P. Borg (Alabama)  
Melanie Senter Lubin (Maryland)  
John Morgan (Texas)  
Gerald Rome (Colorado)

the debt markets, it is NASAA's view that any rules should follow the model laid out in the existing equity research analyst rules in addition to the policies and procedures component set forth in the Proposal.<sup>3</sup> That is, rules that are proscriptive in nature, but also require firms to maintain adequate policies and procedures to ensure compliance with the rules.

In NASAA's view, a proscriptive regime with a policies and procedures component is better suited to address conflicts of interest of this nature. Drawing from the experience under the related equity research rules, a proscriptive approach is known to be generally effective in mitigating these types of conflicts.<sup>4</sup> Even though the proscriptive equity research regime has been generally effective at mitigating these types of conflicts, firms have yet to eliminate these conflicts nor have they been entirely successful in mitigating the related risks to investors.<sup>5</sup> Given the industry's continued violations under the proscriptive equity research regime, NASAA questions the appropriateness of a regulatory scheme based solely on the policies and procedures based approach laid out in the Proposal.

While NASAA is generally supportive of the substantive provisions of the proposed debt research rule contained in the Proposal, NASAA urges FINRA to amend the Proposal so as to combine the policies and procedures regime described in the Proposal with the more proscriptive approach currently found in the equity analyst rules. NASAA understands that a policies and procedures approach offers firms more flexibility in complying with the proposed rules, but such flexibility, without a more proscriptive component, is not warranted when attempting to mitigate the risks associated with these types of conflicts of interest. NASAA appreciates the opportunity to offer its comments on the Proposal, and should you have any questions about these comments, please contact NASAA's Acting Executive Director and General Counsel, Joseph Brady, at [jb@nasaa.org](mailto:jb@nasaa.org).

Sincerely,



William Beatty  
NASAA President  
Washington Securities Administrator

---

<sup>3</sup> Currently pending before the Commission is a FINRA Proposal to overhaul the equity research analyst rules. See Release No. 34-73622, File Number SR-FINRA-2014-047, entitled *Notice of Filing of a Proposed Rule Change to Adopt FINRA Rule 2241 (Research Analysts and Research Reports) in the Consolidated FINRA Rule Book*, 79 Fed. Reg. 69939 (Nov. 24, 2014).

<sup>4</sup> 79 Fed. Reg. at 69906.

<sup>5</sup> See Michael Corkery, "Finra Fines Citigroup Over Acts by Analysts," NEW YORK TIMES (Nov. 24, 2014), available at [http://dealbook.nytimes.com/2014/11/24/citigroup-fined-15-million-for-failing-to-properly-supervise-analysts/?\\_r=0](http://dealbook.nytimes.com/2014/11/24/citigroup-fined-15-million-for-failing-to-properly-supervise-analysts/?_r=0); see also "10 Wall Street Firms Fined Over Conflicts in Toys 'R' Us I.P.O.," NEW YORK TIMES (Dec. 11, 2014), available at <http://dealbook.nytimes.com/2014/12/11/10-wall-street-firms-fined-over-conflicts-in-toys-r-us-i-p-o/>.