

115TH CONGRESS
2D SESSION

S. 3578

To require the Securities and Exchange Commission to carry out a study to evaluate the issues affecting the provision of, and reliance upon, investment research into small issuers.

IN THE SENATE OF THE UNITED STATES

OCTOBER 11, 2018

Mr. ROUNDS introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

A BILL

To require the Securities and Exchange Commission to carry out a study to evaluate the issues affecting the provision of, and reliance upon, investment research into small issuers.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Improving Investment
5 Research for Small and Emerging Issuers Act”.

6 **SEC. 2. RESEARCH STUDY.**

7 (a) STUDY REQUIRED.—The Securities and Ex-
8 change Commission shall conduct a study to evaluate the

1 issues affecting the provision of, and reliance upon, invest-
2 ment research into small issuers (referred to in this sec-
3 tion as “covered research”), including emerging growth
4 companies and companies considering initial public offer-
5 ings.

6 (b) CONTENTS OF STUDY.—The study required
7 under subsection (a) shall consider—

8 (1) factors relating to the demand for covered
9 research by institutional and retail investors;

10 (2) the availability of covered research, includ-
11 ing—

12 (A) the number and types of firms that
13 provide covered research;

14 (B) the volume of covered research over
15 time; and

16 (C) competition in the research market;

17 (3) conflicts of interest relating to the produc-
18 tion and distribution of investment research;

19 (4) the costs of covered research;

20 (5) the impacts of different payment mecha-
21 nisms for covered research, including whether that
22 research is paid for by—

23 (A) hard-dollar payments from research
24 clients;

1 (B) payments directed from the commis-
2 sion income of a client, including payments
3 commonly referred to as “soft dollars”; or

4 (C) payments from the issuer that is the
5 subject of covered research;

6 (6) any unique challenges faced by minority-
7 owned, women-owned, and veteran-owned small
8 issuers in obtaining research coverage; and

9 (7) the impact on the availability of research
10 coverage for small issuers due to—

11 (A) investment adviser concentration and
12 consolidation, including any potential impacts of
13 the size of a fund on the demand for investment
14 research of small issuers;

15 (B) broker and dealer concentration and
16 consolidation, including any relationships be-
17 tween the size of a firm and allocation of re-
18 sources for investment research into small
19 issuers;

20 (C) rules of the Securities and Exchange
21 Commission;

22 (D) rules of registered national securities
23 associations;

24 (E) State and Federal liability concerns;

1 (F) the settlement agreements referenced
2 in Securities and Exchange Commission Litiga-
3 tion Release No. 18438 (relating to the Global
4 Research Analyst Settlement; issued October
5 31, 2003); and

6 (G) Directive 2014/65/EU of the European
7 Parliament and of the Council of 15 May 2014
8 (relating to markets in financial instruments
9 and amending Directive 2002/92/EC and Direc-
10 tive 2011/61/EU), as implemented by the mem-
11 ber states of the European Union.

12 (c) REPORT REQUIRED.—Not later than 180 days
13 after the date of enactment of this Act, the Securities and
14 Exchange Commission shall submit to Congress a report
15 that includes—

16 (1) the results of the study required under sub-
17 section (a); and

18 (2) recommendations to increase the demand
19 for, volume of, and quality of investment research
20 into small issuers, including emerging growth com-
21 panies and companies considering initial public of-
22 ferings.

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