

**FactSet Research Systems  
Inc.***Company▲*FDS  
*Ticker▲*Financial Research  
Perspectives - John  
Wiseman of FactSet  
Research Systems  
*Event Type▲*Jun. 24, 2009  
*Date▲*

---

**MANAGEMENT DISCUSSION SECTION****Company Representative**

---

Welcome to Financial Research Perspectives with FactSet. Today we'll be framing a discussion of soft dollar arrangements with John Wiseman, FactSet's Head of Brokerage Relations and Execution Strategies. John is going to clear up some of the mysteries surrounding the various practices and uses of soft dollar. He will also discuss some of the recent changes in soft dollar arrangements in the industry in the years following the SEC's 2006 interpretive release and guidance.

Hi, John, welcome to our show.

**FactSet Research Systems  
Inc.**

Company▲

FDS  
Ticker▲Financial Research  
Perspectives - John  
Wiseman of FactSet  
Research Systems  
Event Type▲Jun. 24, 2009  
Date▲**QUESTION AND ANSWER SECTION**

**<A – John Wiseman>**: Hi, Michelle. How are you?

**<Q>**: I'm good. Thank you. John, let's start with how you define soft dollars. Where does most of the confusion arise when it comes to defining how soft dollars are used and how they function?

**<A – John Wiseman>**: In very simple terms the definition as provided by the SEC is that any commissions paid in excess of the lowest available commission therefore is soft dollars. So if you pay anything more than the lowest available commission then that excess – for instance, you're paying up for research and that excess to the extent that it is used to get other goods and services or procure research, that is soft dollars. And post 1975 when everyone was on a fixed commission schedule, things begin to change that was where in the Securities Act of 34, they created section 28(e) which is where any registered investment advisor or money manager can seek Safe Harbor and they can get protection from this, when they pay up for research or when they pay more than the lowest possible rate.

So it was a way to allow them to continue to gain the investment research and the bundled set of services that they got from their bulge brackets. So those were its origins and that is – that's its definition and it's frankly very simple. I would think most people commonly accept that definition of 28(e) and understand that.

I think where the confusion occurs is, kind of as people move forward in how they try to interpret and imply 28(e) to their use of commissions and frankly it's more of a confusion that arises between third party research and what we call proprietary research, proprietary research would be that that's provided by the bulge brackets.

And I think money managers, investment managers like to make a distinction between the two and it's a very much a false distinction. That you know, is one is, hey, the proprietary research I get, that's research and I use commission dollars for that, but that's research. And the third party research that I do, that I buy from FactSet, or whoever, that's soft dollars and that's my soft dollar budget. And that might be how they look at it internally from an allocation perspective, but from a legal and regulatory standpoint, how the SEC looks at it, both are clearly soft dollars, whether it's proprietary research or third party research.

**<Q>**: Can I ask you what the significance of that real confusion between the difference between saying that soft dollars are used for proprietary research and third party research?

**<A – John Wiseman>**: I think the significance is, one) it distorts the size of the market, it distorts the size of the – I won't call it the problem, because I mean, there isn't a problem. I think, particularly with the latest release, there's a lot more clarity. But when people are trying to size what the real issue is, if you define the issue as a 1.2 billion market or issue, that's not accurate when it's really a 12 billion plus issue. It's a big piece of the market that's why it's important. It also is important for any of the small to mid size research providers, boutiques or any vendors, frankly, who are looking to have their services paid for in soft dollars but then the – the money managers themselves are framing their budgets – like 10% of my budget is allocated to this or only X percent of my budget will be allocated to soft dollars, but when they're using a very narrow definition, I mean, it limits the use and it's really not actually accurate and their pool of commissions is greater. So it has its other impacts and that confusion has other effects downstream.

**FactSet Research Systems  
Inc.**

Company▲

FDS  
Ticker▲Financial Research  
Perspectives - John  
Wiseman of FactSet  
Research Systems  
Event Type▲Jun. 24, 2009  
Date▲

<Q>: So soft dollar arrangements had a rash of negative press around 2003, 2004 and there. It surrounded the SEC's sweep of soft dollar abuses at Fidelity. While that's kind of an old issue today, would you say that the negative perception still surrounds soft dollars and to what extent?

<A – John Wiseman>: Certainly a negative perception still lingers. But I think certainly a lot of abuses are gone, and the highly publicized events that occurred are well in our past. They make for a good story and when you really look at it in the big picture most hedge funds or registered investment advisors, anyone who are using client commissions to procure research, all in all they are doing a very good job in looking after their fiduciary responsibilities. It's always whatever the number is the 5% to 1% to 3% that makes the noise and that gets the big headline.

So I think it was distorted to begin with but certainly that created a negative perception. Back to the question, I think that's begun to fade. Certainly soft dollars in and of itself is a pejorative term and I think the SEC realized that and moving away in their latest release to try to frame it in the different context of client commissions helps for sure. And that's where you see the new terms CCA, Client Commission Arrangement and CSA, Commission Sharing Arrangement to probably more accurately describe what's going on, and also get rid of some of the stigma that might have been attached with the old terms.

And there is more stuff occurring as we go forward, but it's all positive because I think what you have is greater, greater transparency. And there is some kind of greater standardization and I won't say complete, the FSA, which is the U.K. regulatory body analogous to the SEC, they have come out with their own guidance, which was driven by the Myners Report back in the late '90s and early 2000. And they kind of went through their own process to try to clarify and clear up and get rid of any abuses that may or may not have occurred, perceived or real [audio gap].

So with FSA coming out with their own policy and their definition of a commission sharing arrangement and with what the U.S. has in place now that the SEC just did with client commission arrangement, I think we're in a much better place and I think we're all better off, and frankly the less we use the term soft dollars and the more we use the term client commission, I think we'll certainly put the past way behind us.

<Q>: With that said, would you say soft dollar arrangements are more prevalent or less prevalent than let's say five years ago, or maybe even two years ago?

<A – John Wiseman>: I would say, they're certainly as prevalent, probably going towards the direction of more prevalent. But they're certainly as prevalent and definitely more accepted now post 2006.

And that the community was aware that SEC was looking into, and looking at how to better define and provide greater clarity to the use of soft dollars or client commissions. And so while all that was going on, it created this "Chill" where people just backed off and moved to the sidelines.

Now, following the 2006 release where there is a greater clarity, once that had occurred, now that clarity that was lacking or the perceived clarity that was lacking, was now there. The SEC had come out. They had made their final determination. They've published guidelines and they put a release to the Federal Register.

A lot of the issues that were going on with Attorney General Spitzer and the focus on Wall Street and the mutual fund timing, the research settlement. All those things were now in the past, clarity was here.

**FactSet Research Systems  
Inc.**

Company▲

FDS  
Ticker▲Financial Research  
Perspectives - John  
Wiseman of FactSet  
Research Systems  
Event Type▲Jun. 24, 2009  
Date▲

And so all those are what lead me to make the statement that they're certainly as prevalent and frankly now more so, because what you see is those people who were on the sidelines, who were doing it previously are now back in. They're back in, in full force.

And some of the others that just weren't doing it, because they themselves didn't think there was enough clarity, now that the SEC has come out once again, they have jumped in. So I think you have more participants in the pot and now that there's clarity, they're very well accepted. And I think they're here to stay.

What you will see and has been talked about both with the FSA and the SEC, the next series of steps, if you will, is requirements relating to disclosure and even putting greater transparency onto the commissions, how they're used between proprietary and third-party, who are the top commission providers, me as a money manager firm use. And some of those disclosures will be the next steps.

**<Q>**: Well, you mentioned a little bit about how the practice of using soft dollar arrangements or client commissions increased after the SEC issued guidance in 2006. What has changed in the industry since that guidance issue? Did investment managers adjust their practices on the basis of the guidance?

**<A – John Wiseman>**: On the surface, very little was done to be even more a little cheeky. I think who benefited from it was the bulge bracket players, and they were a little bit, shall we say, more crafty. They took advantage of the change in language to create a marketing opportunity. And my cheeky comment is, basically they've put a little lipstick on the pig. I think very little has changed in terms of what actually a client commission arrangement or a third-party soft dollar program is.

It's very much the same but I think there was a change and a smart move on some people to take advantage of that as a marketing opportunity. And so what you actually saw, not in terms of the statute but in effect, in the marketplace, I think the outcome was that you have a greater consolidation of CCA programs within the bulge bracket firms to the detriment of some of the mid-tier to agency-only players and that definitely has occurred so that consolidation or that movement or migration towards a smaller set of providers and a few big providers, either the bulge brackets or like a large agency shop like a BNY ConvergeX, I think you definitely saw that.

The other impact was – and I think we're still seeing it, is the small to mid size broker or the regional broker, or the more boutique shop that has really quality research and look to get payment for and monetize that by way of their trading desk. Since there are now these more clearly defined research pools or these new definition of a CCA, there is a greater push by some of the money management firms to actually no longer use the trading desks of those small to mid tier firms or these boutiques to generate commissions for their research and they're actually through the consolidation of their own CCA accounts to two or three brokers, they are now asking those brokers to cut a check and pay in cash that small to mid size firm or that researcher boutique, who otherwise prior to '06 might have been having gotten paid or compensated through trading directly with their desk.

So what that's essentially done is made those small to mid size firms reevaluate their need for a trading desk. For some people that's an easy decision, for others it's not because there are other reasons why they have the trading desk and they want it and they are now forced to change their business model and practice.

For some others, traditionally like the bulge brackets and proprietary research, there is no cash price on it. It's – you know you just pay commissions based upon research vote or what you feel it's worth, there is no explicit price. And what it has forced some of those shops, these research

**FactSet Research Systems  
Inc.**

Company▲

FDS  
Ticker▲Financial Research  
Perspectives - John  
Wiseman of FactSet  
Research Systems  
Event Type▲Jun. 24, 2009  
Date▲

boutiques or smaller firms who had that type of pricing model, now they're being forced to, at times, put a cash value on their research which is something that they otherwise would not want to do. And frankly, the bulge bracket firms definitely don't want to do this, and that will be interesting over time, you know. The more that occurs at some point, will they have to do that?

**<Q>**: You mentioned something that – which is that some of these changes have led to the consolidation of – and almost of kind of it sounds like more of a win for the bigger research firms and a lose for the smaller research firms, is that a fair characterization?

**<A – John Wiseman>**: I guess it's one person's opinion. I think there's other people who share that opinion and it's certainly something that people have said. So, it's a broad characterization. So with it, there will be plenty of examples where you can point to them, hey, that didn't happen here or there. But I think if you talk to most people in the industry they would say that that's a fair statement and it's a fair characterization.

It did push out some of maybe the marginal niche players. One could argue that some of those niche players were like the soft dollar only shops and the only really service they were providing was a kind of a soft dollar payment program. There really wasn't any additional research they were providing. So one could argue that maybe, maybe that isn't the type of shop that's necessary, I could see that, but there are some small to mid size research firms who were actually producing invaluable research content either on sectors or companies that are under covered or aren't being looked after by the bulge brackets. And for those people to be squeezed out, I think that is a tremendous dis-service and it is a detriment and it is a bad outcome of this.

So the whole topic of 28(e) and why 28(e) was even put in the statute was a recognition by the SEC that investment managers did need and did derive value from some of these additional services, beyond execution that they paid up for and they needed a way to be able to acquire these research services that were integral to their investment process without being punished or accused of neglecting their fiduciary responsibility. That's the whole concept of frankly why 28(e) exists. That was the premise of it.

So if you think about that, if the changes that are now put in place look to take away options or put a valued and necessary product or research product that's put forth by research boutique that is valued by the Street, valued by the investment community, that they need and it's helpful to their investment process. If they get squeezed out of this because of an unintended consequence or some outcome of the latest release because of this consolidation, this move, then I do think there is a problem.

**<Q>**: Do you think firms will increase their use of soft dollars to allow for them to kind of get through some of these harder times, is that a – is there going to be maybe more of a case to make for using a soft dollar arrangement on the basis of the fact that you can use money generated from your clients instead of money that you have in the door if times are tight?

**<A – John Wiseman>**: I think the investment managers know very well what their fiduciary responsibilities are and are using their client commissions properly. And they are using it to procure research, which goes through the investment process, which ultimately drives the positive returns or hopefully the positive returns that are required for the investors in their funds. So I think they are doing it, on whole, judiciously and wisely, and then ultimately just becomes an accounting issue in terms of how they want to handle it.

For some people right now who are strapped for cash, yes, it provides them a little bit more of a window or maybe flexibility to continue to maintain some of the research services that they have had or that they feel that they need in tough economic times as opposed to having to use precious

**FactSet Research Systems  
Inc.**

Company▲

FDS  
Ticker▲Financial Research  
Perspectives - John  
Wiseman of FactSet  
Research Systems  
Event Type▲Jun. 24, 2009  
Date▲

cash. For those – but that said, I remind you or anyone that all these money managers are still bounded by those same principles of just ethics as well as legal and regulatory statutes that guard against abuses and that enforce upon them best practices and enforce upon them these fiduciary responsibilities, which I think, frankly all these guys all take very seriously.

**<Q>**: So, with that said, looking forward in – for soft dollar arrangements or for CCAs, what changes could occur that would be the most beneficial to investment managers that are looking to use them or looking to, maybe increase their share of them?

**<A – John Wiseman>**: I think a lot of the practices and policies that are in place have put us in a much better footing. So that doesn't mean you can't improve. There's always room for improvement. So there's certainly more stuff that I think could occur, but I think they've gone quite far in – from the day and age when we hear all these very scintillating stories about abuses.

I think we've move well beyond. The only thing that's a little bit out there, which is unfolding as we speak is, Bank of New York ConvergeEx has a unit called Westminster. Westminster is its own brokerage firm, which is one of the largest kind of commission management platforms where they aggregate commissions from a variety of different brokers and they are pitched to an investment manager as, come to Westminster and we will manage all of your commission programs and arrangements in one. You get one single statement but you can trade with any broker.

So that's their sales pitch and it's been a good one and they're one of the top ones around. That's a long way of kind of introducing what's unique about that or what difference is that's a broker providing that, what is just recently been released, a group or consortium of brokers have come out, they're "Unnamed", but we all know who they are. They're largely – most of the bulge brackets. They're none of the agency-onlys. It's not Instinet, it's not the ITGs.

So take a list of bulge bracket names and these are the unnamed brokers' consortium that have gone and taken a stake or bought Cogent software and Cogent software was an independent third party commission management application and broker vote program. And they're utilizing that platform to create probably another Westminster or an answer to Westminster to kind of be the consolidated or central clearing house of CSAs. And therefore you could use multiple brokers, you could have a single statement. It's in essence the same value proposition or sales story as Westminster, but they're going to try to do it through the fact that it's – they're "independent" or it's this consortium of brokers or it's a third party.

So it will be interesting how that plays out. Obviously, they have to finalize the agreement. I think it will happen over the summer and it will be interesting to see what type of traction that gets or a reception that gets from the money managers. I mean, ultimately, those are the clients of it and if they – either they're going to move to it or not and I'm always, myself, a little cynical about broker consortiums and since they inherently are competing with each other it is very seldom, can you get a bunch of brokers around a table to actually agree on something. And to the extent that this – as it seems now, that this Cogent broker platform will exist, it will also co-exist with each one of those individual member firms' own CCA platform. So they're going to continue to create – to offer a client their own CCA platform or you can go to this consortium. So I'll be interested to see push comes to shove, are those brokers who are members of the consortium pushing their clients one way or the other or is it truly really an open shell in?

**FactSet Research Systems  
Inc.***Company▲*FDS  
*Ticker▲*Financial Research  
Perspectives - John  
Wiseman of FactSet  
Research Systems  
*Event Type▲*Jun. 24, 2009  
*Date▲***Company Representative**

All right. Thank you so much. I'm so happy that you were here and able to share these thoughts on soft dollars with us and I hope that our listeners have got some good information from your description of the practice...

**John Wiseman, Head of Brokerage Relations and Execution Strategies**

Well, thanks for the time.

**Company Representative**

Thanks very much.

**Disclaimer**

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

*The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2009. CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.*