st. john's UNIVERSITY SCHOOL OF LAW

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Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, D.C. 20006-1506

Re: Regulatory Notice 11-11, Debt Research Reports

Dear Ms. Asquith:

The Securities Arbitration Clinic at St. John's University School of Law is very pleased to accept this opportunity to comment on Regulatory Notice 11-11 "Debt Research Reports," which proposes to hold debt research reports to the same standards of disclosure as equity research reports. The Clinic strongly supports requiring the disclosure of real and potential conflicts when issuing a debt research report. However, we believe this concept proposal would be enhanced by several additions, particularly a definition of debt security broadened to include municipal securities, thereby providing an important level of protection for investors.

The Clinic is a not-for-profit organization in which second and third year law students provide free legal representation to public investors in their securities disputes who are otherwise unable to obtain legal representation. In addition to representing aggrieved investors, the Clinic also promotes investor education and protection. Accordingly, the Clinic has a strong interest in FINRA rules that protect public investors, particularly those that impact the scope of information available to public investors.

As the concept proposal recognizes, the failure of the auction rate securities market in 2008 provides a concrete and real example of the potential for conflicts of interest in the distribution of debt research. Specifically, the various settlements entered into between the securities regulatory agencies and many of the world's largest financial firms recognize that firms represented these securities as liquid investments, equivalent to cash. However, firms did not disclose that they themselves were supporting the market.

Some financial firms had policies that did disclose the multiple roles the firms played in the ARS market, and that the firm's interest may differ from those of its clients who purchased ARS. However, firms were not required to affirmatively disclose these conflicts, and in fact many investors were unaware of them.

The disclosure requirements in the concept proposal begins to address these failings by requiring financial firms to disclose these conflicts in the debt research reports distributed to potential investors. However, the exclusion of municipal debt from these requirements creates a large loophole in the rule. As FINRA recognized in Regulatory Notice 08-17, municipal debt is one of the main underlying securities of the ARS markets. Yet, as the rule is presently proposed, the lack of disclosures which characterized the failure of the ARS markets is still allowed for municipal debt.

It is also important to note that the failure of the ARS market is just one example of the importance of more thoroughly regulating debt research reports. Another example is the more traditional bond market, where investors buy municipal bonds. Especially considering the role that financial firms play in bringing these bonds to market, and the markups they can charge when selling to investors, there is significant potential for conflicts of interest.

We also question the proposed concept's exception for institutional investors. The equity research report rules which are already in force have no such exception, and we do not see the need to create one only for debt research reports. While it may be true that institutional investors are more sophisticated and in less need of such disclosures, the internal nature of conflicts means that the burden of identifying conflicts should not be removed from the conflicted party. Rather, we believe that financial firms should be required to at the very least inform even their institutional investors of the potential for conflict, thereby giving notice and allowing an institutional investor to investigate further if they choose. Further, we are concerned that such an exception may lead financial firms to simply cut back on services to their retail investors and concentrate on institutional investors. Therefore, given the high benefit and low cost of applying the conflict rules to institutional investors as well as retail customers, we believe that, like equity research reports, debt research report rules should not have an exception for institutional investors.

Lastly, we believe that the need for disclosure is broader than just research reports. Many of the potential conflicts are present even when the financial firm issues no research report at all. We believe that FINRA should consider more broad disclosure requirements for all debt investments, regardless of whether or not a firm issues research reports.

In conclusion, the Clinic strongly supports FINRA's proposal to begin more thoroughly regulating investments in debt; protecting investors by applying the same disclosure standards to debt research reports as have been applied to equity research reports is an important first step. However, the Clinic believes that by including municipal securities, and requiring at least some minimum disclosures even to institutional investors, FINRA could provide significantly more protection to all investors in debt securities. We ask that FINRA consider expanding the scope

and definition of the proposed rule to further protect investors. Thank you for your consideration of this important matter.

Respectfully,

/s/
Shlomo Maza
Student Intern

Lisa Catalano
Director

Christine Lazaro
Supervising Attorney