SEC Fact Sheet on Global Analyst Research Settlements

The Commission announced today settled enforcement actions against ten Wall Street firms and two individual analysts arising from an investigation of research analyst conflicts of interest. The firm settlements were reached with the Commission, NASD Inc. (NASD), the New York Stock Exchange, Inc. (NYSE), the New York Attorney General (NYAG), and other state regulators. The 10 firms are: Bear, Stearns & Co. Inc. (Bear Stearns), Credit Suisse First Boston LLC (CSFB), Goldman, Sachs & Co. (Goldman), Lehman Brothers Inc. (Lehman), J.P. Morgan Securities Inc. (J.P. Morgan), Merrill Lynch, Pierce, Fenner & Smith, Incorporated (Merrill Lynch), Morgan Stanley & Co. Incorporated (Morgan Stanley), Citigroup Global Markets Inc., f/k/a Salomon Smith Barney Inc. (SSB), UBS Warburg LLC (UBS Warburg), and U.S. Bancorp Piper Jaffray Inc. (Piper Jaffray). The two individuals are Jack B. Grubman and Henry M. Blodget. The proposed Final Judgments in the SEC actions are subject to Court approval.

Under the terms of the firm settlements, an injunction will be entered against each of the firms, enjoining it from violating the statutes and rules that it is alleged to have violated. Additional terms of the firm settlements include:

Monetary Relief

- Firms will pay disgorgement and civil penalties totaling $875 million, including Merrill Lynch's previous payment of $100 million in connection with its prior settlement with the states.
- The civil penalties in these actions are among the highest - and the civil penalty against SSB is the highest- ever imposed in civil securities enforcement actions. Pursuant to the settlements, the firms may not seek to treat the civil penalties as tax deductible or eligible for reimbursement under their insurance policies.
- Under the settlement agreements, half of the $775 million payment by the firms other than Merrill Lynch will be paid in resolution of actions brought by the SEC, NYSE and NASD, and will be put into funds to benefit customers of the firms (the "Distribution Funds"). The remainder of the funds will be paid to the states.
- The Distribution Funds will be administered by an SEC-recommended, Court-appointed "Distribution Fund Administrator." The Distribution Fund Administrator will formulate a plan to distribute the funds in an equitable, cost-effective manner to customers who purchased the equity securities of companies referenced in the complaint against the firm through which the customer bought the securities.
- Under the settlement agreements, it is intended that there be an equitable (but not necessarily equal) distribution of funds and that those who are allocated funds receive meaningful payments from the Distribution Funds.
- A recipient of funds from these settlements is not precluded from pursuing, to the extent otherwise available, any other remedy or

recourse against a firm.

Structural Reforms

- The firms will separate research and investment banking, including physical separation, completely separate reporting lines, separate legal and compliance staffs, and separate budgeting processes.
- Analysts' compensation cannot be based directly or indirectly upon investment banking revenues or input from investment banking personnel.
- Investment bankers cannot evaluate analysts.
- An analyst's compensation will be based in significant part on the quality and accuracy of the analyst's research.
- Decisions concerning compensation of analysts will be documented.
- Investment bankers will have no role in determining what companies are covered by the analysts.
- Research analysts will be prohibited from participating in efforts to solicit investment banking business, including pitches and roadshows.
- Firms will implement policies and procedures reasonably designed to assure that their personnel do not seek to influence the contents of research reports for purposes of obtaining or retaining investment banking business.
- Firms will create and enforce firewalls between research and investment banking reasonably designed to prohibit improper communications between the two. Communications should be limited to those enabling research analysts to fulfill a "gatekeeper" role.
- Each firm will retain, at its own expense, an Independent Monitor to conduct a review to provide reasonable assurance that the firm is complying with the structural reforms. This review will be conducted eighteen months after the date of the entry of the Final Judgment, and the Independent Monitor will submit a written report of his or her findings to the SEC, NASD, and NYSE within six months after the review begins.

Enhanced Disclosures

- Each firm will include a disclosure on the first page of each research report stating that it "does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report."
- When a firm decides to terminate coverage of an issuer, it will issue a final research report discussing the reasons for the termination.
- Each quarter, each firm will publish on its website a chart showing its analysts' performance, including each analyst's name, ratings, price targets, and earnings per share forecasts for each covered company, as well as an explanation of the firm's rating system.

Independent Research

- For a five-year period, each of the firms will be required to contract with no fewer than three independent research firms and will make available the independent research to the firm's customers.

- Firms will notify customers of the availability of independent research on customer account statements, on the first page of research reports, and on the firm's website.
- An independent consultant for each firm will have final authority to procure independent research, and will report annually to regulators concerning the research procured.
- Payments for independent research will total $432.5 million.

Investor Education

- Seven firms will make payments totaling $80 million for investor education.
- The SEC, NYSE and NASD have authorized that $52.5 million of these funds be put into an Investor Education Fund to support programs designed to equip investors with the knowledge and skills necessary to make informed investment decisions.
- The remaining $27.5 million will be paid to state securities regulators and will be used by them for investor education purposes.
- The Court will appoint an SEC-recommended Investor Education Fund Administrator to establish a non-profit grant administration program to fund worthy and cost-efficient investor education programs.

Voluntary Initiative Regarding Initial Public Offerings

- The firms have collectively entered into a voluntary agreement restricting allocations of securities in "hot" Initial Public Offerings (IPOs) - offerings that begin trading in the aftermarket at a premium - to certain company executive officers and directors, a practice known as "spinning."

The charges, which the firms neither admit nor deny, are summarized below:

- CSFB, Merrill Lynch and SSB issued fraudulent research reports in violation of Section 15(c) of the Securities Exchange Act of 1934 as well as various state statutes.
- Bear Stearns, CSFB, Goldman, Lehman, Merrill Lynch, Piper Jaffray, SSB and UBS Warburg issued research reports that were not based on principles of fair dealing and good faith and did not provide a sound basis for evaluating facts, contained exaggerated or unwarranted claims about the covered companies, and/or contained opinions for which there were no reasonable bases in violation of NYSE Rules 401, 472 and 476(a)(6), NASD Rules 2110 and 2210, as well as state ethics statutes.
- UBS Warburg and Piper Jaffray received payments for research without disclosing such payments in violation of Section 17(b) of the Securities Act of 1933 as well as NYSE Rules 476(a)(6), 401 and 472 and NASD Rules 2210 and 2110. Those two firms, as well as Bear Stearns, J.P. Morgan and Morgan Stanley, made undisclosed payments for research in violation of NYSE Rules 476(a)(6), 401 and 472 and NASD Rules 2210 and 2110 and state statutes.
- CSFB and SSB engaged in inappropriate spinning of hot IPO allocations in violation of SRO rules requiring adherence to high business standards and just and equitable principles of trade, and the

firms' books and records relating to certain transactions violated the broker-dealer record-keeping provisions of Section 17(a) of the Securities Exchange Act of 1934 and SRO rules (NYSE Rule 440 and NASD Rule 3110).

- All ten firms failed to maintain appropriate supervision over their research and investment banking operations in violation of NASD Rule 3010 and NYSE Rule 342.

The terms of the settlements with the individual defendants are as follows:

- Former SSB analyst Jack B. Grubman, in settlement of the charges against him,[1] which he neither admits nor denies, has agreed to pay $7.5 million as disgorgement and an additional $7.5 million in penalties (which he may not treat as tax deductible or seek to recover from an insurance carrier or other third party). Grubman also has agreed to a federal court order that will enjoin him from future violations of the federal securities laws and NASD and NYSE rules. Grubman also will be censured and permanently barred from associating with a broker, dealer, or investment adviser.

- Former Merrill Lynch analyst Henry Blodget, in settlement of the charges against him,[2] which he neither admits nor denies, has agreed to pay $2 million in penalties (which he may not treat as tax deductible or seek to recover from an insurance carrier or other third party) and an additional $2 million in disgorgement. Blodget also has agreed to a federal court order that will enjoin him from future violations of the federal securities laws and NASD and NYSE rules. Blodget also will be censured and permanently barred from associating with any broker, dealer, or investment adviser.

Endnotes

[1] The action against Jack Grubman is being brought in conjunction with actions by the NASD, NYSE and NYAG.

[2] The action against Henry Blodget is being brought in conjunction with actions by the NASD and NYSE.

http://www.sec.gov/news/speech/factsheet.htm
