

MEMO# 5237

October 18, 1993

SPEECH BY SEC COMMISSIONER ROBERTS CONCERNING INVESTMENT COMPANY AND INVESTMENT ADVISER ISSUES

October 18, 1993 TO: BOARD OF GOVERNORS NO. 93-93 INVESTMENT ADVISERS
COMMITTEE NO. 28-93 SEC RULES COMMITTEE NO. 91-93 UNIT INVESTMENT TRUST
COMMITTEE NO. 51-93 RE: SPEECH BY SEC COMMISSIONER ROBERTS CONCERNING
INVESTMENT COMPANY AND INVESTMENT ADVISER ISSUES

In a recent address to a conference sponsored by the Wisconsin Securities Commission, Richard Roberts, Commissioner of the Securities and Exchange Commission, gave an update on various issues related to investment company and investment adviser regulation. A copy of Commissioner Roberts' address is attached.

1. Commission Resources and SROs
Commissioner Roberts stated that there is a "dangerous shortfall" in Commission resources available for investment company inspection, prospectus review, and exemptive, interpretive and no-action requests. According to Commissioner Roberts, this shortfall could be addressed by "a self-regulatory approach, an enhanced self-reporting approach, an enhanced self-compliance approach, or a combination of the latter two approaches."

2. Prospectus Disclosure
Commissioner Roberts supports the Commission's proposal to permit mutual funds to use summary prospectuses that contain an application to purchase shares. He also hopes that "substantial progress" will be made soon toward "encouraging a more simplified, comprehensible mutual fund prospectus." Commissioner Roberts recommended that the Commission scrutinize investment company disclosure to self-directed defined contribution pension plans "to ensure that such disclosures reach . . . plan participants and do not stop somewhere along the way."

3. Other Investment Company Rulemaking Proposals
Commissioner Roberts also recommended amendments to Investment Company Act Rule 2a-7 dealing with tax-exempt money market funds and the investment company proxy rules to update the disclosure requirements. He stated that a Commission proposal for a standardized UIT yield formula is "well under way."

4. Investment Adviser Issues
a. Commission Resources
Although Commissioner Roberts stated that "increasing the Commission bureaucracy" devoted to oversight of investment advisers would be an improvement, he also suggested that an investment adviser SRO or a federal exemption for small advisers would permit a more efficient use of federal resources for investment adviser regulation.
b. Wrap Fees
Commissioner Roberts supports a Commission safe harbor from Investment Company Act registration for "wrap fee programs that provide legitimate individualized treatment to clients." He also supports an interpretive release to address other issues that these programs raise, "including their suitability for small investors, and . . .

. best execution and principal transactions with clients." He also suggested that changes may be necessary to the investment adviser registration form to improve disclosure of fees and services. c. Soft Dollars Commissioner Roberts recommended that the Commission enhance the disclosures required of investment advisers concerning "soft dollars" and scrutinize disclosure of certain potential conflicts. 5. Derivatives Commissioner Roberts stated that regulators "have yet to catch up to the knowledge of the regulators with respect to . . . derivatives" and no one has "a good handle on how these instruments will perform during stressful market conditions." The Commission staff is addressing the potential risks to the nation's equity markets from derivative products, particularly those based upon equity indices and over-the-counter derivative products. Matthew P. Fink President
Attachment

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