

MEMO# 1079

March 31, 1989

INSTITUTE SUBMITS COMMENTS ON PROPOSED TENNESSEE INVESTMENT ADVISER REGULATIONS

March 31, 1989 TO: INVESTMENT ADVISERS COMMITTEE NO. 18-89 RE: INSTITUTE SUBMITS
COMMENTS ON PROPOSED TENNESSEE INVESTMENT ADVISER REGULATIONS

In the attached letter, the Institute commented on several proposed Tennessee regulations concerning investment advisers. Specifically, we suggested that a minimum net worth test is more appropriate than a net capital requirement for investment advisers. Second, we recommended that a net worth of \$10,000 for investment advisers which have discretionary authority over client funds or securities, but do not have custody of client funds or securities, is more appropriate than the proposed minimum net capital requirement of not less than \$25,000. Third, we recommended that the requirement that an investment adviser compute its net capital on a quarterly basis be deleted, and only if the adviser maintains custody of clients funds or securities should it be required to submit a balance sheet. Fourth, we strongly opposed the requirement that investment advisers be required to submit income statements. We stated that receipt by Tennessee of profit and loss information would serve no regulatory purpose and because most advisers consider such income statements proprietary, we requested that the income statement requirement be deleted. Finally, we recommended that advisers who are domiciled in Tennessee and whose only clients are investment companies as defined by the Investment Company Act of 1940 be exempted from the investment adviser registration requirement just as investment advisers whose only clients are insurance companies. We will keep you informed of developments in Tennessee. Robert L. Bunnan, Jr. Assistant General Counsel Attachment

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