

**MEMO# 6723**

March 3, 1995

# **COMMENTS REQUESTED FOR 1995 CONFERENCE ON UNIFORMITY OF FEDERAL-STATE SECURITIES REGULATION AGENDA**

March 3, 1995 TO: INVESTMENT ADVISERS COMMITTEE No. 18-95 SEC RULES COMMITTEE No. 35-95 STATE LIAISON COMMITTEE No. 14-95 UNIT INVESTMENT TRUST COMMITTEE No. 25-95 RE: COMMENTS REQUESTED FOR 1995 CONFERENCE ON UNIFORMITY OF FEDERAL-STATE SECURITIES REGULATION AGENDA

Since 1983 the Securities and Exchange Commission ("SEC") and the North American Securities Administrators Association ("NASAA") have held an annual conference pursuant to Section 19(c) of the Securities Act of 1933. The policies and purposes of that section are to increase uniformity in matters concerning state and federal regulation of securities, maximize the effectiveness of securities regulation in promoting investor protection, and reduce the burdens on capital formation through increased cooperation between the SEC and the state securities regulatory authorities. This year's conference will be held on March 27, 1995 in Washington, D.C. The SEC and NASAA currently are in the process of formulating the agenda for the conference and have requested participation from interested parties through the submission of written comments on the tentative agenda. Topics on the tentative agenda relating to investment companies and investment advisers are as follows: (1) Mutual Fund Disclosure -- The conferees are expected to discuss (a) the SEC's concept release regarding disclosure of forward-looking information and the effectiveness of the safe harbor provisions for that type of disclosure; (b) recently proposed rule and form amendments that require an investment company to reflect as expenses in its financial statement certain liabilities of the company paid by broker-dealers in connection with the allocation of the company's brokerage transactions to the broker-dealers (i.e. soft dollar arrangements); (c) ways to improve the quality of information regarding mutual funds that is available to less sophisticated investors; and (d) steps the conferees are taking to examine and to improve the clarity and adequacy of mutual fund prospectuses. (2) Bank Sales of Mutual Funds -- The conference participants may discuss rules recently proposed by the NASD that would govern the conduct of member firms operating on financial institution premises. The conferees will also discuss inspections by banking and securities regulators and licensing of financial institution salespersons. (3) Derivatives -- The discussion is expected to include the application of federal and state securities laws to derivatives and similar instruments, as well as disclosure issues relating to issuances of and investments in these instruments. In connection with this discussion, the conferees may explore issues related to company risk disclosure, including possible use of a quantitative

risk measurement and ways to improve investor access to information about portfolio securities held by funds. (4) Municipal Securities -- The tentative agenda includes (a) amendments to Rule 15c under the Securities Exchange Act of 1934 that were intended to improve disclosure in the secondary market by requiring municipal securities dealers that underwrite issues to undertake to provide annual financial information and notices of material events; (b) recent amendments to Rule 10b-10 that require a broker-dealer to disclose (i) when a debt security is not rated by a nationally recognized statistical rating organization; (ii) if the broker-dealer is not a member of the Securities Investor Protection Corporation; (iii) the availability of information with respect to transactions in collateralized debt securities; and (iv) the amount of any mark-ups and mark-downs in certain NASDAQ and regional exchange-listed securities that are subject to last sale reporting; and (c) recently adopted Rule 11Ac1-3 and amended Rule 10b-10, which together require broker-dealers to disclose on customer confirmations, account statements and new account documents whether payment for an order flow is received by the broker-dealer for transactions in certain securities and the fact that the source and nature of the compensation received will be furnished upon written request. (5) Regulation of Broker-Dealers -- The conferees propose to discuss several issues under this general heading, including: (1) recommendations made in the wake of the Large Firm Project, which involved a review by the SEC, NYSE and NASD of the hiring, supervisory and retention practices at nine of the country's largest retail brokerage firms, and another proposed joint regulatory examination sweep that would include firms of all sizes and target rogue brokers; (2) methods to curb abusive cold-calling practices; (3) a continuing education program that as of July 1, 1995 is required for all registered representatives and first-line supervisors that have been registered for less than 10 years or have a disciplinary history; and (4) problems and potentially abusive sales practices related to representations by broker-dealers regarding the requirements of the three-day settlement time frame in Rule 15c6-1. (6) Investment Adviser Legislation -- The conferees intend to discuss two rules proposed last year by the SEC. The first would prohibit an adviser from making unsuitable recommendations to clients, and the second would prohibit registered investment advisers from exercising investment discretion over client accounts unless they reasonably believe that the custodians of those accounts send account statements to the clients at least quarterly. They also intend to discuss coordination of federal and state investment adviser inspection programs and their respective efforts to identify investment advisers that have failed to register. (7) Investor Education -- This discussion should cover initiatives recently announced by the SEC to educate consumers and the coordination of these initiatives with efforts at the state level. A copy of the SEC Release is attached. Written comments must be received by the SEC on or before March 22, 1995 in order to be considered by the conference attendees. Please provide me with any comments you would like included in the Institutes comment letter by Friday, March 17, 1995. My direct telephone number is (202)326-5813 and my fax number is (202)326-5828. Marguerite C. Bateman Assistant Counsel Attachment