

**MEMO# 9611**

January 21, 1998

# **INSTITUTE COMMENTS ON SEC'S PROPOSED RULE AMENDMENTS RELATING TO ACCOMMODATION CLIENTS AND MULTI-STATE ADVISERS**

1 See Memorandum to Investment Adviser Associate Members No. 44-97, Investment Adviser Members No. 48- 97, and Investment Advisers Committee No. 33-97, dated November 19, 1997. [9611] January 21, 1998 TO: INVESTMENT ADVISERS COMMITTEE No. 4-98 RE: INSTITUTE COMMENTS ON SEC'S PROPOSED RULE AMENDMENTS RELATING TO ACCOMMODATION CLIENTS AND MULTI-STATE ADVISERS

As we previously informed you, the Securities and Exchange Commission recently published for comment amendments to its rules under the Investment Advisers Act.<sup>1</sup> The proposed amendments would (1) revise the definition of "investment adviser representative" regarding a supervised person's ability to accept "accommodation clients" without being subject to state qualification requirements, and (2) exempt certain multi-state investment advisers from the prohibition against registering with the SEC unless they have at least \$25 million of assets under management. Attached is a copy of the comment letter the Institute filed with the Commission on these proposed amendments.

**Accommodation Clients** With respect to the issue of accommodation clients, the Commission has proposed to amend the current ten percent allowance in Rule 203A-3 in one of two ways: (1) permit a supervised person to have the greater of five natural person clients (other than "high net worth" individuals) or the number of natural person clients permitted under the ten percent allowance or (2) eliminate the ten percent allowance but permit a supervised person to have an unlimited number of accommodation clients so long as each such client has a specified business or familial relationship with the adviser. The Institute's letter supports the second of these alternatives but recommends that it be modified to preserve the current ten percent allowance. The letter also recommends that those clients that may be handled on an accommodation basis include any director, officer, partner, or employee of the adviser or any partner, officer, or director of a non-natural client of the adviser. In addition, the Institute's letter recommends that the term "client" for purposes of the Rule be defined as in SEC Rule 203(b)(3)-1 to permit the supervised person to handle also on an accommodation basis the accounts of certain limited relatives of an accommodation client.

**Multi-State Investment Advisers** The Institute's letter supports the Commission's proposal to permit those investment advisers who are required to register in thirty or more states (i.e., a multi-state investment adviser) to register with the Commission notwithstanding the amount of assets they have under management. The letter, however, opposes a requirement that advisers relying upon this exemption annually represent that counsel has

reviewed the applicable state and federal laws and concluded that the adviser qualifies for the Commission's proposed multi-state exemption. Tamara Cain Reed Associate Counsel  
Attachment

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