

**MEMO# 6668**

February 16, 1995

## **SEC PROPOSES SOFT DOLLAR DISCLOSURE REQUIREMENTS FOR INVESTMENT ADVISERS**

February 16, 1995 TO: CLOSED-END FUND COMMITTEE No. 6-95 INVESTMENT ADVISERS COMMITTEE No. 13-95 INVESTMENT ISSUES COMMITTEE No. 2-95 SEC RULES COMMITTEE No. 23-95 RE: SEC PROPOSES SOFT DOLLAR DISCLOSURE REQUIREMENTS FOR INVESTMENT ADVISERS

The Securities and Exchange Commission has proposed a new rule (Rule 204-4) and form (Form ADV-B) under the Investment Advisers Act of 1940 that would require investment advisers that have brokerage discretion over any client account and that receives soft dollar services (i.e., services other than execution services) to file with the Commission and deliver to clients an annual report on its use of client brokerage. The proposal is summarized below, and a copy of the proposing release is attached. The report would disclose for the adviser's most recently completed fiscal year the following information: -- the twenty brokers, other than "execution-only" brokers (defined below), to which the adviser directed the greatest amount of client commissions; -- the three most frequently used "execution-only" brokers. A broker would be considered an "execution-only" broker if substantially all of the services that the broker provides to the adviser are execution services, i.e., effecting securities transactions and performing functions incidental to or required in connection with effecting those transactions; -- the aggregated amount of commissions directed by the adviser to each broker listed and the percentage of the adviser's total discretionary brokerage this amount represents; -- the average commission rate paid to each broker listed; -- for each broker other than an execution-only broker, information concerning products or services obtained from the broker; and -- the percentages of the adviser's total commissions that are directed to execution-only brokers, to other brokers, and at the request of clients. The report would require only information about an adviser's use of client brokerage on an aggregate basis, although comment is solicited on whether client-specific information should be required in the annual report. The release notes that an investment company adviser is currently required to provide information about its soft dollar arrangements to the company's board of directors in connection with the board's consideration of the advisory agreement, and that this information should include specific information about the adviser's use of the investment company's brokerage. The proposed annual report would supplement this fund-specific information. (See notes 24 and 55 of the attached release.) \* \* \* Comments are due to the SEC on the proposed soft dollar disclosure requirements by May 19, 1995. We will be scheduling a meeting shortly to discuss the proposal. Amy B.R. Lancellotta Associate Counsel Attachment

---

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.