

MEMO# 6115

August 4, 1994

ARIZONA SECURITIES DIVISION ISSUES PROPOSED INVESTMENT ADVISER RULES

August 4, 1994 TO: INVESTMENT ADVISERS COMMITTEE NO. 43-94 ARIZONA ASSOCIATE MEMBERS RE: ARIZONA SECURITIES DIVISION ISSUES PROPOSED INVESTMENT ADVISER RULES _____ The Arizona Securities Division (the "Division") has issued for comment a draft copy of proposed rules governing the activities of investment advisers. These rules are intended to implement recent amendments to the Arizona Securities Act providing for the regulation of investment advisers. (See Memorandum to Investment Adviser Members No. 22-94 and Investment Adviser Associate Members No. 20-94, dated May 11, 1994.) A copy of the proposed rules is attached. Article II of the proposed rules contains the substantive provisions regulating the activities of investment advisers and their representatives and employees. It includes rules relating to: books and records requirements; supervision; dishonest and unethical practices; written examination requirements; disclosure requirements; financial statements; custody of client funds or securities; suitability; and, advertisements. For the most part, the proposed rules in Article II are consistent with either the Investment Advisers Act of 1940 (the "Advisers Act") and the rules promulgated thereunder or the NASAA Model Amendments to the Uniform Securities Act. Some of the exceptions to this, however, are: (1) Rule R14-6-201, relating to books and records, which would additionally require the maintenance of a trade blotter, customer complaints for the prior five years, written client acknowledgements, and client statements received from the custodian for the prior five years; (2) Rule R14-6-203, relating to dishonest and unethical practices, which would require advisers with discretionary authority to send out quarterly account statements; (3) Rule R14-6-205, relating to disclosure requirements, which, in addition to requiring compliance with the federal "brochure" rule (Rule 204-3 under the Advisers Act), would require advisers to provide written disclosure to clients of the availability of Part I of Form ADV. Advisers would have to maintain a statement from each client acknowledging receipt of the disclosure. The proposed rule would also prohibit an adviser from delivering to a client a Form ADV or brochure to which the Division objects; and (4) Rule R14-6-209, relating to advertisements, which would require the pre-filing of all advertisements and all radio and television scripts at least ten days prior to use. Comments are due to the Division no later than Monday, September 12, 1994. Please provide me with any comments you may have on the proposed rules by Monday, August 29, 1994. My direct number is 202/326-5825 and the fax number is 202/326-5828. Tamara K. Cain Assistant Counsel
Attachment

abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.