

MEMO# 1424

September 27, 1989

SEC DIVISION DIRECTOR ISSUES LETTER ON WRAP-FEE ARRANGEMENTS

September 27, 1989 TO: INVESTMENT ADVISER MEMBERS NO. 48-89 INVESTMENT ADVISER ASSOCIATE MEMBERS NO. 50-89 RE: SEC DIVISION DIRECTOR ISSUES LETTER ON WRAP-FEE ARRANGEMENTS _____ On September 20, 1989, Kathryn McGrath, the Director of the Division of Investment Management at the Securities and Exchange Commission, issued a response letter to a request for advice concerning wrap-fee arrangements. In her letter, she made several points about advisers' fiduciary duties in wrap-fee arrangements. A copy of the request and response letters are attached. Specifically, McGrath stated that although inspections of advisers participating in wrap-fee arrangements have not uncovered any significant abuses, wrap-fee arrangements have the potential for abuse. She said that an adviser with discretion over client assets owes its client a duty to provide advice suitable for the client, not only regarding types of investments but also regarding types of brokerage fee arrangements. Further, she stated that advisers have a duty to obtain best execution pursuant to Rule 206(3)-2(c) under the Investment Advisers Act of 1940. She cited the Bailey case as evidence of the fact that the SEC will censure advisers which are not obtaining best execution for its clients. The letter also stated that an adviser must carefully consider whether a wrap-fee arrangement is suitable and appropriate for its clients prior to entering into such an arrangement and that an adviser must disclose in its brochure the terms of its practice regarding brokerage transactions and the effects of such practices on its clients. Robert L. Bunnan, Jr. Assistant General Counsel Attachment

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