

MEMO# 3771

May 11, 1992

HOUSE TELECOMMUNICATIONS AND FINANCE SUBCOMMITTEE REPORTS BILL TO REPEAL SECTION 11(A) MANAGED ACCOUNT PROVISIONS

May 11, 1992 TO: BOARD OF GOVERNORS NO. 30-92 CLOSED-END FUND COMMITTEE NO. 11-92 SEC RULES COMMITTEE NO. 32-92 RE: HOUSE TELECOMMUNICATIONS AND FINANCE SUBCOMMITTEE REPORTS BILL TO REPEAL SECTION 11(a) MANAGED ACCOUNT PROVISIONS

The Telecommunications and Finance Subcommittee of the House Committee on Energy and Commerce has favorably reported H.R. 3047, a bill that would amend Section 11(a) of the Securities Exchange Act of 1934 to permit members of national securities exchanges to effect certain transactions for accounts over which those members exercise investment discretion. Copies of H.R. 3047 and of Chairman Markey's supporting statements are attached. As you may recall, the Subcommittee held a hearing on this topic last year, and similar legislation (S. 577) previously had been introduced in the Senate. (See Memorandum to Closed-End Fund Committee No. 11-91 and SEC Rules Committee No. 29-91, dated May 23, 1991.) Currently, Section 11(a) provides that it is unlawful for any member of a national securities exchange to effect any transaction for an account with respect to which such member or an associated person exercises investment discretion. Rule 11a2-2T provides a partial exemption permitting exchange members to handle orders for affiliated managed accounts provided that, among other things, trades are executed by an unaffiliated floor broker. H.R. 3047 in effect would remove the requirement that an unaffiliated floor broker be used to execute these trades. Specifically, as reported by the Subcommittee, H.R. 3047 would amend Section 11(a) to permit an exchange member to effect transactions for an account over which that member or an associated person exercises investment discretion if the member: (1) obtains prior express authorization from the person or persons authorized to transact business for the account, (2) furnishes such person or persons at least annually with a report disclosing the aggregate compensation received by the member for effecting such transactions, and (3) complies with any SEC rules with respect to the requirements in (1) and (2). In contrast, the Senate bill (and H.R. 3047 as originally introduced), instead of inserting the requirements set forth in (1) and (2) above into Section 11(a), would authorize the SEC to adopt rules imposing such requirements as conditions to the ability to effect transactions for an affiliated managed account. Similar conditions currently apply under Rule 11a2-2T, in the case of transactions where the initiating member or an associated person retains any compensation. We will keep you informed of developments. Frances M. Stadler Assistant General 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.