

MEMO# 3480

January 29, 1992

POSSIBLE MODIFICATIONS TO INVESTMENT ADVISER REGULATION; SURVEY OF ADVISORY ACTIVITIES AND EXPERIENCE WITH STATE REGULATION

January 29, 1992 TO: INVESTMENT ADVISER MEMBERS NO. 3-92 INVESTMENT ADVISER ASSOCIATE MEMBERS NO. 2-92 RE: POSSIBLE MODIFICATIONS TO INVESTMENT ADVISER REGULATION; SURVEY OF ADVISORY ACTIVITIES AND EXPERIENCE WITH STATE REGULATION _____ The purpose of this memorandum is (1) to inform you of recent developments concerning possible modifications to investment adviser regulation and (2) to obtain information from you about the types of advisory services rendered by your firm and your experiences with state regulation of investment advisers. BACKGROUND We have been advised by Congress that legislation to regulate financial planners and to strengthen the regulation of investment advisers under the Investment Advisers Act will be priorities in this session of Congress. In view of the fact that this will be a short legislative session since it is an election year, it is likely that Congress will move quickly in enacting such legislation. There is renewed interest in enhanced regulation of the investment adviser industry as a result of the recent case involving a California investment adviser who allegedly defrauded a number of small Iowa municipalities in a scheme involving approximately \$100 million. (See Investment Adviser Members No. 1-92 and Investment Adviser Associate Members No. 1-92, dated January 3, 1992). In addition, as you may recall, legislation was introduced in 1990, and again in 1991, by Representative Boucher (D-VA) aimed at regulating small, local financial planners. The SEC is currently in the process of preparing a legislative package to be submitted shortly to Congress. Members of the Institute's staff recently met with representatives of the SEC to discuss the Institute's positions on proposals to enhance investment adviser regulation. The positions discussed at that meeting had been developed with the input of members of the Institute's Investment Advisers Committee and approved by the Executive Committee. These positions are outlined below.

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