

MEMO# 5617

February 25, 1994

CHANGE TO DRAFT COMMENT LETTER ON SEC WRAP FEE PROPOSAL

February 25, 1994 TO: INVESTMENT ADVISERS COMMITTEE NO. 16-94 SEC RULES COMMITTEE NO. 21-94 RE: CHANGE TO DRAFT COMMENT LETTER ON SEC WRAP FEE PROPOSAL _____ The Institute recently sent out for comment a draft letter on the SEC's wrap fee proposal. (See Memorandum to SEC Rules Committee No. 13-94 and Investment Advisers Committee No. 17-94, dated February 23, 1994.) Pages 17-20 of the draft letter included a discussion of the SEC's proposal to require disclosure of the portion of the total wrap fee that is paid to the portfolio manager. The Institute's draft letter recommended that such disclosure not be required in a wrap fee brochure. Upon further review and consideration of this issue, the Institute believes it would be better to support the SEC's proposal that the portion of the wrap fee paid to the portfolio manager be disclosed. The Institute believes this is the preferred position because: (1) it is essential that investors be provided full and fair disclosure of all material information and this information would be material to an investor inasmuch as the advice rendered by the portfolio manager is a highly significant service provided under a wrap fee program, if not the most important one; and (2) similar disclosure (i.e., disclosure of management fees) is required to be disclosed in mutual fund prospectuses. The Institute would appreciate comments on instances where it may not be practicable to disclose the specific amount paid to the portfolio manager so that we may recommend to the SEC that these instances be adequately addressed by Schedule H. Please contact me by phone at 202/326-5825 or by fax at 202/326-5828 with any comments on this issue or on the Institute's draft comment letter. Tamara K. Cain Assistant Counsel