

MEMO# 6865

April 18, 1995

DRAFT INSTITUTE LETTER ON SEC SOFT DOLLARS DISCLOSURE PROPOSAL

1 See Memorandum to Closed-End Fund Committee No. 6-95, Investment Advisers Committee No. 13-95, SEC Rules Committee No. 23-95 and Soft Dollars Task Force, dated February 16, 1995. April 18, 1995 TO: CLOSED-END FUND COMMITTEE No. 20-95 INVESTMENT ADVISERS COMMITTEE No. 20-95 SEC RULES COMMITTEE No. 57-95 SOFT DOLLARS TASK FORCE RE: DRAFT INSTITUTE LETTER ON SEC SOFT DOLLARS DISCLOSURE PROPOSAL

Attached is a draft of the Institute's comment letter on the SEC's proposal to require investment advisers to disclose certain information regarding their use of client brokerage and receipt of soft dollar services.¹ The letter reflects the positions agreed upon by members at the meeting held on March 15th to discuss the proposal. A brief summary of the draft letter is set forth below. The letter opposes all of the Commission's proposed disclosure requirements. In lieu of the Commission's proposals, the letter recommends that the Commission require an adviser to disclose the percentage of its total discretionary commissions that relate to specific services obtained from a broker, as is the case where a broker purchases a service and a "conversion ratio" or other target commission level is established for the adviser acquiring such service. In addition, the letter recommends that this disclosure be supplemented with narrative disclosure that describes research services received by advisers other than through the allocation of specific commissions. The letter also recommends that the ten brokers to which the adviser directed the greatest amount of client commissions be disclosed, with no distinction between research and execution-only brokers, and that a generic description of the types of services and products, if any, obtained from such brokers be provided. Finally, the letter recommends that any new disclosure regarding an adviser's soft dollar practices be provided in Part II of its Form ADV and provided to clients pursuant to the existing delivery requirements. Comments are due on the Commission's proposal by May 19th. Please provide me with your comments on the draft letter by May 5, 1995. In addition to your comments on the letter generally, we are interested in your thoughts on the specific items flagged in bold print on pp. 8, 12- 14 and 17. My direct number is 202/326-5824. Amy B.R. Lancellotta Associate Counsel Attachment