

MEMO# 3744

May 5, 1992

CHAIRMAN DINGELL'S LETTER TO THE SEC ABOUT WRAP FEE PRODUCTS

May 5, 1992 TO: INVESTMENT ADVISERS COMMITTEE NO. 20-92 SEC RULES COMMITTEE NO. 27-92 RE: CHAIRMAN DINGELL'S LETTER TO THE SEC ABOUT WRAP FEE PRODUCTS

Congressman John Dingell,
Chairman of the House Committee on Energy and Commerce, recently sent a letter to SEC Chairman Breeden that sets forth a number of concerns about wrap fee products. A copy of the letter is attached. These concerns include: whether the brokerage component is appropriate for the particular type of account and customer; whether the total fee is in line with the aggregate of fees otherwise payable for individual component services; whether the wrap fee involves a disguised referral or "kickback" arrangement; whether wrap fee programs raise "mini-account" issues; what standards should be applicable in determining whether best execution was obtained; whether various service providers are properly qualified and registered to provide that service; and whether the disclosure to clients is adequate. Prior to receiving this letter, Chairman Breeden had sent the attached letter to Chairman Dingell responding to an earlier inquiry about wrap fee accounts. In the letter, Chairman Breeden states that the Divisions of Investment Management and Market Regulation have been studying wrap fee accounts and have inspected providers of wrap fee products. He further noted that IM is considering amendments to Form ADV in part because of the growing number of these products. Chairman Dingell has requested assurances that the SEC is aware of and focusing on the issues raised in his letter in connection with the studies, inspections and consideration of disclosure requirements that were described in Chairman Breeden's letter. He expressed particular concern about the issue of "kickbacks" because they "raise the specter of a revival of illegal 'give-ups' that flourished under fixed commission rates." We will keep you informed of developments. Amy B.R. Lancellotta
Associate General Counsel Attachments