

**Securities Industry Association**

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January 15, 1998

Jonathan D. Katz
Secretary
Securities and Exchange Commission
450 Fifth Street N.W., Stop 6-9
Washington, D.C. 20549

**Re: Exemption for Investment Advisers Operating in Multiple States and
Revisions to Other Rules Implementing Amendments to the Advisers
Act of 1940 (Release No. IA-1681, File No S7-28-97)**

Dear Mr. Katz:

The Investment Adviser Committee of the Securities Industry Association ("SIA")¹ is taking this opportunity to comment on certain proposed exemptions and revisions to rules under the Investment Advisers Act of 1940. Such exemptions and revisions are being proposed in furtherance of the implementation of the provisions of the Investment Advisers Supervision Coordination Act.

The proposals would make investment advisers who do not manage assets in excess of \$25,000,000, but would be required to register in 30 or more states, eligible for federal registration. The proposals would also modify the definition of the term "Investment Adviser representative" to expand the circumstances under which essentially institutional advisers, who handle only a limited number of "accommodation" and/or sophisticated investor accounts, would be exempt from state registration.

DISCUSSION

The Committee supports the Commission's exemption proposal with respect to advisers who would otherwise be required to register in 30 or more states because they do not meet the assets under management criteria. We support this, not only because of the burdens that multi-state registration would impose on the adviser, but also because the nature of the business of such advisers generally makes them more suitable for federal oversight, just as smaller advisers with more localized businesses are better regulated at the state level.

We also support the proposed expansion of the exemption from state registration for investment adviser representatives who handle "accommodation" (i.e. "natural person") clients. We agree

that the current criteria is unduly restrictive with respect to such persons who only manage assets for a limited number of institutions, and believe that the greater of five natural person clients, or the number of natural persons permitted under the ten per cent test is an appropriate standard. We also believe the Commission's alternative proposal has merit. It would exclude from the natural person calculation high net worth individuals, as well as certain persons who have familial or business relationships with the investment adviser representative or the advisory firm he or she represents. This approach is clearly consistent with other on-going Commission efforts to eliminate unnecessary regulation of activities relating to persons who are not in need of the protections afforded by such regulation.

It is unclear from a reading of the Release whether the Commission is seeking to adopt one or the other of the alternative proposals, but we would respectfully suggest that as they both have merit, and do not appear to be mutually exclusive, that both proposals, or some combination of them, be adopted.

CONCLUSION

Subject to the qualifications noted above, the Committee endorses the Commission's proposals as set forth in the aforementioned Release. In particular, the Committee appreciates the Commission's sensitivity to not unduly burdening investment advisers and their representatives with extensive registration requirements that do not further regulatory objectives.

We appreciate the opportunity to comment. If you have any questions regarding this letter or the Committee can otherwise be of assistance, please contact the undersigned at (212) 559-6615 or Committee staff adviser, Michael Udoff at (212) 618-0509.

Sincerely,

Burton M. Fendelman
Chairman, Investor Adviser Committee

cc:

Barry P. Barbash
Robert A. Plaze
Stuart J. Kaswell

Footnotes

¹ The Securities Industry Association is the trade association representing more than 780 securities firms headquartered throughout North America. Its members include securities organizations of all types investment banks, brokers, dealers, specialists, and mutual fund companies. SIA members are active in all markets, and in all phases of corporate and public finance. Collectively, they provide investors with a full spectrum of investment services and account for approximately 90% of the securities industry's revenue in the United States.