



Securities Industry Association

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July 8, 1997

Michael A. Macchiaroli, Esq.
Associate Director
Division of Market Regulation
U.S. Securities and Exchange Commission
Mail Stop 5-1
450 5th Street, NW
Washington, DC 20549

Re: State Registered Investment Advisers and Prime Broker Arrangements

Dear Mr. Macchiaroli:

On behalf of the Ad Hoc Prime Brokerage Committee of the Securities Industry Association¹, I am writing to request that the Division of Market Regulation clarify the application of its No-action letter, dated January 25, 1994, ("the SIA Prime Brokerage No-Action Letter") to investment advisers that are registered with a state securities administrator.

As you know, under the terms of the SIA Prime Brokerage No-Action letter, a broker-dealer is permitted to offer prime brokerage arrangements to customers who have \$100,000 in cash or securities with a ready market in an account that is managed by an investment adviser registered under §203 of the Investment Advisers Act of 1940 ("the 1940 Act"). However, enactment of the Investment Advisers Supervision Coordination Act last year created the prerequisite that an investment adviser have a minimum of \$25 million under management before being eligible to register under §203. As a result, the number of investment advisers registered under the 1940 Act will greatly diminish (we have seen estimates that more than 70% of the investment advisers currently registered with the Commission will now be registered solely at the state level). The effective date of this change is July 8, 1997.

The net effect is that the SIA Prime Brokerage No-Action letter will no longer cover a broker-dealer who wishes to maintain a prime brokerage arrangement for customer accounts with \$100,000 of equity where the investment adviser has less than \$25 million in assets under management.

We request that the Division of Market Regulation clarify that broker-dealers may continue to extend the benefits of prime brokerage arrangements to customer accounts managed by investment advisers that are registered with a state securities administrator if each such account has a minimum net equity of \$100,000 in cash or securities with a ready market.

If you require additional information, please do not hesitate to call me at 212-272-1210 or

Gerard J. Quinn at 212-608-1500.

Sincerely,

Jeffrey C. Bernstein
Chairman, Ad Hoc Prime Brokerage Committee

cc: Caite McGuire

Footnotes

¹ The Securities Industry Association is the trade association representing more than 750 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.