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2000 Activity Report

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December 31, 2000

We are pleased to provide the following activity report to the membership. As indicated in this brief summary, 2000 was the most productive year in the long and distinguished history of the Investment Counsel Association of America.

The year 2001 will bring new challenges and offer new opportunities for the ICAA. We welcome your suggestions for improving the Association and invite your participation in the various activities of the ICAA.

We truly appreciate your continued support of the Association and look forward to working with all members as we strive to build on our record of service and excellence.

ICAA Board of Governors

# Advocacy



The Association plays a critically important role as the leading representative and advocate for the investment advisory profession regarding legal, regulatory, and compliance issues. The ICAA is involved in a continuing dialogue with the SEC, the Congress, the Department of Labor, state securities regulators, and other industry organizations regarding every major initiative affecting the profession. Following is a chronological listing of some of the important initiatives and issues the ICAA has been involved with during the past year.

*Any good investment adviser knows you can't afford to have compliance and regulatory problems. The*

*ICAA is the best way to stay informed and on top of the rapidly changing legal and regulatory environment.*

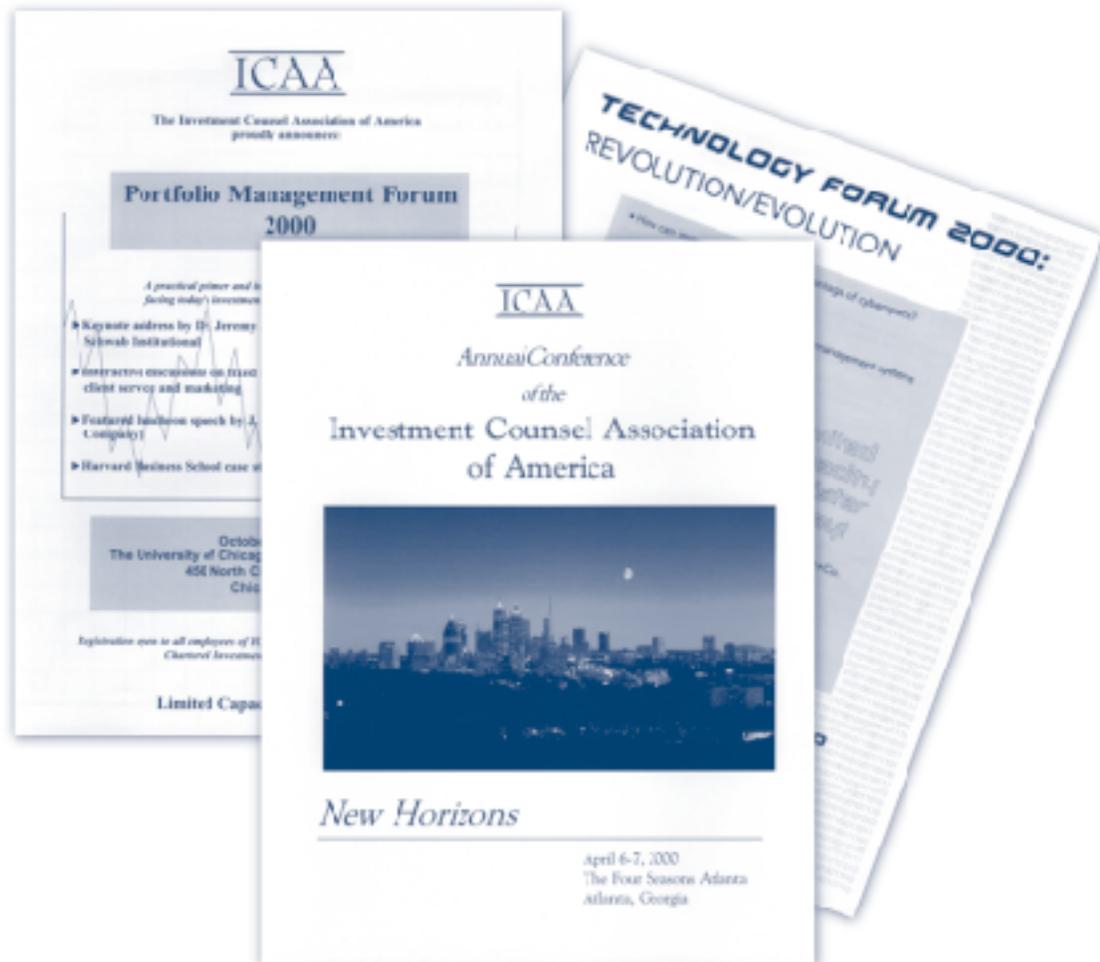
- In January, the ICAA filed written comments with the SEC regarding its proposed rule regarding the broker-dealer exception under the Investment Advisers Act and worked throughout the year with other industry and consumer groups to raise awareness of the issues involved. Issued in response to the announcement of Merrill Lynch's decision in 1999 to offer fee-based services, this important rulemaking could have profound implications for the advisory profession. A final regulation is expected early in 2001.
- In February, Mark F. Kemper (Brinson Partners, Inc.) testified on behalf of the ICAA before the Department of Labor regarding a proposed class exemption under ERISA to allow cross trading between actively managed accounts, citing numerous benefits to plan sponsors. The ICAA has repeatedly urged the Department of Labor to conduct hearings on the proposed exemption. The ICAA also filed written comments with the Department in support of a related class exemption for cross trades by index and model-driven funds.
- In March, the ICAA filed written comments with the SEC on its proposed privacy rules. Issued in accordance with the mandates of the Gramm-Leach-Bliley financial services modernization legislation passed by Congress late in 1999, the new privacy regulations were issued by the SEC in June and require investment advisers and other financial services providers to have privacy policies and procedures in place by July 1, 2001. The ICAA's compliance workshops, conducted in October and November, included a discussion of the new regulations. The ICAA will offer continuing guidance to its membership on these new rules.
- On May 15, the ICAA released a report, entitled "Pay-to-Play and the Investment Advisory Profession," which includes best practice guidelines for adviser codes of ethics. This important report outlines issues involved in the SEC's proposed rule prohibiting pay-to-play activities by advisers to public pension plans and highlights differences between the investment advisory profession and the municipal securities industry. In a press release issued on May 16, SEC Chairman Arthur Levitt stated: "The report and recommendations are important steps toward preventing pay-to-play abuses in the investment advisory industry and indicate that the industry is serious about addressing these problems. I commend the ICAA on this important initiative. Working together, the SEC and the advisory industry can help to eliminate the abusive practices that undermine the integrity of the investment adviser selection process. The ICAA's report gives us a number of recommendations to consider as we craft a final rule to eliminate pay-to-play abuses in the industry." A final rule is expected in the near future.
- On May 23, the ICAA was an active participant in the historic roundtable on investment adviser regulation convened at the SEC's headquarters in Washington, D.C. ICAA Executive Director David Tittsworth filed an extensive written statement and testified at the roundtable, outlining the virtual revolution that is occurring in the SEC's regulatory, inspection, and enforcement programs governing investment advisers and emphasizing that a self-regulatory organization for advisers would be burdensome and unnecessary. Representatives of ICAA member firms, including Henry H. Hopkins (T. Rowe Price Associates, Inc.), Sandra P. Tichenor (Loomis Sayles & Company, L.P.), Mary Ann Tynan (Wellington Management Co., LLP), Kathryn L. Quirk (Scudder Kemper Investments, Inc.), Luis Aguilar (INVESCO, Inc.), Thomas M. Mistele (Dodge & Cox), and Jilaine H. Bauer (Heartland Advisors, Inc.), also testified at the roundtable on a range of issues facing the advisory profession.
- In June, the ICAA filed extensive written comments with the SEC in response to its proposed rules revising Form ADV and establishing the Investment Adviser Registration Depository (IARD). This action was a continuation of the Association's long-standing involvement in these important initiatives, including its participation on the IARD Advisory Council, established by the SEC and the states to address a variety of

# Advocacy

issues pertaining to the IARD. In September, the SEC issued final rules on Form ADV, Part 1 and established a schedule for electronic filings. Numerous ICAA member firms participated in the SEC's pilot program during the past several weeks, helping to identify and correct potential problems with the new system. The ICAA's compliance workshops held in October and November provided the latest information on Form ADV revisions and the IARD. It is expected that the SEC will issue final regulations on Form ADV, Part 2 in the near future. The Association will continue to provide information and assistance to its firms on these important issues as developments occur.

- In July, the Senate Committee on Banking, Housing and Urban Affairs, chaired by Sen. Phil Gramm (R-TX), passed the Competitive Market Supervision Act. The bill includes provisions supported by the ICAA to address problems that have arisen in a few states since enactment of the Investment Advisers Supervision Coordination Act in 1996 (the watershed law that generally preempts state regulation of investment adviser firms with more than \$25 million in assets under management). The ICAA will continue to work with Senator Gramm and other Members of Congress during the coming year to promote efforts that will reduce unnecessary and burdensome regulation of SEC-registered advisers by the states.
- In August, the SEC issued Regulation FD (fair disclosure), addressing the selective disclosure of material nonpublic information by public companies. The ICAA's Legal and Regulatory Committee is evaluating and monitoring this significant new rule to determine whether it will result in a deterioration of quality information to analysts and investors, hinder communication between issuers and analysts, promote market volatility, or have other adverse effects.
- In September, the ICAA filed written comments on the SEC's proposed rules regarding auditor independence, supporting the goals of the proposal and urging the Commission to work with the accounting profession and other interested parties to achieve a balanced rule. In November, the SEC adopted a final rule that modernizes and revises its rules for determining whether an auditor is independent.
- In December, the ICAA filed written comments with the SEC in response to a proposal by NASD Regulation regarding the ability of mutual funds to advertise related performance. In addition, the ICAA's Legal and Regulatory Committee and Performance Advertising Committee are working to identify ways to improve, update, and consolidate regulations related to advertising by investment advisers.
- During the past year, the ICAA has worked diligently with the National Conference of Commissioners on Uniform State Laws and the North American Securities Administrators Association to promote uniform state securities laws and regulations pertaining to investment advisers. In addition, the ICAA wrote various comment letters, provided information, and participated in hearings by the Texas Sunset Commission in a continuation of efforts designed to address regulations of the Texas Securities Board that run afoul of the 1996 federal law.

# Education

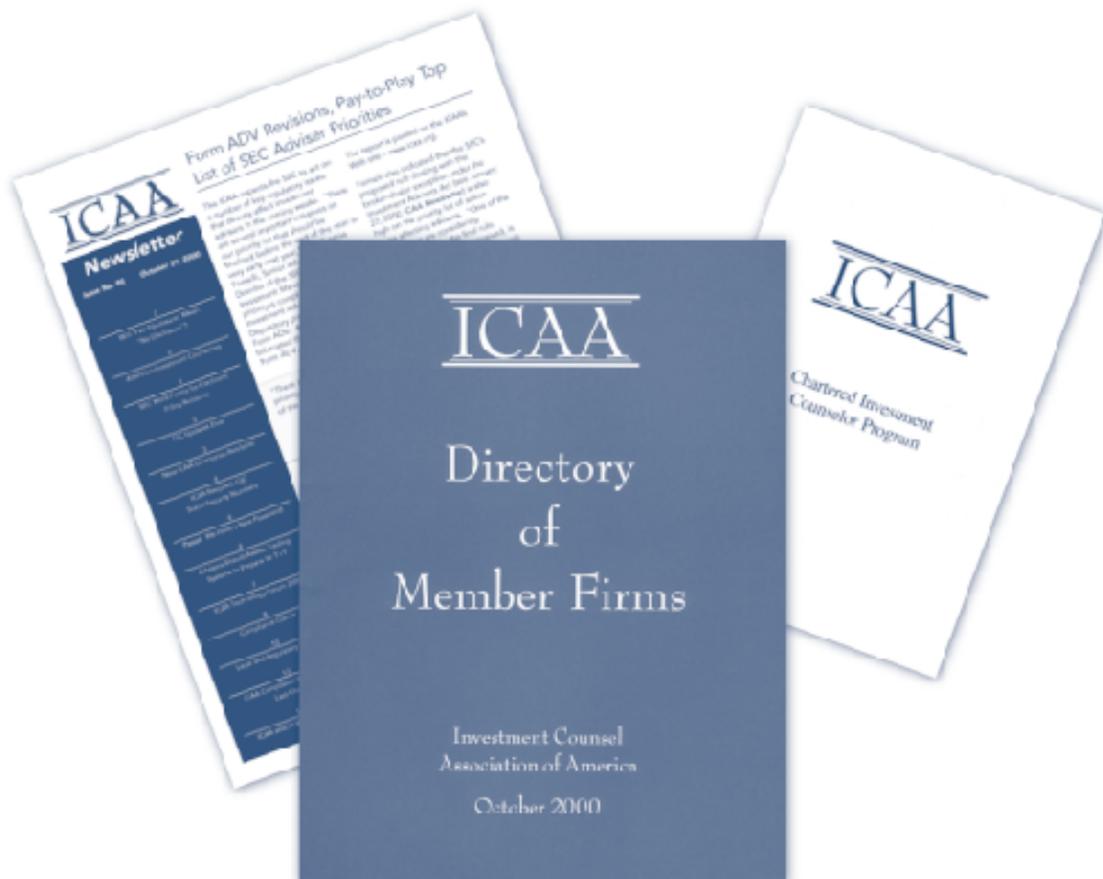


The ICAA conducted an unprecedented number of conferences and other meetings during the past year in an effort to keep our members fully informed about relevant issues that affect the investment advisory profession and to provide a forum for our members to network and discuss matters of mutual concern. These conferences and meetings are provided to our membership at very reasonable rates and are an important benefit of ICAA membership. Assuming the ICAA continues to increase its membership and resources, the Association will be able to offer an expanded range of educational benefits to serve an increasingly diverse membership. Following is a brief summary of some of the educational events the ICAA sponsored during 2000.

*One of the most valuable benefits of belonging to the ICAA is the ability to discuss today's issues with other leaders in the investment advisory profession.*

- In April, the ICAA held its annual conference in Atlanta. Entitled "*New Horizons*," the program featured presentations by Abby Joseph Cohen, Jeremy Grantham, Hon. Griffin Bell, Charles Brady, Paul Royce, and other distinguished speakers. The ICAA's 2001 conference will be held in Carlsbad, California on April 19-20 and will feature a wide array of renowned speakers, including Warren Bennis (The Leadership Institute), Arthur Laffer (Laffer & Associates), Irwin Mark Jacobs (Qualcomm), Gerald Edelman (Neurosciences Institute), and a CEO panel of ICAA member firms.
- In May, the ICAA and *Investment Adviser Week* cosponsored a two-day compliance summit in Washington, D.C. Numerous officials from the SEC, along with ICAA staff, leading practitioners, and representatives of ICAA member firms provided the latest information at the conference on legal, regulatory, and compliance issues facing investment advisory firms. A similar conference will be held March 26-27, 2001 in Washington, D.C.
- In October, the ICAA again sponsored a conference designed exclusively for investment professionals. Entitled "*Portfolio Management Forum 2000*," the conference featured presentations from Dr. Jeremy J. Siegel (The Wharton School), J. Parker Hall III (Lincoln Capital Management Company), James Sarni (Payden & Rygel), Dr. Kevin Stephenson (Cambridge Associates), William Haines (FMS Group), Jeffrey Miller (Provident Investment Counsel), and Jon Henderson (Stein, Roe & Farnham), as well as case study from the Harvard School of Business Management. Preparations already have begun for a similar conference in 2001 and future years.
- In June, the ICAA convened a workshop for ICAA member firms in Boston where attorneys from the law firm of Bingham Dana discussed issues related to best execution.
- The ICAA Board of Governors held quarterly meetings in February (Houston), June (Chicago), September (New York), and December (San Francisco) and hosted working luncheons for ICAA members in conjunction with each meeting. The ICAA's volunteer Board of Governors is continuing its efforts to increase benefits and services of the Association and to promote the ICAA and the investment advisory profession.
- In October and November, the ICAA convened compliance workshops for ICAA member firms – the fourth year in a row the Association has sponsored such meetings. More than 300 persons attended the workshops, which were held in Dallas, Chicago, Atlanta, San Francisco, Los Angeles, Washington, D.C., Boston, and New York. ICAA staff and attorneys from the law firms of Wilmer, Cutler & Pickering and Dechert combined to provide current information on Form ADV revisions and the Investment Adviser Registration Depository, the SEC's new privacy regulations, and other significant legal and regulatory developments.
- In November, the ICAA hosted a conference in San Francisco designed for ICAA operations and technology personnel. Entitled, "*Technology Forum 2000: Revolution/Evolution*," the two-day conference featured discussions regarding the role of the Internet, developments in portfolio accounting and management systems, privacy and security, T+1, trends in trading technologies, and managing technology, as well as presentations by William Hambrecht (WR Hambrecht + Co.), Frank Minard (InvestorForce), and Stephanie DiMarco (Advent Software).
- In December, the ICAA and *Investment Adviser Week* cosponsored a conference in Washington, D.C. to discuss the SEC's new regulations on Form ADV and the Investment Adviser Registration Depository. More than 150 persons attended the meeting, which featured discussions among SEC officials, ICAA staff, leading practitioners, and ICAA member firms.

# Service



One of the missions of the Association is to provide "benefits, services, and products that add value to member firms in their course of doing business." Four years ago, the ICAA relocated its office to Washington, D.C. Since that time, the Association has increased its communication and effectiveness with major policy makers and other organizations. The ICAA has increased its paid staff, including hiring an in-house legal staff that is able to provide major services to the membership. The ICAA has increased its public exposure, thus enhancing its effectiveness. As the following brief summary indicates, the ICAA has continued to provide its membership with a variety of other benefits and services during the past year.

# Service

*The ICAA is the only association whose sole purpose is to serve the investment advisory profession.*

- Since December 1996, we have published a monthly edition of the *ICAA Newsletter*. The newsletter is a major component of our efforts to keep the membership fully informed of all aspects of the ICAA's activities and of relevant industry trends and developments. Any employee of an ICAA member firm who wishes to be included on the newsletter mailing list should simply contact the ICAA office.
- During the past year, ICAA General Counsel Karen Barr and Counsel Dan Kahl have responded to hundreds of requests for information about regulatory and compliance issues from our members. These "retail" services are an important and unique aspect of the ICAA's services to its membership. In an effort to sustain and augment our ability to provide these valuable services, we are pleased to announce that Ms. Philippa Hughes will be joining the ICAA staff as Counsel in January 2001.
- Our Internet site, located at [www.icaa.org](http://www.icaa.org), was launched in April 1997. Since then, we have added a variety of enhancements, including a "Members Only" area that features legal and regulatory updates (now searchable), past issues of the *ICAA Newsletter* (also searchable), and a message board that allows ICAA members to communicate with each other and with ICAA staff. The ICAA Web site contains links to ICAA member firm sites and other industry and informational sites, employment listings, and a searchable section that contains copies of significant comments and statements of the ICAA.
- Through a special arrangement, the ICAA offers Web site development services of its technology consultant, Mr. Kenneth Holley, at a reduced rate. During the past year, several ICAA members retained Mr. Holley to create Internet sites for their firms.
- In August, the ICAA provided to each member firm updates of our two-volume set of legal, regulatory and compliance materials, including information on the SEC's new privacy rules, updated Blue Sky charts, and materials relating to personal trading and other issues. Entitled *The ICAA Investment Adviser*, the compilation includes a variety of current and historical information on investment adviser issues and practices, from a revised specimen advisory agreement to memoranda dealing with soft dollars, ERISA, performance measurement and advertising, and many other areas that relate directly to investment management firms.
- The Chartered Investment Counselor (CIC) designation, sponsored by the ICAA, is designed to recognize individuals who have met significant education and experience qualifications in performing investment counseling and portfolio management functions. Last year, the North American Securities Administrators Association issued a model rule urging all state regulators to adopt regulations that waive investment adviser competency examination requirements for persons with certain professional designations, including CIC charter holders.
- In October, the ICAA published and distributed its *Directory of Member Firms and Directory of Firm Personnel*. ICAA membership currently stands at more than 275 firms, the highest level in our 63-year history. More than 35 firms, collectively managing in excess of \$350 billion in assets, were approved for membership during 2000. Continuing to build our membership remains one of the highest priorities of the Association.





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