



## 2004 Activity Report



December 31, 2004

2004 was a watershed year for the ICAA and its growing membership. In the wake of the mutual fund scandals, the SEC approved a number of major regulations that affect all investment advisory firms, including the compliance program rule and the codes of ethics rule. During the same time, the scope and intensity of inspections have increased, as the SEC has required unprecedented documentation, including production of e-mails and records demonstrating the effectiveness of written compliance policies and procedures.

We are proud of the work of our Association during this time of unprecedented change. A few of the significant accomplishments of the ICAA in 2004 include the following:

- In response to the SEC's new compliance program rule, the ICAA legal staff developed an extensive on-line compliance guide that covers more than 20 areas, from portfolio management processes and brokerage/trading practices to privacy, proxy voting, and contingency planning. This practical guide will serve as an invaluable resource for ICAA member firms for years to come.
- In July, the ICAA published its *Best Practices for Investment Adviser Codes of Ethics*. This practical and valuable resource provides guidance for investment advisory firms in understanding the requirements of the SEC's new code of ethics rule and in suggesting best practices for firms seeking to update their codes based on the nature and size of their business.
- In March, the ICAA testified before the U.S. Senate Banking Committee on soft dollar issues. The ICAA supported appropriate disclosure of soft dollar arrangements and restricting soft dollars to legitimate research that benefits advisory clients, while opposing the elimination of third-party arrangements. Shortly thereafter, SEC Chairman Donaldson created a task force on soft dollars. The ICAA expects the SEC to take action in this important area early in 2005.

The ICAA and its membership will face new challenges and opportunities in the coming year. As always, we welcome your suggestions for improving our organization and invite you to participate in the various activities we sponsor. We appreciate your continued support of the Association and look forward to working with all members as we strive to build on our proud record of advocacy, education, and service.

ICAA Board of Governors

# Advocacy



The ICAA plays a critical role as the leading advocate and representative of the investment advisory profession. In particular, the ICAA continues to assume the major responsibility of serving as the profession's leading voice on legal, regulatory, and compliance issues that affect investment advisers. As the legislative and regulatory landscape has become more complicated and dynamic, the ICAA has been involved in a continuing dialogue with the U.S. Congress, the SEC, the Department of Labor, the Department of Treasury, state securities regulators, and other industry organizations regarding every major initiative affecting the investment advisory profession. In addition, the ICAA continues to build relationships with regulators and organizations outside the United States as an increasing number of our members are involved in global enterprises.

## The ICAA plays a critically important role in representing and protecting the interests of the investment advisory profession.

Following is a sampling of initiatives and issues the ICAA has been actively involved with during the past year (additional comment letters and materials are posted on the ICAA's web site – [www.icaa.org](http://www.icaa.org) – under “Comments & Statements”):

- 2004 represented a watershed year in terms of investment adviser compliance. A new SEC rule went into effect that requires all investment advisers to: (1) adopt policies and procedures reasonably designed to prevent violations of the Investment Advisers Act; (2) appoint a chief compliance officer; and (3) review the policies and procedures at least annually. This new compliance program rule represents the most significant investment adviser regulation adopted by the SEC since enactment of the Advisers Act in 1940. The ICAA had expressed a variety of concerns to the SEC when the rule was initially proposed, focusing on the fact that relatively minor violations could be treated as major infractions (particularly given the fact that SEC inspections nearly always result in findings of deficiencies). Despite these concerns, the SEC adopted the rule by a unanimous vote and set October 5, 2004 as the compliance deadline. To assist our member firms in dealing with the compliance program rule, the ICAA legal staff developed an extensive *On-Line Compliance Guide*. This useful and practical guide consists of written outlines that relate to establishing and implementing a compliance program for investment advisers, including the following areas: registration; disclosure; financial and disciplinary information; advisory contracts and account opening procedures; safeguarding and custody of client assets; advertising, marketing, and other communications; referral arrangements; brokerage and trading practices; soft dollars; portfolio management processes; best practices for codes of ethics; insider trading; privacy; proxy voting; books and recordkeeping requirements; e-mail communication and retention; business continuity planning; reporting under the Exchange Act of 1934; annual compliance program reviews; and anti-money laundering. The *On-Line Compliance Guide*, available only to member firms of the ICAA, represents one of the most significant accomplishments of the ICAA during 2004 and it will serve as an invaluable resource for our membership in future years.
- In July, the SEC approved a regulation that requires all investment advisers to adopt codes of ethics. The new rule requires that an adviser's code of ethics, among other things: (1) set forth standards of conduct expected of advisory personnel (including compliance with the federal securities laws); (2) require “access persons” to obtain prior approval from the adviser before investing in private placements and initial public offerings; and (3) require “access persons” to periodically report their personal securities transactions, including transactions in any mutual fund managed by the adviser. In July, the ICAA published its *Best Practices for Investment Adviser Codes of Ethics*. This document was prepared with the goal of assisting registered investment advisory firms in updating, revising, or developing an appropriate code of ethics. In addition to assisting firms in complying with the SEC's new rule, the document is also helpful in identifying other provisions that firms may wish to consider in tailoring the code to the firm's particular characteristics. In August, SEC Chairman Donaldson wrote a letter congratulating the ICAA on the best practices document, stating that: “Your work is a significant step toward a renewed culture of ethics within the investment advisory industry.”
- Soft dollars was the subject of intense scrutiny during the past year, as legislators, regulators, and other interested parties discussed various alternatives, including abolition of the current safe harbor. In March, the ICAA issued a public statement on the subject. Later that month, the ICAA testified before the Senate Banking Committee at a hearing examining soft dollar practices. The ICAA supported a rulemaking by the SEC that would: (1) require appropriate soft dollar disclosure by investment advisers; (2) strengthen recordkeeping requirements related to soft dollar arrangements; and (3) clarify the scope of allowable “research” within the current safe harbor. The ICAA also urged policy makers to reject suggestions to eliminate the use of soft dollars for third-party research. After the hearing, SEC Chairman Donaldson established an internal task force to analyze issues related to soft dollars and to make recommendations to the Commission. The ICAA and various member firms met with the SEC task force several times during 2004 to assist them in understanding practices and to discuss potential alternatives. The ICAA expects the SEC to take action on these issues in 2005.
- The scope and intensity of SEC examinations of investment advisers increased dramatically during 2004 as the agency aggressively sought to stem abuses related to the mutual fund scandals. One of the key developments in this area involved retention, production, and monitoring of employee e-mails by investment advisory firms. As SEC examiners have rapidly expanded the scope of e-mail production requests, the ICAA has worked to notify its membership about these issues and to develop resources designed to assist its members in understanding and complying with the SEC's new requirements. The ICAA met with SEC commissioners and staff at various times during 2004 to outline serious concerns in this area. In November, the ICAA sent a letter to the SEC reiterating support for needed clarification regarding the SEC's expectations in this important area. The ICAA expects the SEC staff to issue written guidance on the subject in 2005.

# Advocacy

**The ICAA is actively involved in a continuing dialogue with regulators and other policy makers to support reasonable and appropriate laws and rules governing the investment advisory profession.**

- At the beginning of 2004, the U.S. Senate was expected to take action on bills that were drafted in response to the mutual fund scandals (the U.S. House of Representatives had passed a “reform” bill in November 2003 by an overwhelming vote of 418-2). Early in 2004, the ICAA met with Senate Banking Committee staff in an effort to assist them in understanding the nature and composition of the investment advisory profession – including the fact that the vast majority of advisory firms are small businesses – and to oppose legislative proposals that would result in undue burdens and costs, such as the proposal to create a separate bureaucracy to oversee mutual funds and a proposal (adopted by the House) that would restrict investment managers from managing both mutual funds and hedge funds. After convening a number of hearings related to mutual fund and other issues, the Senate Banking Committee adjourned for the year without taking any legislative action, representing one of the most significant and welcome developments of 2004 for the mutual fund and investment advisory industries.
- In September, the ICAA filed additional written comments on the SEC’s proposed rule relating to the broker-dealer exception under the Investment Advisers Act. This important proposal deals with questions related to when a client account is treated as a brokerage account or an advisory account. The SEC’s proposal dates back to 1999. Since then, the ICAA has taken a leading role on this important rulemaking and has filed numerous letters on the subject, including joint letters signed by the ICAA, the Consumer Federation of America, the Financial Planning Association, the National Association of Personal Financial Advisors, the CFP Board of Standards, and Fund Democracy. The SEC is expected to issue a final rule in the very near future.
- The ICAA has continued to play a leading role in voicing concerns related to various securities settlement issues being considered by the SEC and others. In June, the ICAA responded to the SEC’s 2004 concept release on the subject. While expressing support for the goal of achieving same-day affirmation of trades (SDA) and/or shortening the current T+3 settlement cycle, the ICAA letter expresses strong opposition to a regulatory mandate requiring SDA or shortening the T+3 cycle, noting that both would require significant improvements and investments in automation and straight-through-processing (STP). The ICAA letter notes that neither SDA nor shortening the settlement cycle are warranted by any objective cost/benefit analysis and that the better approach is “to encourage the development of *market-driven initiatives* to promote advances in STP that ultimately will be embraced by the vast majority of market participants.” During the past few years, the ICAA’s efforts in this area have resulted in significant savings for investment advisory firms in avoiding costly mandates.
- The ICAA continues to provide comprehensive information about the investment advisory profession. In May 2004, the ICAA and National Regulatory Services issued the fourth annual report entitled, *Evolution/ Revolution: A Profile of the U.S. Investment Advisory Profession*. The report provides a snapshot of the investment advisory profession and analyzes several core characteristics of an evolving industry. For example, the 2004 report found that the number of investment advisers that provide advice to hedge funds or other pooled investment vehicles has risen significantly, suggesting that an increasing number of hedge fund managers are choosing to register voluntarily under the Advisers Act. The 2004 report also found that the largest investment advisory firms continue to control the lion’s share of managed assets, noting that advisory firms managing \$10 billion or more collectively manage 82% of all reported discretionary assets under management. The ICAA/NRS report is based on information provided by SEC-registered investment advisory firms in their electronic filings on the Investment Adviser Registration Depository (IARD) system. The ICAA has developed software enabling it to analyze IARD data and will continue to look for opportunities to expand its ability to provide useful information about the investment advisory profession.
- The ICAA expects a full agenda for investment advisory firms during 2005. On the regulatory front, for example, the ICAA expects the SEC to take action in a number of areas, including the following: (1) approving regulations that will restrict soft dollar arrangements and require greater disclosure and recordkeeping by investment advisers; (2) issuing a final rule making significant revisions to Form ADV, Part 2; and (3) providing guidance on an investment adviser’s responsibility to retain, produce, and monitor employee e-mail. The ICAA also expects the U.S. Department of Treasury to issue a final rule in 2005 requiring all investment advisers to develop and implement anti-money laundering programs.

# Education



The ICAA conducted numerous conferences, meetings, and workshops 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 meaningful forum for our members to network and discuss matters of mutual concern. The conferences covered a wide range of business, operational, and compliance issues. These conferences and meetings are provided to our membership at very reasonable rates and are an important benefit of ICAA membership. As 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.

# Education

**One of the most valuable benefits of belonging to the ICAA is the ability to participate in a wide variety of meetings and programs that are designed specifically to address the issues, challenges, and opportunities facing investment advisory firms.**

Following is a summary of the educational conferences and events the ICAA sponsored during the past year.

- In April, the ICAA held its annual conference in Palm Beach, Florida. Entitled "Restoring Trust," the program featured presentations by SEC Chairman William H. Donaldson; John F. Casey and David J. Bauer (Casey, Quirk & Acito, LLC); Lee Munder, CFA (Lee Munder Capital Group); Jon T. Ender, CFA (ABN AMRO Asset Management); Charles A. Gabriel (Prudential Securities); and Paul F. Desmond (Lowry's Reports, Inc.); as well as panel discussions on executive compensation and outsourcing. In addition to offering a first-class program, the ICAA annual conference provides an excellent opportunity for senior executives to meet with each other to discuss issues of mutual concern. The 2005 conference will be held in Seattle on April 14-15.
- In October, the ICAA sponsored a two-day technology/operations conference in Los Angeles. Entitled "Enabling Success," the conference featured discussions about the latest trends and developments in: back office issues; portfolio management and manufacturing systems; the latest on STP, T+1, and other trading technologies and strategies; challenges and opportunities relating to compliance; client reporting and management systems; and organizing the business infrastructure. Speakers included Tim Lind (TowerGroup); Paul Schaeffer (SEI Investments); Dan Skiles (Charles Schwab & Co.); Lee Cutrone (Omgeo); Dan Stroot (Nicholas Applegate Capital Management); Thusith Mahanama (BTA); Robert Shaw (Financial Models); David Csiki (INDATA); James Hollis (Cutter Associates); Mike Gamson (Advent); Mark Hoffman (Upstream); Ross Phillips (Odyssey); Ken Bachulis (CheckFree); Steven Bailey (Edgewater Technology); Anthony Turner (Financial Tracking); Martin Sullivan (Investors Bank & Trust); Philip Sindel (Olmstead Associates); James Kranz (Advent); Michael Williams (Schwab Performance Technologies); Richard Adler (Convergent Capital Management); Elnoise Davis (TCW); Marianne Martin (Westcap Investors); David Tse (Churchill Management); and John Hapkopian (Keller Group).
- The ICAA and Cutter Associates conducted a technology survey in 2004 and released a report on technology and operations issues facing investment advisory firms. Among other findings, the survey reported that more than 90% of all respondents have processes and practices in place for best execution and that they have a system to track and manage employee trading. The survey also underscored the fact that compliance and automation are identified as increasingly important priorities for investment management firms.
- In March, the ICAA and *IA Week* co-sponsored the sixth annual IA Compliance and Best Practices Summit in Washington, D.C. More than 225 persons participated in the two-day program that featured presentations by numerous SEC officials, ICAA staff, leading practitioners, and representatives of ICAA member firms. The program featured discussions on numerous "hot" compliance topics, including e-mail and other document retention issues; the SEC's new custody rule; anti-money laundering; personal trading and insider trading; the SEC's new compliance program rule; disclosure issues; brokerage; compliance issues raised by multiple style portfolios; investment management after Canarygate; and SEC inspections. The conference is designed to provide up-to-date and practical information about all relevant legal, regulatory, and compliance issues affecting investment advisory firms. The seventh annual ICAA/*IA Week* compliance summit will be held February 28 – March 1, 2005 in Washington, D.C.
- In November, the ICAA and the New York Society of Security Analysts (NYSSA) co-sponsored the third annual Strategies in Wealth Management conference. Entitled, "Delivering on the Promise," the conference was held in New York and included presentations on a number of issues facing wealth management firms, including: current business and strategy issues; open architecture; the challenge of consolidated client reporting; developing benchmarks for client portfolios; client perspectives on wealth management; and regional approaches to wealth management. Speakers included Gregory Curtis (Greycourt & Co.); James McDonald (Rockefeller & Co.); Alec Haverstick (Deutsche Bank Private Wealth Management); David Basner (TAG Associates); Patricia Soldano (Cymric Family Office Services); and Rob Rowan (Family Office Exchange).
- In May and June, the ICAA again conducted compliance workshops for ICAA member firms – the eighth year the ICAA has sponsored such meetings. More than 400 persons attended the workshops, which were held in Atlanta, Boston, Chicago, Dallas, Los Angeles, New York, San Francisco, and Washington, D.C. ICAA staff and attorneys from the law firms of Dechert, Kirkpatrick & Lockhart, Pickard & Djinis, and Wilmer Cutler Pickering Hale & Dorr presented information on the SEC's new compliance program rule. Each workshop also featured a speaker from the SEC to discuss current inspection issues and priorities. Due to the sweeping new regulations affecting investment advisory firms, the ICAA intends to augment its compliance training in the future, including sponsoring educational programs for compliance professionals.
- The ICAA Board of Governors met in February (Washington, D.C.), June (San Francisco), September (Boston), and December (Chicago). In conjunction with these quarterly meetings, the ICAA Board of Governors hosted working luncheons for ICAA members, featuring speakers on topics of particular interest to investment advisers, including Scott Powers (CEO, Old Mutual Asset Management), Jim Ware and Jim Dethmer (The Focus Consulting Group), and Michael Beasley (Founder, Strategic Investment Solutions). During 2004, the ICAA's volunteer Board of Governors continued its efforts to increase benefits and services of the Association and to promote the ICAA and the investment advisory profession.



# Service



One of the primary missions of the ICAA is to provide “benefits, services, and products that add value to member firms in their course of doing business.” Since its relocation to Washington, D.C. in 1997, the ICAA has increased its communication and effectiveness with major policy makers and other organizations. The ICAA has increased its staff, including hiring an excellent in-house legal staff that provides major services to all member firms. The ICAA offers an expanding array of informational products and valuable services to its membership. Importantly, the ICAA serves as a unique and respected networking resource that facilitates and encourages the exchange and development of ideas among industry peers.

# Service

## The ICAA provides an increasing array of valuable services and benefits to its growing membership.

During the past year, the ICAA has continued to provide its membership with a variety of valuable benefits and services, including the following.

- During 2004, the ICAA legal staff responded to hundreds of requests for information about legal, regulatory, and compliance issues from ICAA member firms. This is an important and unique aspect of the ICAA's services to its membership. Many ICAA member firms communicate regularly with the ICAA legal staff to obtain information about the rapidly changing regulatory and compliance environment. The ICAA legal staff also serves as a valuable resource for member firms that wish to receive current information about the scope and nature of SEC inspections.
- The ICAA monthly 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. In addition to reporting on all legal and regulatory developments that affect ICAA member firms, the newsletter features articles on a wide range of subjects, as well as notices regarding ICAA-sponsored events and meetings. Any employee of an ICAA member firm who wishes to be included on the newsletter mailing list should simply contact the ICAA office.
- The ICAA has developed a Service Provider Directory that is available for ICAA member firms. The directory is intended to assist ICAA member firms in identifying companies that specialize in providing services to investment management firms. Current listings include various legal, regulatory, and compliance categories (including law firms, best execution services, proxy voting, e-mail retention and archiving solutions, and anti-money laundering), as well as a number of operational and business categories, including technology consultants, executive recruiting, insurance, portfolio management providers, and client relationship management services. The ICAA plans to continue to enhance this important service in the future.
- The ICAA's web site ([www.icaa.org](http://www.icaa.org)) offers a wide array of information and services. For example, the site includes: information about the ICAA and the benefits of ICAA membership, an alphabetical and geographic directory of ICAA member firms (including links to ICAA member firm sites), an archive of comment letters and other statements relating to a wide variety of policy issues, as well as an employment listings area that allows member firms to post job openings. The Members Only area of the ICAA web site features an increasing number of valuable resources. In addition to archived legal and regulatory updates and past issues of the *ICAA Newsletter*, the Members Only area also features the *On-Line Compliance Guide* and the *Investment Adviser*. The *On-Line Compliance Guide* was developed by the ICAA legal staff during the past year and consists of various outlines relating to compliance controls. The *Investment Adviser* is a compilation of legal, regulatory, and compliance materials that covers areas such as Form ADV, state filing issues, custody, advertising, personal trading, soft dollars, trading practices, global issues, technology, and many other topics.
- Through a special arrangement, the ICAA offers web site development and related services of its Information Technology consultant, Mr. Kenneth Holley, to all ICAA member firms. Mr. Holley's firm, Information Systems Integration, provides a wide range of IT services, including network design and administration, security, programming, and consulting.
- The Chartered Investment Counselor (CIC) designation, sponsored by the ICAA, recognizes individuals who have met significant education and experience qualifications in performing investment counseling and portfolio management functions. Virtually all states now recognize the CIC charter for purposes of waiving examination requirements. Information about the CIC charter is available on the ICAA web site or by contacting the ICAA office.
- In December, the ICAA published and distributed its *Directory of Member Firms* and *Directory of Firm Personnel*. The *Directory of Member Firms* is made available to the public on request and lists each firm, its address, telephone number, and information provided to the ICAA regarding the firm's assets under management, number of professional staff, minimum account and fees, and types of accounts supervised. The *Directory of Firm Personnel* is published for the exclusive use of ICAA member firms. Both directories are available on the ICAA web site.
- Membership of the ICAA currently stands at more than 350 investment advisory firms, marking the highest level in the Association's 67-year history. Many ICAA member firms find great value in the ability to communicate with each other regarding a broad range of business, technology, and operational issues. The ICAA is committed to continuing to build its membership in order to better represent the investment advisory profession and provide additional services and benefits to all member firms.





Investment Counsel Association of America, Inc.  
1050 17<sup>th</sup> Street, N.W., Suite 725  
Washington, D.C. 20036-5503  
202-293-ICAA  
Facsimile: 202-293-4223  
Internet: [www.icaa.org](http://www.icaa.org)