INVESTMENT ADVISER ASSOCIATION

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IAA STATEMENT ON ADMINISTRATION'S PROPOSED LEGISLATION TO STRENGTHEN KEY INVESTOR PROTECTIONS

Washington, D.C. – July 13, 2009: David Tittsworth, Executive Director of the Investment Adviser Association, today issued the following statement on proposed legislation to strengthen investor protection released by the Treasury Department on July 10:

> "We commend the Treasury Department for proposing legislation to strengthen certain investor protections, as outlined in its recent financial services reform plan. The IAA looks forward to working with the Administration, Congress, the SEC, and other interested parties to ensure that final legislation in this area delivers the protections it is intended to achieve."
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> "We previously applauded the Administration for including a specific recommendation in its reform plan to raise the standard of care for broker-dealers when providing advice about securities to the fiduciary standard applicable to investment advisers. The Investment Adviser Association has long supported extending fiduciary standards to brokers and others who provide investment advice. The proposed legislation authorizes the SEC to issue rules for broker-dealers and investment advisers "to act solely in the interest of the customer or client" when providing investment advice. However, neither the word "fiduciary" nor the phrase "best interest" appears in the actual text of the legislative proposal and the specific language does not appear to incorporate the full breadth and depth of fiduciary duty."
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> "We believe the proposed legislation should be clarified to ensure that the *overarching* fiduciary duty that investment advisers owe their clients – and all of the principles that flow from it – is extended to brokers and others who provide investment advice. Further changes may be needed to make it clear that any resulting regulations will not water down the fiduciary protections currently in place under the Investment Advisers Act."

Section 913 of the proposed legislation is entitled, "Establishment of a Fiduciary Duty for Brokers, Dealers, and Investment Advisers, and Harmonization of the Regulation of Brokers, Dealers, and Investment Advisers." The section authorizes the SEC to issue rules under the Securities Exchange Act of 1934 (the primary federal law regulating broker-dealers) and the Investment Advisers Act of 1940 (the primary federal law regulating investment advisers) that "in substance" provide that the "standards of conduct for all brokers, dealers, and investment advisers, in providing investment advice about securities to retail customers or clients…shall be to act solely in the interest of the customer or client without regard to the financial or other interest of the broker, dealer or investment adviser providing the advice."

The section also authorizes the SEC to issue regulations to "facilitate the provision of simple and clear disclosures to investors regarding the terms of their relationships with investment professionals" and to prohibit "sales practices, conflicts of interest, and compensation schemes for financial intermediaries (including brokers, dealers, and investment advisers) that it deems contrary to the public interest and the interests of investors."

In its March 26, 2009 testimony before the Senate Banking Committee (http://www.investmentadviser.org/eweb/docs/Publications_News/Comments_and_Statements/Current_Comments_Statements/Testimony_032609.pdf), the IAA supported extension of the fiduciary standard to broker-dealers who provide investment advice. The IAA also reiterated its support for giving the SEC adequate resources to oversee the investment advisory profession, while opposing suggestions to establish a self-regulatory organization for investment advisers.

The Investment Adviser Association is a not-for-profit organization that represents the interests of SEC-registered investment advisory firms. Founded in 1937, its membership today consists of more than 450 firms that collectively manage in excess of $7 trillion in assets for a wide variety of individual and institutional investors. For more information, please visit www.investmentadviser.org.

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