Subject: DF Title IV - New Threshold: LAW OF UNINTENDED OUTCOME AND PROTECTING CLIENTS FROM IMPACT ON INVESTMENT PERFORMANCE AND LOSS OF SERVICES

This comment addresses costs to the clients of investments advisers, and the costs to the investment advisers, in terms of ***opportunity cost*** and ***lost productivity***, of the requirement to require advisers to register with state regulators and not the SEC: Requiring investment advisers who have long been registered with the SEC to re-register with a state regulatory body will be harmful to clients and will negatively impact productivity in the advisory industry and the economy as a whole.

As a firm which just spent 120 hours responding to the new ADV Part 2 ("Brochure Rule"), we can attest to the loss of productivity implied by repeat changes in regulatory requirements. How will it serve the clients of any firm to have the principal(s) re-filing information with state regulators which they have already filed with the SEC? Small firms need to focus on investment research and strategy, and investment performance. Many small firms also provide extra "pro bono" allocation services to clients to help them avoid paying middle man fees. While the impact on investment performance is the main concern here, it is too bad that now the public is going to lose the assistance of those firms trying to help lower its costs of investing.

My firm has kept careful track of time spent on the new ADV- Part 2 requirement, and to be asked to duplicate this effort for the State of Washington seems onerous and unreasonable. ***Again, how does this serve clients?*** The job of a portfolio manager is to generate reasonable risk-adjusted returns, not to be spending hundreds of hours on repeat re-filings of paperwork.

This creates a serious competitive disadvantage and hardship to the small firms who will have to devote at least twice the amount of time over the next twelve months to comply with regulations as the changeover from SEC-regulation to state regulation occurs.

SOLUTION: Firms which have been registered for many years with the SEC and have already undergone one SEC examination should be exempt from having to change regulators. At the very least, require that the State regulator accept the documents and procedures already in place with the SEC, and that they "shadow" SEC requirements. It may be reasonable to consider allowing firms which have undergone a GIPS®-Verification to remain under SEC auspices, regardless of size, since willingness to voluntarily prepare for and assume costs of a GIPS®-Verification implies a certain level of professional stewardship.

Investment adviser firms which have long been registered with the SEC have presumably risen to a standard and invested in an extensive body of documents, filing systems, and internal procedures which have evolved over the years into a process which works for the firm's clients and maintains readiness for an SEC examination. **Any student of bureaucratic evolution will tell you that once a state regulator gets involved, he is going to devise an entire new system of forms to complete, standards for internal documentation and procedures, and many other changes.** The bottom line is not just another 120 hours of forms to fill out but an ongoing and extensive revamp of the entire system of manuals, client communications, files, and procedures. This represents at least another 500 hours per year of work for a firm that is highly

compliant, and the concomitant competitive disadvantage relative to larger competitors who do not have to reinvent themselves for a new bureaucracy.

Does this economy really need to ask taxpayers at the state level to fund a redundant and upstart bureaucracy to monitor firms which, at the margin, represent little burden to SEC by virtue of having "been in the system" so long? Does anyone really believe that once the states start hiring a lot of employees who are not far "along the learning curve", it will not cost the system more to regulate advisers than it would have to leave the long-registered advisers with the SEC? The costs of training new "regulators" is exorbitant. All regulatory bodies are "self-justifying" – that is, they add to the burdens of those they regulate, layers of complexity in document requirements and procedural change, to justify their jobs. They have to do something to look busy, and will be unable to accept the standards which the investment advisers have always embraced to satisfy SEC requirements. This change in regulatory jurisdiction would not be so onerous it if simply meant that advisers would have exactly the same documents to file and the State would "shadow" the SEC's procedure, but we all know that lower level bureaucracies increate cost and complexity.

Many small firms have undergone AIMR®-Level II verifications and/or GIPS®-Verifications, and as such should be treated to the presumption that they are reliable stewards of client assets, and yet, instead of freeing these firms up to serve the clients through performance and extra service, the government is choosing to punish them by taking up yet more of their time to perform highly redundant tasks for a new bureaucracy.

Asking a small firm to "revise" (translate: "start over") twenty years of compliance work is unreasonable. **And asking the clients to accept their advisers being distracted when the task of investment performance has never been more difficult is the law of unintended outcome at its most pernicious.**

Sincerely,

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