

MEMORANDUM

TO: Jennifer B. McHugh
Robert E. Plaze
Daniel Kahl
U.S. Securities and Exchange Commission

FROM: Steven W. Stone
Jennifer L. Klass
Monica L. Parry

DATE: December 16, 2010

SUBJECT: Request for Extension of Brochure Supplement Delivery Deadlines

We appreciate the opportunity to convey concerns of many Securities Industry and Financial Markets Association (“SIFMA”) members on the approaching deadlines for preparation and delivery of brochure supplements on Form ADV Part 2B. The more that firms, particularly large ones, have embarked on in-depth planning for the transition to the brochure supplement, the more these firms have grown increasingly apprehensive about their realistic ability to meet the March 31, 2011 deadline for initial distribution of these documents. We have had numerous discussions with members of a working group comprising some of the largest SIFMA members that are registered investment advisers, in an effort to gather their perspectives on the transition process and challenges, including their interpretive questions.

The purpose of this memorandum is to provide the staff with a deeper understanding of the many significant logistical challenges firms are confronting as they seek to meet the initial March 31, 2011 deadline for distribution of brochure supplements in a reliable way so that we may explore appropriate relief extending the compliance dates for distribution to existing and new clients for at least four months but possibly to December 31, 2011.¹

The approaching March 31, 2011 deadline represents a potentially insurmountable hurdle for the largest investment advisers (mostly all dual registrants) seeking to meet the March 31, 2011 deadline. SIFMA assembled a working group of 12 firms including many (but not all) of SIFMA’s largest members to elicit information on relevant aspects of their business and the challenges they have identified to date when planning for the transition.

To understand the magnitude of the transition (particularly for the largest firms on which the burdens will be disproportionately greatest), one needs to start by looking at the numbers involved. Attached as Exhibit 1 is a compilation of important metrics affecting the ability of large firms to meet the current brochure delivery deadlines. This compilation reflects survey

¹ Based on discussions with the members of the SIFMA working group, described below, most of the firms represented anticipated that a four month extension should suffice to enable firms to comply with the new brochure supplement disclosure and delivery requirements, while a few firms expressed concern that four months might not suffice.

data from the 12 firms in the SIFMA working group (including firms with as few as 400 financial professionals and as many as 17,000 financial professionals) and the averages for the largest five firms (again for which the burdens will be disproportionately greatest). As reflected on the exhibit, collectively, these 12 firms alone provide investment advice to over 6 million investment advisory clients, who represent over 20% of total clients advised by U.S. registered investment advisers.² These accounts are serviced by more than 65,000 supervised persons for whom brochure supplements are anticipated to be required, who work in roughly 39,000 teams or partnerships and are supervised by over 7,000 individual supervisors. These firms open close to 5,000 advisory accounts on a daily basis.

Beyond the sheer numbers involved, the very process of creating brochure supplements for the largest firms involves 13 or more distinct steps that generally will need to occur in a sequential manner. These steps are depicted on the diagram titled, “Process for Rolling out Brochure Supplements,” attached as Exhibit 2. Many of these steps are formidable in their own right, but collectively they pose a potentially insurmountable hurdle given the delivery deadlines. Below we highlight a few of the concerns.

First, the brochure supplement calls for many items of information that firms may not currently maintain, have ready access to or verify on a regular basis such that the information could simply be “plugged” into the new brochure supplements. This includes information on supervised persons’ educational backgrounds, professional designations, nonreportable disciplinary events, compensation and supervision. This information will have to be obtained from or for each affected investment professional, reconciled, verified and compiled into the new brochure supplements.

Second, the systems to collect and compile the numerous items of required information into one document (the brochure supplement), and deliver the brochure supplement to the client when events require, do not exist today. New systems will have to be designed, built and tested that can compile all the various items of information from various sources, including the 84 separate systems reported in the survey data (or, on average for the largest five firms, 11 systems per firm). All told, the five working group member firms that were able to come up with estimates indicated that the man hours needed to develop technology to automate the data collection and compilation process will at total over 50,000 hours in the aggregate for those firms (an average of roughly 16,000 man hours per firm responding). Moreover, the process of designing, building and testing these systems is being forestalled or interrupted by “technology freezes” that for most large firms are rolling into effect from mid-December 2010 to mid-January 2011. Attached as Exhibit 3 is a chart that graphically displays the technology freeze dates in relation to the firms employing the greatest number of investment professionals giving investment advice.

Third, most supervised persons at mid- to large-sized firms are also FINRA-licensed registered representatives. Accordingly, the brochure supplements for these persons would likely be considered marketing material subject to FINRA Rule 2210(b) and would need to be reviewed and approved by a registered principal, causing further delay before the brochure supplements

² See Investment Adviser Association, *Evolution/Revolution, a Profile of the Investment Adviser Profession* (September 28, 2010), at 9 (stating based on SEC data that there are 30 million investment advisory clients in the US in 2010).

could be used for new clients or sent to existing clients. Advisory firms with robust supervisory controls would be compelled to require similar approval before use.

Fourth, there are an array of interpretive questions relating to the brochure supplement and related delivery requirements that impact the timeline under which firms may be able to comply with brochure delivery requirements. (As you know, we are separately in discussions with the staff on many of these questions.)

Fifth, the information to be reported in brochure supplements is far from static. The preparation of brochure supplements is complicated by turnover among investment professionals (which firms expect to peak shortly after the 2010 year end) and changes in investment professional teams that service client accounts and the designations of supervisors responsible for supervising the investment professionals.

For these reasons, we would like to discuss appropriate relief that would extend the compliance dates for distribution of brochure supplements to existing and new clients for at least four months but possibly to December 31, 2011 so that firms can ensure that brochure supplements are accurate and delivery issues can be addressed.

We appreciate the staff's consideration of the issues, requests and questions discussed in this memorandum and would welcome the opportunity to talk or meet to discuss these matters further.

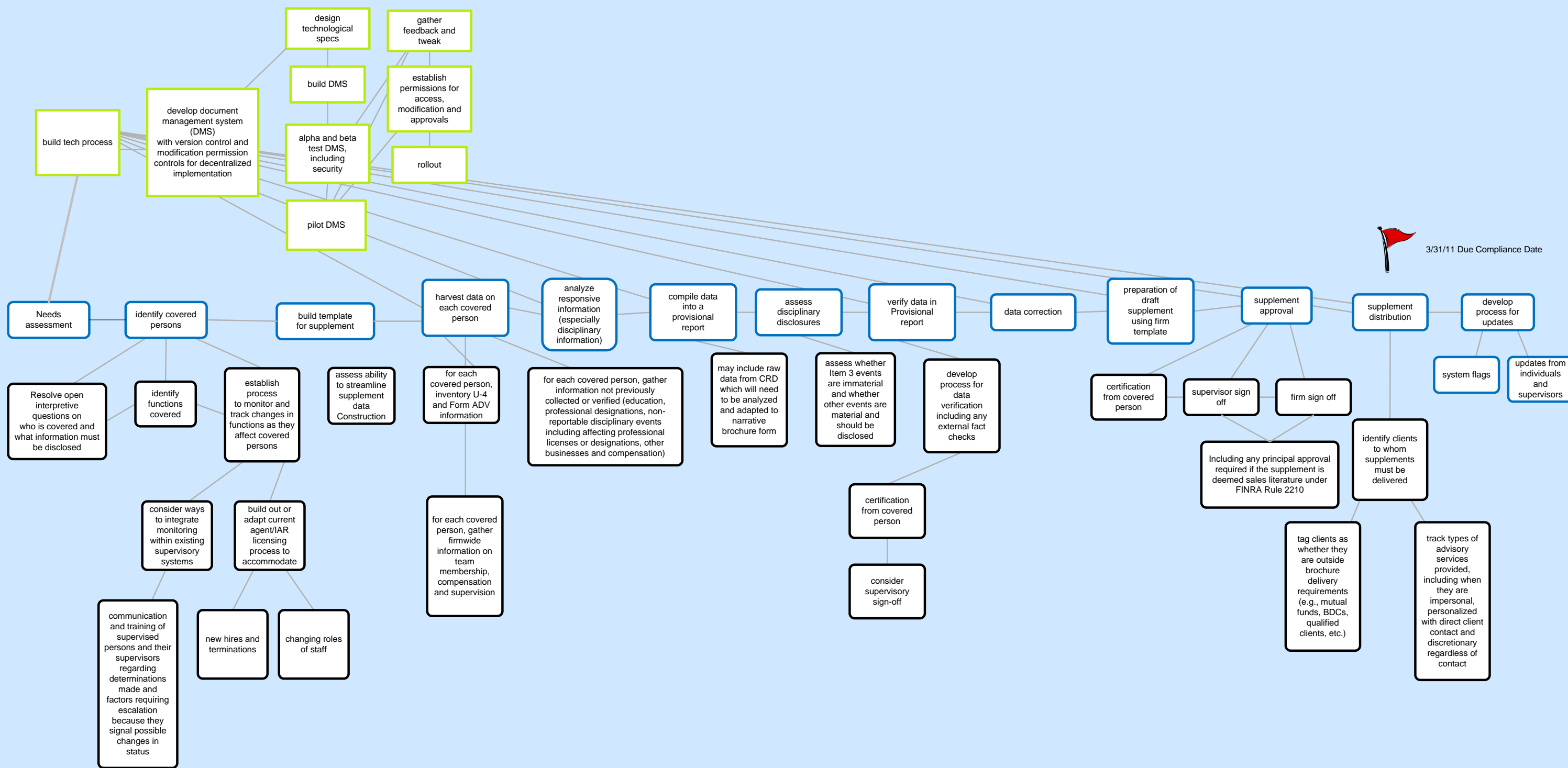
c: Ira Hammerman, SIFMA
Kevin Carroll, SIFMA
Members, Form ADV Working Group

Exhibits:

- Exhibit 1 Important Metrics Affecting Ability of Large Firms to Meet Current Brochure Delivery Deadlines
- Exhibit 2 Process for Rolling out Brochure Supplements
- Exhibit 3 Technology Freeze Dates for Largest Firms

EXHIBIT 1**Important Metrics Affecting the Ability of Large Firms
to Meet Current Brochure Delivery Deadlines
(Survey of 12 Representative SIFMA Member Firms)**

Metric	Aggregate for 12 Firms Surveyed	Average for Largest 5 Firms
Number of registered representatives	83,219	14,310
Number of supervised persons possibly involved in formulating advice and for which brochure supplements may be required	65,296	10,938
Number of teams/partnerships	38,868	10,917
Number of supervisors	7,449	1,248
Number of active advisory accounts	6,099,534	1,017,302
Average number of advisory accounts added per day	4,695	682
Number of systems housing data to be aggregated into the supplement	84	11
Estimate of man hours to develop technology to automate data collection/compilation (only 5 firms have provided estimates)	50,084	15,947



Technology Freeze Dates for Largest Firms

