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Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Amendment to Form ADV and Investment Adviser Rules (Release No. IA-4091; File No. S7-09-15)

Dear Mr. Fields:

CFA Institute[1] appreciates the opportunity to comment on the Securities and Exchange Commission's (the "SEC") proposal to amend Form ADV and the books and records requirements (the "Proposal") under the Investment Advisers Act of 1940 (the "Advisers Act"). CFA Institute represents the views of investment professionals before standard setters, regulatory authorities, and legislative bodies worldwide on issues that affect the practice of financial analysis and investment management, education and licensing requirements for investment professionals, and on issues that affect the efficiency, integrity and accountability of global financial markets.

Executive Summary

We generally support an amended Form ADV aimed at providing additional information to the SEC and the public about advisers and their activities, particularly with respect to separately managed accounts. We suggest that advisers also be required to provide information with respect to their securities lending activities, as well as on repurchase agreements in those accounts.

We also support changes to Rule 204-2 that would require advisers to maintain records relating to performance information. Investors need to be able to rely on the veracity of performance claims made by advisers that they distribute to investors. We believe the proposed amendments further that goal.

Discussion

We recognize that Form ADV serves a number of important functions. Because it is publicly available, investors can glean useful information about individual advisers and firms in terms of

[1] CFA Institute is a global, not-for-profit professional association of more than 133,000 investment analysts, advisers, portfolio managers, and other investment professionals in 151 countries, of whom more than 125,500 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 145 member societies in 70 countries and territories.

their practices, affiliations, and investment strategies, and thereby helping in the process of adviser selection. The information reported also aids the SEC staff in monitoring, focusing examinations, and conducting associated risk assessments. It provides industry trend information, census data and other information that is useful to staff in investigations and enforcement actions.

As regulators and other bodies analyze what characteristics contribute to systemic risk, various practices by investment advisers have come into question as to their potential to contribute to systemic risk. Yet, there is little aggregated information on certain practices that would allow regulators to draw meaningful conclusions. This Proposal is a step toward requiring the collection and reporting of more information, particularly pertaining to separately managed accounts ("SMAs").

We support the proposed changes to the books and records rules under the Advisers Act. The proposed changes will expand the scope of records advisers must maintain to support claims of investment performance in communications that are provided to anyone. We believe this revision will enhance overall transparency of risk within the industry, and give investors more information upon which to compare advisers.

Form ADV

Proposed revisions to Form ADV would take three forms, in addition to suggested technical amendments: (i) to require information about an adviser's use of borrowing and derivatives in SMAs; (ii) to require additional information about an adviser's business, including branch office operations and use of social media; and (iii) to formalize by rule the practice already approved in SEC guidance that allows "umbrella registration."

Separately Managed Accounts

The SEC notes that although it already collects information about the assets in pooled investment vehicles, it has little specific information relating to SMAs. For that reason, it is proposing to require advisers to provide information about the types of assets they hold, and the use of derivatives and borrowings in SMAs.

Specifically, advisers would need to provide the following:

- The approximate percentage of SMA assets under management ("AUM") that an adviser invests in ten asset categories, reported annually (advisers with $10 billion or more in SMAs would have to provide both mid-year and year-end information annually);
- The use of borrowings and derivatives in SMAs when advisers have at least $150 million in assets attributable to those accounts, reported annually. However, "reporting on the use of borrowings and derivatives would only be required with respect to SMAs with a net asset value of at least $10 million."
    - For advisers that have at least $150 million, but less than $10 billion attributable to SMAs, reporting would include the number of accounts corresponding to certain

categories of gross notional exposures (GNE), as well as weighted average borrowings—as a percentage of net asset values—in those accounts.
    - Advisers with at least $10 billion attributable to SMAs would need to report GNE, borrowings, and weighted average gross notional value of derivatives in six different categories of derivatives; and
- The identity of any custodians that account for at least 10 percent of SMA assets under management, as well as the amount of those assets held at each custodian.

From a risk-management perspective, the collection of notional amounts on different types of derivative instruments provides little meaningful value. The notional "values" do not reflect the risk inherent in the instrument involved. However, notional exposures do have value for investment and operational analyses. Specifically, reporting exposures on a consistent basis allows investment comparisons at a point in time and over time. From an operational perspective, as well, such information allows investors to better understand the risk of loss due to operational failure or deficient operational controls.

Therefore, based on this analysis, we conclude that reporting on derivative exposures in this manner for SMAs would provide useful information to SEC staff to enable them to tailor examinations and other risk and monitoring activities. Nevertheless, we do not recommend reporting on a more frequent basis. Finally, we agree that a 10 percent threshold for identifying custodians is appropriate.

We suggest, however, that in addition to the categories noted above, advisers be required to report information on their securities lending in their SMAs, as well as on repurchase agreements in the accounts. We suggest that that the SEC set a certain threshold that will trigger this type of reporting, rather than require all advisers to report this information, as we believe the utility of the information in smaller accounts would be of de minimus value.

Additional Identifying Information

In addition to information relating to SMAs in Form ADV, advisers would have to provide information relating to their social media platforms, such as Twitter, Facebook and LinkedIn. The SEC states its belief that this information would allow them to monitor existing and new social media platforms and prepare for exams, as well as give the public more information. We support this approach.

The Proposal also would expand the information required about advisers' 25 largest offices in terms of employees, from the current five largest; the number of offices where advisers conduct investment advisory business (and the number of employees in each office performing that function), and descriptions of any other securities-related business conducted in those offices. This information is deemed helpful for the SEC when assessing risks and focusing on activities. We do not believe this information would be particularly meaningful either to investors or to the assessment of systemic risks by the SEC. And while providing this information on a stand-alone basis would not be overly burdensome for advisers to produce, the additional provision of

unnecessary data, we believe, will ultimately amount to a significant burden. We therefore disagree with the call for this information.

The Proposal also would expand disclosure related to the CCO to include whether that individual is employed, or compensated, by someone else, and if so, the IRS employer ID number and name. This information is seen as allowing SEC staff identify advisers who are relying on particular third-party service providers, as part of its risk assessment. We support the collection of this data as a means of determining whether such individuals are providing similar services to other advisers and of alerting advisers should they determine problems with other clients of such individuals.

We suggest that the SEC also consider a question on Form ADV as to whether or not each adviser claims compliance with the Global Investment Performance Standards (GIPS®). We believe that providing this information would not only aid investors in their selection of advisers, but also would assist the SEC in their examinations. Staff would gain additional information about the adviser's practices and would have an additional tool to assess the quality of the adviser's performance claims.

Finally, advisers would have to more accurately describe the range of assets under their management, rather than ticking a box indicating they manage assets worth at least $1 billion, as is currently required. The more accurate data would benefit the SEC when considering future rulemaking stemming from the Dodd-Frank Act, including requirements relating to incentive-based compensation arrangements. Given that advisers already tick a box with regard to AUM, ticking a box that provides a more-accurate delineation of AUM should not create a new and unnecessary burden. We therefore support the revision.

Additional Information about Advisory Businesses

The Proposal would require advisers to provide expanded and more precise information beyond AUM, including actual numbers relating to their advisory businesses. For example, it would require information about the number of advisory clients whose assets are managed elsewhere. Likewise, advisers would have to provide an estimate for the approximate amount of AUM attributable to non-US clients. In addition, they would have to provide the total assets managed in their capacity as sponsors or portfolio managers of wrap fee programs, as well as CRD and SEC File numbers for sponsors.

We understand that these amendments are aimed at providing staff with information that will allow it to better understand an adviser's business, and to conduct better risk assessments and examinations. To that end, we generally support these proposed amendments. We question, however, whether the effort to provide actual numbers, in lieu of ranges, is warranted. In many cases, the amounts will fail to meet any reasonable threshold for creating meaningful systemic risk. We also question the degree to which the additional information on wrap fee programs will be helpful to investors and other market participants.

Additional Information About Financial Industry Affiliations and Private Fund Reporting

Form ADV already requires information about private funds that are managed by the adviser. Proposed revisions would require advisers to provide identifying numbers (e.g., CIK numbers and PCAOB registration numbers) that would allow the SEC to "understand relationships of advisers to other financial service providers" and to report "the percentage of a private fund owned by qualified clients." We support staff's rationale that such information would better help it to understand the types of investors in private funds.

Umbrella Registration

Proposed "umbrella registrations" would allow separate legal entities that operate as a single advisory business to register through one registration on a single Form ADV. This would be allowed "where a filing adviser and one or more relying advisers conduct a single private fund advisory business and each relying adviser is controlled by or under common control with the filing adviser."

We support this proposal and agree that it should be limited to instances where the separate legal advisory entities conduct a single private fund advisory business. We believe this change would benefit investors by congregating information in one place, while also allowing them to more effectively compare private fund advisers.

The SEC is proposing to make use of this single registration form voluntary. So as to maximize the benefit to investors, we recommend that advisers that could, but elect not to, file an umbrella registration be required to note this and to clearly provide the names and identifying information of other entities that could be included in such a registration. That would enable interested investors to better view the entirety of information related to entities operating as a single private fund advisory business.

Adviser Act Books and Records: Amendments to Rule 204-2

Under the Proposal, advisers would be required to maintain records of the calculation of performance information that would enable the SEC to better monitor compliance with its advertising rules. Advisers would be required to make and keep materials supporting performance claims when that information is communicated to anyone, rather than when sent to 10 or more persons, as is currently required. Advisers would still have to maintain materials relating to the calculation of rate of return that support the performance claims in those communications

An additional proposed revision would require advisers to keep originals of the written communications they receive and copies of written communications they send relating to "the performance or rate of return of any or all managed accounts or securities recommendations." These records could allow SEC staff to evaluate claims advisers make about performance, and will help in protecting investors against fraudulent claims of performance. We strongly support these proposed requirements. Investors must be able to rely on the veracity of performance claims made by advisers in communications they distribute. CFA Institute created and funded the

GIPS standards, which are a voluntary set of standards based on the fundamental principles of full disclosure and fair representation of performance results. The GIPS standards are a globally accepted methodology for calculating and presenting investment firms' performance history that are widely relied upon by investment firms, their clients, and prospective clients for ensuring consistency of investment firm results.

Conclusion

We support the SEC's proposal that revises Form ADV to require registrants to provide additional information in a number of areas, and particularly with respect to their SMAs. We also support the books and records amendments, specifically with respect to requirements relating to the calculation of performance or rate of return. We believe that the range of information affected through these amendments will provide meaningful information to investors and to the SEC in terms of its monitoring, risk assessment, and examination priorities.

Should you have any questions about our positions, please do not hesitate to contact Kurt N. Schacht, CFA at [redacted], [redacted] or Linda Rittenhouse at [redacted], [redacted].

Sincerely,

/s/ Kurt N. Schacht

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/s/ Linda L. Rittenhouse

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