

Recent Changes In The Law Affecting Investment Advisers

November 13, 2000

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Several changes have recently occurred in the laws regulating investment advisers, which will require significant modifications to Form ADV and investment adviser agreements in the next few months.

Privacy Rules

In 1999, the Gramm-Leach-Bliley Act (the "Act") established minimum federal standards of privacy to protect a consumer's personal financial information. Specifically, the Act prohibits financial institutions (including investment advisers) from sharing personal information with nonaffiliated third parties unless they give notice of their privacy policies, tell the clients which information will be disclosed, and give the clients a chance to opt out of the disclosure.

The Securities and Exchange Commission ("SEC") has now enacted Regulation S-P ("Reg. S-P") which contains extensive requirements for compliance under the Act. Reg. S-P has an effective date of November 13, 2000, and requires compliance by all SEC-regulated investment advisers by July 1, 2001. Generally, Reg. S-P requires SEC-regulated investment advisers to send to clients an initial notice of privacy policies and practices and annual notices thereafter. All notices sent must contain numerous items of information detailed by Reg. S-P. Consequently, modifications to the Form ADV and investment adviser agreement will be necessary.

Significantly, even those investment advisers who do not share personal information will need to take affirmative steps to provide the appropriate notices.

Electronic Filing

Starting in the year 2001, all SEC-regulated investment advisers will be required to file their Form ADV electronically with the Investment Adviser Registration Depository. This will allow the creation of a central depository for investment adviser registrations for both new registrants and existing investment advisers.

The transition period for electronic filings will be the first four months of 2001. Each registered adviser will be assigned to one of four groups and will be required to file electronically within one of the first four months of 2001. It is expected that many states will follow suit and require state-regulated investment advisers to also file electronically.

Amendments to Form ADV

The electronic filing process is complicated by amendments which the SEC has and will adopt to Form ADV. The SEC has approved amendments to Part I of Form ADV, but has delayed approval of amendments to Part II so that certain comments received during the rule-making process might be addressed. The SEC has stated that no electronic filings will be required until the amendments to Part II are completed.

For assistance in meeting any of these new regulatory requirements, please contact Steven M. Stankewicz, stankewicz@millercanfield.com or 269.383.5872.

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