



2002 Activity Report

December 31, 2002

We are pleased to provide this report to our membership.

As outlined in this brief summary, the past year was a time of unprecedented activity for our Association. During a difficult period of economic and political upheaval, the ICAA played a critically important role in serving as an advocate for the investment advisory profession, in educating investment management firms about business, portfolio management, technology, and legal, regulatory, and compliance issues, and in providing a wide range of valuable services to its growing membership.

2003 will bring new challenges and offer new opportunities for the ICAA.

We welcome your suggestions for improving the Association and invite you to participate in the activities we sponsor.

We truly appreciate your continued support of the Association and look forward to working with all members as we strive to build on our record of excellence and service.

ICAA Board of Governors

Advocacy



The Investment Counsel Association of America plays a critically important role as spokesperson and representative of the investment advisory profession. In particular, the ICAA continues to assume the major responsibility of serving as the profession's leading advocate regarding legal, regulatory, and compliance issues that affect investment advisers. As the regulatory landscape has become more complicated and dynamic, the ICAA has been involved in a continuing dialogue with the SEC, the Congress, the Department of Labor, the Department of Treasury, state securities regulators, and other industry organizations regarding every major initiative affecting the profession. In addition, the ICAA is building relationships with regulators and organizations outside the U.S. as an increasing number of our members build global businesses.

The ICAA is the best source to stay informed and on top of the rapidly changing legal and regulatory environment.

Following is a sampling of initiatives and issues the ICAA has been actively involved with during the past year.

- The topic of research analyst conflicts of interest was front-page news during 2002, as numerous reports surfaced of sell-side analysts issuing buy recommendations for stocks in which their companies had an investment banking interest. The ICAA, in written letters to the SEC and others, has consistently taken the position that the buy-side should not be subject to regulations designed to address conflicts of interest that are unique to the sell-side. For example, in September, the ICAA responded to the SEC's proposal to adopt a new regulation entitled "Regulation Analyst Certification." The regulation would impose certification requirements on broker-dealers with regard to research reports and recommendations. In response to a specific inquiry from the SEC about the proposal, the ICAA argued that it would not make sense for the rule to cover investment advisers. In October, the ICAA submitted an extensive comment letter to the Association for Investment Management and Research (AIMR) in response to its proposed research objectivity standards. In addition to proposing conflicts of interest standards for sell-side analysts, the media, and corporate issuers, AIMR issued proposed standards that would apply to investment managers. The ICAA urged AIMR to exclude investment managers from the standards.
- The ICAA has played a leading role highlighting concerns with the costs and other problems of implementing next business day trade settlement (T+1) for many investment advisory firms. In June 2002, the brokerage industry, which has spearheaded the move toward T+1, announced its decision to postpone implementation of T+1 until the issue and its impact have been more thoroughly studied. Thanks in part to the ICAA's efforts, the securities industry's new focus is on more productive issues and activities relating to straight-through processing (STP). The ICAA's efforts have included letters to and meetings with the SEC, participation with buy-side and sell-side groups, and educational seminars in which the Association aired serious concerns about the major obstacles and costs of T+1 implementation for investment advisers.
- In February, the ICAA outlined various concerns about AIMR's proposed trade management guidelines, which address an investment adviser's fiduciary duty to seek best execution. In November, AIMR adopted final guidelines, which were amended to reflect many of the ICAA's comments. The ICAA was particularly pleased that AIMR decided to eliminate the recommendation that firms adopt the AIMR soft dollar standards and that AIMR clearly stated that the guidelines were not meant to be standards. The guidelines also were revised to emphasize qualitative rather than quantitative measurement factors. The ICAA also filed a comment letter with AIMR in October on a proposed guidance statement relating to wrap fee performance presentation issues. The ICAA was particularly concerned that the guidance statement did not adequately address the unique relationship between wrap fee sponsors, clients, and investment managers.
- The ICAA continues to provide comprehensive information about the investment advisory profession. In September, the ICAA and the National Regulatory Services issued the second annual report entitled, "Evolution/ Revolution: A Profile of the U.S. Investment Advisory Profession." The report provides a snapshot of the investment advisory profession and analyzes several core characteristics of a rapidly evolving profession. The report is based on information provided by SEC-registered investment advisory firms in their electronic filings on the Investment Adviser Registration Depository (IARD) system. The ICAA has developed software enabling the Association to analyze IARD data and is working to refine and expand such capabilities for future use.
- The ICAA continues to oppose inappropriate state regulation of federally registered investment advisers and to encourage uniformity among all states. For example, the ICAA wrote to the North American Securities Administrators Association – the trade association of state securities regulators – in September regarding proposed continuing education requirements for investment adviser representatives. The ICAA supported NASAA's concept of "enhanced knowledge" of IARs, but did not support imposition of CE requirements as an appropriate way to achieve this goal or to achieve investor protection. The ICAA also filed written comments in 2002 relating to a variety of state regulatory proposals, urging conformity with federal law and uniformity among all states.

Advocacy

Any successful investment adviser knows that you simply cannot afford to have compliance and regulatory problems.

The ICAA filed an unprecedented number of written comment letters during 2002 on issues that directly affect the investment advisory profession. The letters are posted on the ICAA's web site (www.icaa.org) under "Comments & Statements":

- In response to the wave of scandals involving public companies and auditing firms, the Congress and SEC adopted legislation and regulations aimed at improving corporate governance and accounting practices. During 2002, the ICAA filed written comments on a variety of SEC rulemakings relating to disclosure in corporate filings. The ICAA letters stressed that investment advisers use information disclosed in corporate filings to manage client assets and that there is a compelling need for such information be as clear, current, and comprehensive as possible. ICAA comment letters were filed on proposals ranging from disclosure of off-balance sheet arrangements and critical accounting policies to certain management transactions and the acceleration of Form 8-K filing requirements.
- In December, the ICAA submitted a comprehensive response to the SEC's proposed proxy voting rule for investment advisers. If adopted, the proposal would have significant implications for advisers with proxy voting authority over client securities. While agreeing with the basic proposition that an investment adviser's fiduciary duty includes the responsibility to vote proxies consistent with its client's interests and to disclose such votes to each client that requests such information, the ICAA expressed concerns about the rule's implied presumption of conflicts of interests between an adviser and its clients. The ICAA also expressed major concerns about burdensome recordkeeping rules, including the requirement to document verbal communications regarding proxy-voting decisions.
- In September, the ICAA responded to a proposal issued by the SEC that would dramatically revise the investment adviser custody rule. The ICAA generally supported clarification of the rule, citing the fact that it has not been amended since its adoption over 40 years ago. However, the ICAA objected to various aspects of the revisions, including the proposal that investment advisers will be deemed to have custody if they are authorized to deduct its advisory fees from client accounts. The ICAA met recently with SEC staff to discuss the proposal and expects that a final rule will be forthcoming early in 2003.
- In September, the ICAA wrote to the Commission in response to a proposal to amend the mutual fund advertising rules. The ICAA took the opportunity to urge the Commission to consider the ICAA's proposed advertising rule, submitted to the SEC in August 2001. Current advertising regulations under the Investment Advisers Act – which prohibit investment advisers from using testimonials and past specific recommendations – have resulted in confusing, complex, and even conflicting pronouncements and interpretations by SEC staff. The ICAA's advertising proposal would clarify the existing rules while promoting greater disclosure to investors.
- In June, the ICAA commented on a Commission proposal that would permit Internet advisers to register with the SEC under certain limited conditions. In supporting the proposed rule, the ICAA suggested a narrow interpretation that would preserve the regulatory balance between federal and state regulation of advisers as established under the National Securities Markets Improvement Act that Congress passed in 1996.
- In July, the ICAA supported a proposal that would expand the current exemption for funds to engage in transactions with portfolio affiliates, as well as permit funds to engage in certain transactions with subadvisers of affiliated funds.
- Early in the year, SEC Chairman Harvey L. Pitt called on the financial services industry to provide recommendations for the Commission's examination of its operations, efficiency, and productivity. While the ICAA applauded the SEC for its excellent work, particularly in the face of an increasing workload and decreasing budget, the ICAA also submitted several recommendations that focused on improving regulatory effectiveness. The ICAA also reiterated its support for adequate funding of SEC staff salaries in a July letter to members of Congress involved in the appropriations process.

Education



The ICAA conducted numerous conferences, meetings, and workshops during the past year in an effort to keep our members fully informed about relevant issues that affect the investment advisory profession and to provide a forum for our members to network and discuss matters of mutual concern. These conferences and meetings are provided to our membership at very reasonable rates and are an important benefit of ICAA membership. As the ICAA continues to increase its membership and resources, the Association will be able to offer an expanded range of educational benefits to serve an increasingly diverse membership.

Education

One of the most valuable benefits of belonging to the ICAA is the ability to discuss today's issues with other leaders in the investment advisory profession.

Following is a brief summary of some of the educational events the ICAA sponsored during 2002.

- In April, the ICAA held its annual conference in Philadelphia, Pennsylvania. Entitled "Rising to the Task," the program featured presentations by famed money manager John Neff, Jason Zweig (Senior Writer, Money Magazine), Dr. Arthur Caplan (Director, Center for Bioethics, University of Pennsylvania), Charles B. Burkhardt, Jr. (Founder, Rosemont Investment Partners), Edward H. Crane (President & CEO, Cato Institute), and CEOs of leading ICAA member firms. The 2003 ICAA annual conference will be held in San Francisco on April 10-11 and will feature remarks by David Pottruck (Co-CEO, Schwab & Company), Tom Campbell (Dean, Haas School of Business, University of California, Berkeley), Paul Saffo (Director, Institute for the Future), Leslie Kiefer, CFA (Consultant, Cambridge Associates, LLC), and Dinesh D'Souza (Robert and Karen Rishwain Research Fellow, Hoover Institution).
- In March and September, the ICAA presented conferences in Los Angeles and Boston entitled "T+What? What Investment Advisers Should Know About T+1/STP." The conferences were designed to provide practical information for investment management firms about developments and issues associated with next day trade settlement and straight-through processing. The conferences featured presentations from leading investment management firms, matching utilities and other T+1/STP vendors, SEC staff, and other industry experts. The ICAA will sponsor a technology/operations conference in Atlanta on March 12, 2003 that will include panel discussions on portfolio management and accounting systems, trading technologies, investment adviser communication systems, and outsourcing and other strategic business issues.
- In April, the ICAA and IA Week co-sponsored the fourth annual IA Compliance Summit in Washington, D.C. The two-day program featured presentations by SEC officials, ICAA staff, leading practitioners, and representatives of ICAA member firms. The conference is designed to provide up-to-date and practical information about all relevant legal, regulatory, and compliance issues affecting investment advisory firms. The fifth annual compliance summit will be held April 28-29, 2003 in Washington, D.C.
- In October, the ICAA and the New York Society of Security Analysts (NYSSA) co-sponsored a conference entitled "Growth Strategies in Wealth Management." The one-day conference was held in New York and focused on practical and strategic issues facing private wealth managers. The conference featured presentations from a group of experts discussing marketing, client service, trends in product differentiation, acquisitions, and other business strategies. The ICAA and NYSSA plan to sponsor a similar conference in the fall of 2003.
- Following the format of regional legal and compliance groups established in New York and Boston, the ICAA formed additional regional groups in Chicago and Washington, D.C. during 2002. These groups meet informally to discuss practical concerns that ICAA member firms face in complying with their legal and regulatory obligations. These meetings also provide an opportunity to network with other investment advisory compliance professionals in the region.
- The ICAA continues to sponsor periodic meetings of an international discussion group. ICAA member firm representatives meet via teleconference to discuss issues they face in doing business outside the U.S and act as resources for each other. This year, the international group provided input on a proposal from the European Asset Management Association pertaining to the use of indices as benchmarks.
- In November and December, the ICAA again conducted compliance workshops for ICAA member firms – the sixth year the ICAA has sponsored such meetings. More than 300 persons attended the workshops, which were held in Atlanta, Boston, Chicago, Houston, Los Angeles, New York, San Francisco, and Washington, D.C. ICAA staff and attorneys from the law firms of Dechert, Kirkpatrick & Lockhart, Morgan, Lewis & Bockius, and Wilmer, Cutler & Pickering presented information on proxy voting, trading practices, anti-money laundering, investment guidelines, ERISA, the custody rule, and SEC inspections. Each workshop also featured a speaker from the local office of the SEC.
- The ICAA Board of Governors met in February (Washington, D.C.), June (Dallas), September (Boston), and December (San Francisco). In conjunction with each meeting, the Board hosted working luncheons for ICAA members, featuring local speakers on topics of particular interest to investment advisers. The ICAA's volunteer Board of Governors continues its efforts to increase benefits and services of the Association and to promote the ICAA and the investment advisory profession.

Service



One of the missions of the Association is to provide “benefits, services, and products that add value to member firms in their course of doing business.” Six years ago, the ICAA relocated its office to Washington, D.C. Since that time, the Association has increased its communication and effectiveness with major policy makers and other organizations. The ICAA has increased its paid staff, including hiring an in-house legal staff that is able to provide major services to the membership. The ICAA offers an expanding array of informational products and valuable services to its membership. Importantly, the ICAA serves as a unique and invaluable networking resource that facilitates and encourages the exchange and development of ideas among industry peers.

The ICAA is the only association whose sole purpose is to serve the investment advisory profession.

During the past year, the ICAA has continued to provide its membership with a variety of other benefits and services, including the following.

- Since December 1996, we have published a monthly edition of the *ICAA Newsletter*. The newsletter is a major component of our efforts to keep the membership fully informed of all aspects of the ICAA's activities and of relevant industry trends and developments. Any employee of an ICAA member firm who wishes to be included on the newsletter mailing list should simply contact the ICAA office.
- During the past year, ICAA General Counsel Karen Barr and Counsels Philippa Hughes and Rasha Elganzouri have responded to hundreds of requests for information about legal, regulatory, and compliance issues from ICAA member firms. These "retail" services are an important and unique aspect of the ICAA's services to its membership. The ICAA legal staff was assisted by extern Caroline Schaefer, an experienced securities attorney with the law firm Dechert, who worked on numerous activities and issues on behalf of the ICAA during the past six months.
- The ICAA's web site, located at www.icaa.org, was launched in April 1997. Since then, a variety of enhancements have been added, including a "Members Only" area that features legal and regulatory updates (now searchable), past issues of the *ICAA Newsletter* (also searchable), and an increasing number of archived informational and educational materials. The ICAA web site contains links to ICAA member firm sites and other industry and informational sites, employment listings, and a searchable section that contains copies of significant comments and statements of the ICAA.
- Through a special arrangement, the ICAA offers web site development services of its technology consultant, Mr. Kenneth Holley, at a reduced rate. During the past year, several ICAA members retained Mr. Holley to create Internet sites for their firms. Mr. Holley also began renting space from the ICAA this year and now provides services to the ICAA on-site.
- In September, the ICAA provided to each member firm updates of our two-volume set of legal, regulatory, and compliance materials, including new material on Form ADV, state filing issues, custody, advertising, personal trading, soft dollars, trading practices, global issues, technology, and many other topics. Entitled *The ICAA Investment Adviser*, the compilation includes a variety of current and historical information on investment adviser issues and practices. The ICAA plans to post this invaluable resource on the "Members Only" area on our web site in 2003.
- The Chartered Investment Counselor (CIC) designation, sponsored by the ICAA, is designed to recognize individuals who have met significant education and experience qualifications in performing investment counseling and portfolio management functions. Virtually all states now recognize the CIC charter for purposes of waiving examination requirements. Information about the CIC charter is available on the ICAA web site or by contacting the ICAA office.
- In November, the ICAA published and distributed its *Directory of Member Firms* and *Directory of Firm Personnel*. The *Directory of Member Firms* is made available to the public on request and lists each firm, its address, telephone number, and information provided to the ICAA regarding the firm's assets under management, number of professional staff, minimum account and fees, and types of accounts supervised. The *Directory of Firm Personnel* is published for the exclusive use of ICAA member firms. Both directories are available on the ICAA web site.
- In July, the ICAA hired Glenda Lassiter as Director of Member Services, a newly created position. Glenda's responsibilities include recruiting new ICAA member firms, retaining current member firms, and expanding ICAA membership services. Membership of the ICAA currently stands at more than 300 investment advisory firms, marking the highest level in the Association's 65-year history. Continuing to build membership remains one of the highest priorities of the ICAA.



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