

The graphic features a dark blue background with a white geometric pattern of interconnected lines. A white diagonal line separates the blue area from a red area on the right. The red area contains a pattern of white stars of various sizes. The text 'IAA POLICY PRIORITIES' is centered in the blue area in a bold, white, sans-serif font. The 'IAA' is on the top line, 'POLICY' is on the second line, and 'PRIORITIES' is on the third line.

# IAA POLICY PRIORITIES

## Fiduciary Standard

Investment advisers are fiduciaries to their clients under the Investment Advisers Act of 1940. This fiduciary duty extends to all aspects of the advisory relationship and to all methods by which advisers provide advice. The IAA has long advocated that all financial professionals who provide investment advice about securities to clients should be required to act under fiduciary principles.

The SEC adopted a comprehensive **rulemaking package** in June 2019 intended to raise the standard of conduct for broker-dealers, reaffirm investment advisers' fiduciary duty under the Advisers Act, and reduce investor confusion as to the services offered by – and standards applicable to – their financial professional. We will continue to advocate before the SEC to ensure that its interpretation, implementation, and enforcement of this rulemaking package preserve the Advisers Act fiduciary duty, hold financial professionals to a robust investor protective standard, clearly delineate the essential differences between brokerage and advisory activities, and more effectively achieve the SEC's goals for **Form CRS** – the **new client relationship summary** for retail investors.

The IAA continues to closely monitor **state efforts** to impose their own fiduciary rules on financial professionals to ensure that these rules do not inappropriately apply to federally registered investment advisers and their representatives contrary to the National Securities Markets Improvement Act of 1996 (NSMIA).

## Tax Reform/Retirement Savings

The IAA supports efforts to bolster Americans' retirement savings, including efforts to expand access to retirement plans and to fiduciary advice. For this reason, we strongly support passage of the bipartisan SECURE Act 2.0 legislation (H.R. 2954) approved by the House Ways & Means Committee. Among other things, it would increase the age for required minimum distributions from 72 to 75, allow 403(b) plans to invest in CITs, and increase IRA catch-up provisions. We also strongly favor restoring and expanding the **deductibility of advisory fees** as an itemized deduction to encourage investors to seek fiduciary advice about saving for retirement. In addition, we are seeking reconsideration of the broad exclusion for service businesses from the **20 percent pass-through deduction** as it unfairly disadvantages investment advisory firms.

## Sustainable Investing

An increasing number of investment advisers engage in Environmental, Social, and Governance (**ESG investing strategies**), and take into consideration **ESG factors** as part of the investment process. This is driven, in no small part, by advisers' prudent risk management as well as an increase in investors' interest in ESG investing. The IAA strongly supports informed investor choice and the ability of a fiduciary to make investment decisions that, in its professional judgment, are in a client's best interest. Accordingly, the IAA objects to actions by policymakers that would limit the ability of advisers to consider certain factors or pursue investment strategies – including ESG factors or strategies – on behalf of their clients. The IAA and its members continue to engage with regulators on ESG-related issues including corporate issuer and investment adviser disclosures. For example, we support more consistent, comparable, and reliable ESG disclosures by corporate issuers to provide more transparency to investors and to facilitate analysis of issuers by investment advisers to better meet the needs of clients.

## Investment Advisers Act Modernization

The statutory framework of the Investment Advisers Act of 1940 has proven remarkably robust in protecting investors while allowing the fiduciary advisory profession to grow, benefiting investors, the capital markets, and the U.S. economy. As the financial services landscape has evolved over the last 80 years, however, certain Advisers Act rules have not kept pace. The IAA continues to press the SEC to review and update these regulations to ensure that they remain principles-based and evergreen. In this regard, we long advocated for and welcomed the SEC's new **Investment Adviser Marketing Rule**, which brings the way advisers may communicate with their clients into the 21st Century.

The IAA also calls for a better approach to delivery to clients of required disclosures that reflects how today's investors expect and prefer to receive communications from their financial professionals. This modernization of delivery rules is especially imperative in light of the COVID-19 pandemic. This approach would change the default from paper delivery to **electronic delivery**, retaining the option for the client to change to paper at any time.

We also support efforts to update the rules governing the safeguarding of client assets (**custody rule**) to better address its objectives, eliminate confusing language, and streamline an extensive patchwork of staff guidance that is extremely challenging to navigate. In addition, we believe the **pay-to-play** rule on political contributions should be streamlined and updated.

## Diversity, Equity, and Inclusion

The IAA recognizes that the investment adviser profession has a long way to go in matters of **diversity, equity, and inclusion (DE&I)**. Our community must address the issues that have resulted in lack of diversity and must make meaningful progress. To that end, the IAA is working collectively with our members to seek to promote diversity, equity, and inclusion as a value for our industry and to providing education, information, and resources to help foster significant change. The IAA also supports H.R. 2123 and H.R. 1277, which would help measure diversity progress in the asset management industry and provide important information about board diversity for investors assessing governance issues at public companies.

## Data Privacy/Cybersecurity

The IAA strongly supports a uniform, national approach to **data privacy and cybersecurity laws** that would create consistency and reduce complexity. The IAA also supports creation of a single, national **data breach notification regime** that would make it easier for affected companies to comply with the law while ensuring that clients and customers are protected.

## Impact of SEC Regulations on Small Businesses

Small businesses are the backbone of the fiduciary advisory community with 58 percent of investment advisory firms having 10 or fewer non-clerical employees and 88 percent having 50 or fewer non-clerical employees. Policymakers should understand the unique challenges of smaller advisory firms and the cumulative impact of policy decisions on their businesses and their ability to serve the investing public. To that end, the IAA urges the SEC to act on the recommendations

made by its Asset Management Advisory Committee in its report on small businesses, including for (1) tailored regulation of smaller advisers; (2) assessment of the cumulative impact of regulation on small businesses, and (3) a more appropriate definition of small business for purposes of cost-benefit analysis.

The IAA also strongly supports the objectives of the **“Investment Adviser Regulatory Flexibility Improvement Act,”** bi-partisan legislation previously passed by the House designed to ease the regulatory burden on smaller advisory firms. It would require the SEC to analyze the impact of regulations and consider alternative approaches that minimize the burden on small businesses in accordance with the federal Regulatory Flexibility Act.

## Proxy Voting

Proxy voting is an intrinsic benefit of share ownership that is important to enhancing and protecting shareholder value. Investment advisers that are responsible for voting proxies in the best interest of their clients value the assistance provided by third-party proxy advisory firms to help them with voting mechanics, research, and/or analytics. The IAA objects to any efforts to make proxy voting more difficult or expensive for advisers. We thus opposed the SEC’s 2020 proxy rule and support the SEC’s adoption of a final rule in July that removes onerous conditions from the 2020 rule and rescinds guidance on investment adviser proxy voting and use of proxy advisory firms that was adopted without the benefit of notice and comment and that increases burdens and costs for advisers and their clients. We also continue to urge the SEC to focus on updating proxy infrastructure, which is in dire need of modernization.

## SEC Oversight of Advisers

Effective oversight of the advisory profession is critical to investor protection. The IAA believes that the SEC – an experienced and accountable governmental regulator – is in the best position to provide that oversight and that it should retain its primacy in investment adviser regulation. To that end, the IAA supports efforts to ensure that the agency can dedicate and efficiently deploy sufficient resources for effective oversight of advisory firms.



## Anti-Money Laundering

An anti-money laundering (AML) rule for investment advisers is on the action list of Treasury's Financial Crimes Enforcement Network (FinCEN). Although the House included AML provisions for "financial intermediaries" – including investment advisers -- in the National Defense Authorization Act pending before the Senate, the IAA believes that FinCEN's experience in this area puts it in the best position to determine whether new regulation is needed and, if so, its contours.

We believe that policymakers - whether FinCEN or Congress - should refrain from imposing AML regulation on advisers whose business models or activities do not raise money laundering risks. Further, any AML regulation should be tailored to avoid costly and unnecessary duplication of compliance efforts as advisers are only one of a series of financial service providers interfacing with a client in connection with a new advisory engagement, and many of these intermediaries are already required to perform AML reviews of the client.

## Level Playing Field: Active and Passive Management

The IAA supports policy approaches that promote a level playing field among investment strategies. Both active and passive strategies have valuable and important roles to play in investment management in the best interest of clients and the markets. Laws and regulations should not explicitly or implicitly favor one investment strategy over the other and should not limit investor choice or the tools available to investment advisers for risk management.

## About the Investment Adviser Association

The Investment Adviser Association (IAA) is the leading trade association representing the interests of fiduciary investment advisers. The IAA's member firms collectively manage more than \$35 trillion in assets for a wide variety of institutional and individual investors. In addition to serving as the voice of the advisory profession on Capitol Hill and before the SEC, DOL, CFTC and other U.S. and international regulators, the IAA provides extensive practical and educational resources to its membership. For more information, visit [www.investmentadviser.org](http://www.investmentadviser.org) or follow us on LinkedIn, Twitter and YouTube.

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