



CAPITAL
INSTITUTIONAL
SERVICES, INC.

May 16, 2008

Ms. Nancy M. Morris
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: File No. S7-10-00

Dear Ms. Morris:

Capital Institutional Services, Inc. ("CAPIS") appreciates the opportunity to comment on the SEC's proposed amendments to Part 2 of Form ADV. CAPIS is a leading U.S. institutional brokerage firm specializing in global agency trading for asset managers and plan sponsors. CAPIS has successfully developed and provided an array of brokerage solutions specifically tailored to the institutional marketplace since 1977. CAPIS is a broker-dealer registered with the Commission and is a member of the New York Stock Exchange, the American Stock Exchange and FINRA.

CAPIS generally supports the Commission's efforts to make Part 2 of Form ADV more user friendly, to promote the use of plan English, and to have the form filed electronically. We do, however, believe that the proposed amendments concerning the disclosure requirements for advisers who engage in "soft dollar" arrangements require modification. We also believe that the Commission should reconsider its proposal that advisers be required to physically deliver their brochures annually, especially given the ease with which such documents will be able to be accessed through the SEC's IAPD.

Disclosure of Client Commission (Soft Dollar) Arrangements

The proposed amendments require advisers who receive research or other products and services in addition to trade executions (*i.e.*, soft-dollar benefits) to disclose the practice and discuss certain conflicts of interest. As a preliminary matter, CAPIS is pleased that the SEC has clarified once again that these disclosure obligations will apply with equal force to proprietary research arrangements and third-party research arrangements. CAPIS also supports the goal of providing advisory clients useful information regarding an asset manager's use of commissions to support the investment decision making process. We do have concerns, however, that many of the specific disclosures discussed in the proposal do not accurately portray the types of client commission arrangements currently prevalent in the industry and would serve to confuse, rather than enlighten, clients of investment advisers who participate in such arrangements. Our specific comments are below.

- The proposal would require an adviser which participates in client commission arrangements to disclose that it may have an interest in selecting a broker based upon the broker's research rather than based on best execution. *CAPIS disagrees with this statement on several grounds. First, it is our experience that best execution is the primary goal of our advisory clients, including those who participate in client commission arrangements. Second, the statement ignores the progress made since the Commission's July 2006 interpretive release on client commission arrangements. Now, advisers have the flexibility to execute from their preferred execution venues and receive research from their preferred research providers.*¹
- The proposal would require an adviser to state that its use of client commissions to obtain research would result in a benefit to the adviser because the adviser would otherwise have to pay for the research itself. *We believe that this disclosure does not reflect on of the primary goals and benefits of Section 28(e), the ability for a small/medium size adviser to receive innovative research from a variety of sources that the adviser would not have access to without the use of client commission arrangements. This is so because many advisers do not have the internal resources to duplicate the quality and variety of research available through client commission arrangements.*
- The proposal would require an adviser to disclose whether research services benefit all of its clients' accounts or only those accounts which paid for the benefit. *Once again, we believe that this proposed disclosure contradicts one of the fundamental principles of Section 28(e), the safe harbor's recognition that research may benefit a single account or the advisers' accounts as a whole. The safe harbor is written this way because it is difficult or impossible for an adviser to quantify the value that each of its accounts receives from a particular research product. Furthermore, requiring this disclosure would leave the misleading impression that an adviser who cannot determine whether research is allocated proportionally to client accounts has somehow disadvantaged its clients.*
- The proposal would require an adviser to explain the procedures it uses to direct transactions to a particular broker-dealer in return for soft dollar benefits. *We are concerned that this requirement would impose a burden on advisers that would not be balanced by a corresponding benefit to advisory clients. Section 28(e) already requires an adviser to make a decision that the amount of commissions paid on a transaction is reasonable in relation to the brokerage and research services received. We do not believe any further investor protection goals would be realized by*

¹ We note that the Commission could further the ability of advisers to seek best execution while receiving the research they want by clarifying that proprietary research firms may receive a portion of a commission from an executing broker for their research through client commission arrangements without triggering investment adviser registration requirements. Our experience is that some full service broker-dealers raise the possibility of investment adviser registration, and the principal trading restrictions of Section 206(2) of the Advisers Act, as grounds for refusing to accept payment for their research through client commission arrangements where another broker-dealer has provided execution services.

Ms. Nancy M. Morris

May 16, 2008

Page 3

requiring advisers to specifically disclose how they go about making this determination. We also submit that any such explanation would involve esoteric and technical disclosure which would defeat the Commission's goal of providing a user friendly brochure to advisory clients.

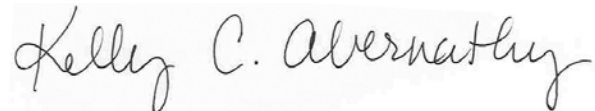
Rather than dictating that all advisers who participate in client commission arrangements make specific disclosures that may or may not apply to a particular adviser or arrangement, we suggest that Part 2 of Form ADV should allow advisers to describe their soft dollar practices in their own words, with the guiding principle that any and all material conflicts of interest be disclosed to clients.

Other Comments

CAPIS supports the Commission's proposal to require electronic filing of Part 2 of Form ADV and to upgrade the SEC's IAPD database to accept such filings and to make them available over the internet. Given the broad public access that will follow, we suggest that the Commission reconsider its proposal to require that the brochure be physically delivered to clients on an annual basis. We believe that a notice to clients of the availability of the brochure on the IAPD would suffice. Furthermore, since both parts of Form ADV will now be available electronically on the IAPD, we suggest that the Commission review Form ADV in its entirety and delete repetitive disclosures that currently exist in the two parts of the Form.

CAPIS appreciates the opportunity to comment on this important proposal, and would be pleased to provide additional information to the Commission or the Staff.

Sincerely,

A handwritten signature in cursive script that reads "Kelly C. Abernathy". The signature is written in black ink on a white background.

Kelly C. Abernathy
General Counsel, Chief Compliance Officer