COUNCIL OF INSTITUTIONAL INVESTORS

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Via Email

May 16, 2008

Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File No. S7-10-00; Release No. IA-2711; 34-57419

Dear Ms. Morris:

I am writing on behalf of the Council of Institutional Investors ("Council"), an association of more than 130 public, corporate and union pension funds with combined assets of over $3 trillion. As a leading voice for long-term, patient capital, the Council welcomes the opportunity to provide comments on the Securities and Exchange Commission's ("SEC" or "Commission") proposed amendments to Part 2 of Form ADV and related rules under the Investment Advisers Act.[1]

The proposed amendments would require investment advisers registered with the SEC to deliver to clients and prospective clients a brochure written in plain English describing the investment adviser's services, fees, business practices, and conflicts of interest with clients. The proposed Form ADV disclosure Items 12, Brokerage Practices, and 17, Voting *Client* Securities, are of particular importance to the Council's membership.

Item 12 Brokerage Practices

The Council has long had a policy supporting "clarity and transparency of disclosure of all . . . brokerage arrangements."[2] That policy is based on our members' fiduciary obligations to ensure that brokerage practices, including soft dollar benefits and directed brokerage are engaged in for the "exclusive benefit of the plan and its members."[3] We, therefore, strongly support the proposed Item 12 disclosures.

Consistent with the Council's policy on brokerage arrangements, we are particularly supportive of the proposed soft dollar benefit disclosures, including disclosure of any incentives the investment adviser may have in selecting or recommending "a broker-dealer based on [their] . . . interest in receiving the research and other products or services, rather than on [their] . . . *clients'* interest in receiving best execution."[4] We also expressly endorse the proposed directed brokerage disclosures, including the disclosure of the investment adviser's "practice or policy" and "relationship" with the broker-dealer and the "conflicts of interest it presents."[5]

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[1] Amendments to Form ADV, Investment Adviser Act Release No. 2,711, Exchange Act Release No. 57,419, 73 Fed. Reg. 13,958 (Mar. 14, 2008) (to be codified at 17 C.F.R. pt. 275 & 279).
[2] The Council of Institutional Investors Policies on Other Governance Issues, Statement of Guiding Principles on Trading Practices, Commission Levels, Soft Dollars and Commission Recapture 2 (adopted Mar. 31, 1998), http://www.cii.org/UserFiles/file/council%20policies/Redesigned%20CII%20Policies%20on%20Other%20Governance%20Issues%201-29-08.pdf
[3] *Id.*
[4] Amendments to Form ADV, at 14,013.
[5] *Id.* at 14,014.

Item 17 Voting *Client* Securities

The Council has long advocated for responsible voting of shareowner proxies. On November 12, 2002, the Council issued a comment letter in support of the SEC's then proposal to require investment advisers to provide disclosure about how they vote proxies and to mandate that advisers establish policies reasonably designed to ensure that they vote proxies in the best interest of their clients. Earlier, on June 12, 2000, the Council issued a comment letter in favor of the Commission's then proposal to amend Form ADV to require more information on investment advisers' proxy voting policies, soft dollar practices and conflicts of interest. We, therefore, applaud the SEC's current proposal to move forward with these important and long overdue reforms.

We believe the proposed Item 17 disclosures, providing that investment advisers be required to disclose their proxy voting practices, are essential for allowing investors to monitor how advisers are voting shares on their behalf. Requiring advisers to "briefly describe the voting policies they adopted under rule 206(4)-6," and explain "whether (and how) clients can direct the adviser to vote in a particular solicitation, how the adviser addresses conflicts of interest when it votes securities, and how clients can obtain information from the advisers on how the adviser voted their securities," appropriately discourages advisers from voting contrary to the best interest of shareowners.[6]

We also support the proposed disclosures about the circumstances relating to the adviser's use of third-party proxy voting services.[7] More specifically, we agree with the Commission that investors would be well served by the disclosure of i) the identity of the proxy voting services that the investment advisers utilize and how these voting services are selected, ii) whether advisers permit their client to direct the use of particular proxy voting services, iii) the amounts that advisers pay their third party proxy voting services, and iv) whether advisers are paying for the services directly or through soft dollars.

Finally, the Council encourages the Commission to monitor on an ongoing basis the effectiveness of the new disclosures resulting from the proposal. Importantly, the monitoring effort should include periodic reconsideration of whether the required disclosures continue to benefit investors and provide the transparency investors need about the potential conflicts of interest that are endemic to the investment adviser industry.

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We appreciate the opportunity to express our views on this matter. Please feel free to contact me with any questions.

Sincerely,

Andrey Kuznetsov

Andrey Kuznetsov
Analyst

[6] *Id.* at 13,968.
[7] *Id.*