

FINAL BILL REPORT

SB 5384

C 114 L 93

SYNOPSIS AS ENACTED

Brief Description: Regulating investment advisory contracts.

SPONSORS: Senators Moore, Newhouse, McAuliffe and Erwin; by request of Department of Licensing

SENATE COMMITTEE ON LABOR & COMMERCE

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

BACKGROUND:

An investment advisor is prohibited from entering an investment advisory contract that allows the investment advisor to be compensated based on the capital gains or appreciation of the client's funds. However, an investment advisor may be compensated based on a fund average for a definite period or date.

The federal Investment Advisors Act of 1940 contains a similar prohibition on compensation. In interpreting this prohibition, the Securities and Exchange Commission has adopted a regulation that exempts certain compensation arrangements. The criteria for exemption include minimum financial means of the client, requirements on how the compensation is calculated, and the disclosure of material information by the investment advisor to the client.

SUMMARY:

The director of the Department of Licensing is authorized to adopt rules delineating permissible performance based compensation arrangements for investment advisors. Any rule adopted by the director may only allow those arrangements permitted under the Securities and Exchange Commission's regulations and the federal Investment Advisors Act of 1940.

VOTES ON FINAL PASSAGE:

Senate	46	0
House	95	1

EFFECTIVE: July 25, 1993