

**MEMORANDUM OF UNDERSTANDING
CONCERNING INVESTMENT ADVISERS AND
INVESTMENT ADVISER REPRESENTATIVES**

Adopted April 27, 1997

The North American Securities Administrators Association, Inc. on behalf of its members, the fifty state securities regulators, the twelve Canadian Provinces and Territories, the Securities Commissioner of Puerto Rico, the Director of Securities for the District of Columbia and the Securities Commissioner of the Republic of Mexico, and its members individually and collectively hereby adopt this Memorandum of Understanding as a recognition of the need for cooperation and coordination in the registration, licensure and examination of investment advisers and investment adviser representatives under their licensing authority, and the need to investigate and examine in the instance of fraud or deceit, and as otherwise permitted by the NSMIA, those investment advisers that are registered with the U.S. Securities and Exchange Commission and their associated persons.

BACKGROUND

Title III of the National Securities Markets Improvement Act of 1996 ("NSMIA"), the Investment Advisers Supervision Coordination Act ("Coordination Act"), created a two-tier system for the registration of investment advisers in the United States. The Coordination Act divided responsibility for registering investment advisers between the states and the United States Securities and Exchange Commission ("SEC"). Generally, investment advisers with less than 25 million dollars of assets under management will register with the states and those with more than 25 million dollars of assets under management or that advise registered investment companies will register with the SEC.

If an investment adviser is registered with the SEC, the states may not require registration, licensing, or qualification of the investment adviser or its supervised persons, except that states may license, register, or otherwise qualify investment adviser representatives who have a place of business located within that state. Additionally, the states retain the authority to investigate and bring enforcement actions in the case of fraud or deceit, and as otherwise permitted by the NSMIA, by SEC registered investment advisers and their associated persons.

If an investment adviser does not qualify for SEC registration, its registration is governed by state laws. State registration authority is limited, however, by a national de minimis standard that prohibits the laws of any state requiring registration, licensing, or qualification as an investment adviser if the adviser does not have a place of business located in the state and during the prior 12 months had five or fewer clients that reside in the state. In addition, the NSMIA requires a state to enforce only those books and records, minimum net capital, or bonding requirements of the state in which the investment adviser maintains its principal place of business.

This memorandum reflects the commitment of the U.S. regulators to: undertake their revised regulatory responsibilities in an efficient and effective manner; to ensure that all investment advisers and investment adviser representatives that should be registered at the state level are registered and are examined on a routine basis; and to continue their regulatory role over SEC registered investment advisers as permitted by the NSMIA. Recognizing the need for effective and efficient investment adviser regulation and the reality of cross-border activity, all international NASAA members are encouraged to participate in the programs and activities set out by the memorandum. Furthermore, all jurisdictions that are a party to this memorandum shall: continue and enhance former practices; begin new initiatives to better allocate available resources; more effectively exercise their regulatory authority; and strive to protect the investing public.

UNDERSTANDINGS BETWEEN THE PARTIES

1. INFORMATION SHARING AND FACILITATION OF COMMUNICATIONS

1.1 As part of NASAA's annual Spring Conference, NASAA will conduct a general reporting session to present current issues and trends concerning investment advisers and investment adviser representatives. Smaller regional meetings will be held on an annual basis to allow jurisdictions to evaluate registration requirements and examination protocols, and to discuss other opportunities to facilitate better coordination and cooperation among the jurisdictions to examine, on a routine basis, as many investment advisers as feasible.

1.2 As part of annual enforcement training, the regulators shall review trends in fraudulent activities, coordinate enforcement activities, discuss techniques in discovering fraud, and open lines of communication between regulators, with the goal of protecting advisory clients.

1.3 The participants to this memorandum of understanding shall participate in a protocol that provides for regular communications among the NASAA members within their respective NASAA Zones to identify current trends in the investment advisory industry, to plan examination sweeps, and to foster communications among the participants, with the goal of preventing illegal activities and protecting advisory clients.

2. ESTABLISHING AND MONITORING INVESTMENT ADVISER REPRESENTATIVE EXAMS

NASAA shall develop and make available to its members an exam to test the subject matter knowledge and competency of state-registered investment adviser representatives. NASAA shall also urge its members to implement the exam and require passage as a requirement of being licensed as an investment adviser representative. The exam shall mandate a minimum degree of competency. States currently rely on the Series 65 to test investment adviser representatives on state laws regarding investment adviser regulation. NASAA shall revise the Series 65 exam to accommodate recent state law changes resulting from the NSMIA, and continue to monitor all adviser representative exams and revise them as necessary.

3. COORDINATED ENFORCEMENT INITIATIVES

3.1 When conducting "for cause" exams regulators shall identify possible multi-jurisdictional issues, and will share resources and information with other jurisdictions and federal regulators as appropriate. These examinations may include the identification of registration violations, sales practice violations, and fraud.

3.2 As a result of jurisdictions sharing information regarding their investment adviser licensing activity, examinations, or customer complaints, regulators may request funding from NASAA to conduct multi-jurisdictional sweep projects. The purpose of these sweeps shall be to protect advisory clients and to provide a mechanism for the regulators to conduct more efficient examinations that foster regulatory cooperation at an early stage.

3.3 The parties to this memorandum shall coordinate and cooperate in monitoring all mediums of communications, including the Internet, for possible violations of investment adviser laws.

4. COORDINATED ROUTINE EXAMINATION INITIATIVES

NASAA shall provide a forum to allow the regulators to identify investment advisers licensed in multiple jurisdictions and to coordinate examination schedules for such licensed advisers.

5. INVESTMENT ADVISER PERSONNEL DATABASE

NASAA shall create a database containing resumes of member personnel with an expertise in adviser examinations, persons willing to serve as expert witnesses, and potential "Case Coordinators." Upon a jurisdiction's request, such personnel may assist that jurisdiction with adviser examinations, case preparation, or expert testimony. NASAA shall make funding available for these services through its Special Projects Program.

6. NASAA TRAINING PROGRAMS

NASAA shall sponsor multiple training programs, which will include presentations by expert panelists and written materials that may be used as resource tools relating to investment adviser regulation. The training programs shall highlight trends in the industry, enforcement concerns, and registration issues. Participants in these training programs shall be instructed on how to conduct investment adviser examinations using the NASAA examination manual.

7. STATES WITHOUT INVESTMENT ADVISER PROVISIONS

7.1 In the expectation of adopting legislation, the four states without investment adviser regulations, Colorado, Iowa, Ohio, and Wyoming, are welcome to participate in the investment adviser general reporting meeting, regional coordination meetings, and those portions of the NASAA training programs related to investment adviser regulation.

7.2 Staff from the four states are also welcome to participate in the coordinated enforcement and examination initiatives to gain experience in the event legislation is enacted in their jurisdictions. To the extent staff from these states participate in a coordinated enforcement or examination initiative, NASAA will provide funding for their participation as necessary.

8. INVESTMENT ADVISER WORKING GROUP

8.1 NASAA will establish a working group to review its model books and records provision for investment advisers and how they relate to current state provisions. The working group will revise the model books and records provisions as necessary, present these provisions for adoption to the NASAA membership, and work with the states to achieve adoption of the provisions. The model books and records provisions will provide uniformity to the regulated entities, and enable all regulators to have access to similar records regardless of the place of business of the investment adviser.

8.2 The working group will review NASAA's model capital and bonding requirements and examine how they relate to current state capital and bonding requirements. The working group shall revise the model capital and bonding requirements as necessary and present their recommendations to the NASAA membership for adoption. The working group will work with the states to achieve adoption of their recommendations.

8.3 The working group will explore with the parties to this memorandum the implementation and creation of a uniform database to maintain information on investment advisers and investment adviser representatives. This database will be used to identify the areas and need for future regulatory coordination between the jurisdictions.

8.4 The working group will review the current forms that investment advisers and investment adviser representatives are required to file to register or renew registrations in the jurisdictions. The working group will present their proposed model forms to the NASAA membership for adoption, and work with the jurisdictions to implement their use.

9. CONSUMER AWARENESS

The parties to this memorandum shall undertake as a primary initiative the education of consumers relating to the marketing and delivery of investment advisory services and the development of a proactive program to solicit their concerns.

10. COMPLIANCE EDUCATION AND LIAISON WITH OTHER REGULATORS AND THE INVESTMENT ADVISER INDUSTRY

10.1 The parties to this memorandum shall endeavor to communicate and educate the industry concerning compliance requirements and concerns.

10.2 NASAA, on behalf of its members, shall communicate regarding investment adviser issues through a designated liaison with the United States Securities and Exchange Commission, the National Association of Securities Dealers, and other regulators.

10.3 NASAA will also establish a liaison with the associations or groups that represent the interests of investment advisers.

This Memorandum of Understanding may contain more than one counterpart of the signature page and this Memorandum of Understanding may be signed by the affixing of the signature of each party to one of such counterpart signature pages; all of such counterpart signature pages shall read as though one, and they shall have the same force and effect as though all of the signers had signed a single signature page.

11. SIGNATORIES

Recognizing the need to enhance investor protection, efficient oversight and the enforcement of state, provincial and territorial securities laws, with respect to investment advisers their affiliate firms and representatives, the following persons, in their capacity as members representatives or delegates thereof, within the authority delegated to them by their jurisdiction, do hereby affix their names:

Mark J. Griffin, NASAA President

Signature: _____
Print: _____
Title: _____

Denise Voigt Crawford, NASAA President-elect

Signature: _____
Print: _____
Title: _____

Alabama Securities Commission
770 Washington Avenue
Suite 570
Montgomery, Alabama 36130-4700

Signature: _____
Print: _____
Title: _____

Alberta Securities Commission
4th Floor, 300 - 5th Avenue S.W.
Calgary, Alberta
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Signature: _____
Print: _____
Title: _____

Alaska Dept. Of Commerce & Economic Development
Division Of Banking, Securities, & Corporations
333 Willoughby, 9th Floor
Juneau, Alaska 99811-0807

Signature: _____
Print: _____
Title: _____

Arizona Corporation Commission
Securities Division
1300 West Washington, Third Floor
Phoenix, Arizona 85007

Signature: _____
Print: _____
Title: _____

Ontario Securities Commission
20 Queen Street West, Suite 1800
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Signature: S/ J.A. Geller
Print: J.A. Geller
Title: Acting Chair

Puerto Rico Office Of The Commissioner Of Financial
Centro Europa Building, Suite 600
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San Juan, Puerto Rico 00918

Signature: _____
Print: _____
Title: _____

Oregon Department Of Insurance & Finance
Securities Section
21 Labor & Industries Building
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Print: _____
Title: _____

Quebec Commission Des Valeurs
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800 Square Victoria, 17th Floor
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Pennsylvania Securities Commission
Eastgate Office Building
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Title: _____

Rhode Island Department of Business Regulation
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Prince Edward Island Department Of Justice
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1914 Hamilton Street, #850
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