



STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION

P.O. Box 9033 • Olympia, Washington 98507-9033
Telephone (360) 902-8760 • TDD (360) 664-8126 • FAX (360) 902-0524 • Web Site: www.dfi.wa.gov/sd

Notice of Proposed Rule Making Concerning Investment Adviser Custody Rules

March 14, 2008

To Interested Persons:

As you are on our interested persons list for broker-dealers, investment advisers and their representatives, we are writing to inform you that the Securities Division is soliciting comments on the possible amendment and updating of its rules that impose safeguard requirements for investment advisers that maintain custody or possession of client funds or securities.

Investment advisers are regulated both under state law and under federal law by the Securities and Exchange Commission (“SEC”). State and federal law impose safeguard requirements on investments advisers that maintain custody or possession of client funds or securities. Both the SEC custody safeguard rules, set forth in 17 CFR 275.206(4)-2, and the North American Securities Administrators Association, Inc. (“NASAA”) model custody rule have been amended since the Division’s investment adviser custody rules were last updated. *See* Custody of Funds or Securities of Clients by Investment Advisers, Release No. IA-2176 (Oct. 3, 2003), *available at* <http://www.sec.gov/rules/final/ia-2176.pdf>; NASAA Custody Requirements for Investment Advisers, Model Rule 102(e)(1)-1 (adopted Apr. 3, 2000, amended Apr. 18, 2004, Sept. 11, 2005), *available at* <http://www.nasaa.org/content/Files/IACustodyRulesAmended091105.pdf>. The Securities Division is considering amending and updating its custody rules in light of the amendments by the SEC and NASAA with the goal of modernizing the rules to reflect current industry practices while ensuring adequate protection for investment advisory clients.

Please find attached a copy of the Preproposal Statement of Inquiry (Form CR-101) that was filed with the Office of the Code Reviser for publication on April 2, 2008 (Issue # 08-07).

If you have any questions, please contact the undersigned by telephone at (360) 725-7825 or by e-mail at fanderson@dfi.wa.gov.

Sincerely,

Faith L. Anderson
Associate General Counsel