



THE MONEY MANAGEMENT INSTITUTE

Legal/Regulatory Affairs Conference for General
Counsels & Chief Compliance
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*Emerging Issues
with Model Based Programs*

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Emerging Issues with Model Based Programs

- Variations
- Pros and Cons of Model Arrangements
- Regulatory and Compliance Issues
- Emerging Best Practices

Variations

- Range of Sponsor Involvement
 - Active v. Passive Overlay
- Push Back of Trading to Model Manager

Pros of Model Arrangements

- Access to managers without infrastructure for SMA trading
- Quality of advice
 - Overlay advice
 - Conflicts among disciplines & managers
 - Double concentration
 - Tax efficiencies (e.g., wash sales)
 - Client restriction management
 - Versatility to include alternative assets
 - Versatility to include multiple managers in one account
- Pricing flexibility
- Operational efficiencies
 - Easier for manager (e.g., no trading)
 - Easier for FA & client because of total account focus

Cons of Model Arrangements

- Less Clarity of 1940 Act Status under Rule 3a4
- Managers' loss of control over their intellectual property
- Trading sequencing remains complex issue
- Front running
 - Disclosure
- Pricing flexibility may lead to flat fees for managers

Regulatory & Compliance Issues

- Relationship of Model Manager
 - Adviser to Client?
 - Parallel with “Auto-Trading” Newsletters
 - Terry’s Tips (2005)
 - Weiss Research (2006)
 - Fiduciary to Client?
 - ERISA standard
 - Client as 3rd Party Beneficiary?
- Disclosure issues
 - Differences between Hands-On and Model Arrangements
 - Are Model Manager’s business practices material to a client’s decisions?
 - Form ADV delivery obligations

Regulatory & Compliance Issues

- Trade flows and conflicts
 - Trading opportunity issues
 - Information leakage
 - Timing of model updates
 - How often?
 - Affect on investment opportunities of other clients?
 - Ability to delay?
 - Issues under SEC rule/mutual fund policy about dissemination of holdings information

Regulatory & Compliance Issues

- Performance presentation issues
 - Who's performance is it?
 - Linking of model manager and sponsor performance
 - AUM calculations
- 1940 Act Status under Rule 3a4
 - Who should be available to consult with client?
- Beneficial ownership reporting obligations
 - 13F/G/D & Section 16
- Confirmation suppression

Emerging Best Practices

- For Sponsors
- For Managers



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