

MEMO# 24306

May 19, 2010

Institute Testimony on Financial Crisis Responsibility Fee

[24306]

May 19, 2010

TO: BOARD OF GOVERNORS No. 4-10

CLOSED-END INVESTMENT COMPANY MEMBERS No. 24-10

SEC RULES MEMBERS No. 46-10

SMALL FUNDS MEMBERS No. 32-10

TAX MEMBERS No. 13-10

UNIT INVESTMENT TRUST MEMBERS No. 3-10 RE: INSTITUTE TESTIMONY ON FINANCIAL
CRISIS RESPONSIBILITY FEE

During the past month, the Senate Finance Committee has held three hearings on the Administration's proposal to impose a fee on financial institutions to reimburse taxpayers for costs associated with the Troubled Asset Relief Program (TARP). [\[1\]](#) The Institute recently submitted testimony to the Committee explaining why the proposed "financial crisis responsibility fee" should not be applied to registered investment companies. [\[2\]](#)

The testimony makes three key points:

- First, the Administration's proposal is not directed at mutual funds and other registered investment companies. Rather, the Administration has advocated that the fee be levied on the liabilities of the "largest and most highly leveraged financial institutions"—in particular, banks and thrifts, insurance and other companies owning insured depository institutions, and broker-dealers, if the institution has over \$50 billion in consolidated assets.
- Second, imposing this fee on funds would defeat the purpose of the proposal, by singling out one class of taxpayers—fund shareholders—to bear costs associated with recouping the TARP shortfall.

- Third, this fee would have a direct and negative impact on fund investors, because it would automatically pass through to them as a fund expense. The testimony illustrates how the fee—which the Administration has estimated at 15 basis points—would impact fund costs. It states, for example, that the average asset-weighted expense ratio for all mutual funds with assets of \$50 billion or more is 42 basis points, and that a 15 basis point fee would result in a 36 percent increase in costs to shareholders.

Rachel H. Graham
Senior Associate Counsel

endnotes

[1] The hearings were held on April 20, May 4, and May 11. Information about the hearings, including the testimony of the witnesses, is available on the Committee’s website at <http://finance.senate.gov/hearings/>.

[2] See Statement of the Investment Company Institute on “The President’s Proposed Fee on Financial Institutions Regarding TARP” before the Committee on Finance, United States Senate, dated May 4, 2010, available at http://www.ici.org/taxation/fin_crisis/10_sen_fin_comm_tmny.

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.