

MEMO# 11008

May 25, 1999

ICI 1999 GENERAL MEMBERSHIP MEETING SPEECHES

[11008] May 25, 1999 TO: BOARD OF GOVERNORS No. 39-99 PRIMARY CONTACTS -
MEMBER COMPLEX No. 57-99 RE: ICI 1999 GENERAL MEMBERSHIP MEETING SPEECHES

John J.

Brennan, Chairman of the Institute's Board of Governors, and Institute President Matthew P. Fink spoke at the Institute's 1999 General Membership Meeting. Copies of their speeches are attached, and they are summarized below. Chairman's Report Mr. Brennan's report focused on the industry's accomplishments, challenges, and opportunities during the past year. He stated that 1998 was an impressive year of accomplishment for the industry in terms of its expanding client base, growing assets, and significant cash flow. Mr. Brennan noted that the industry successfully met the challenges it faced last year, namely volatile markets, the lure of day trading, educating investors, and scrutiny from regulators and legislators. In particular, Brennan noted that "[w]ith respect to our governance structure and practices, the past 12 months saw the most scrutiny in years on the role of boards of directors in the mutual fund industry." Brennan applauded the challenge laid out by SEC Chairman Levitt's inquiry into the role of independent directors as a great "complacency check" for the industry. Brennan warned against assuming that our unique system of governance cannot be improved, and stated that the industry has the burden "to constantly review and improve the stewardship of our shareholders' assets." With respect to the opportunities of 1998, Chairman Brennan highlighted the increasing importance that Americans are placing on retirement savings. He urged the industry to work with elected officials to help shape the legislative and regulatory future for savings and retirement. Finally, Brennan cautioned the industry not to dwell on its accomplishments for too long, but to respond to existing challenges and anticipate new ones to ensure the industry's continued success. President's Report Mr. Fink's report emphasized that the continued success of the mutual fund industry is dependent upon continuing its tradition of integrity, and highlighted several things that the industry must do to ensure that it maintains this integrity. First, Mr. Fink stressed that the industry must "remain unwavering in [its] support for the core fiduciary provisions of the Investment Company Act, and resist siren calls for their dilution or elimination." In noting that this support requires periodic reexamination of the core protections, Fink reported that the Institute formed an Advisory Group to consider best practices for fund directors. He stated that "[i]t makes sense to examine current best practices to see if they can be made even better, and we are pleased to be part of Chairman Levitt's initiative for a careful and thorough review of this central element of our regulatory system." Mr. Fink next warned that the industry must keep apprised of changes and propose new laws, regulations and voluntary measures to directly address new issues. Towards that end, Fink noted that the Institute submitted a series of recommendations to

the SEC “to modernize the rules governing affiliated transactions without diluting the effectiveness of the Act’s bans on self-dealing.” Mr. Fink also urged continued regulation of the industry by the SEC. Fink stressed that co-regulation with the Office of Thrift Supervision and the Comptroller of the Currency would lead to duplicative and conflicting regulation, and applauded Congress for recognizing the important role of SEC regulation. As a fourth point, Mr. Fink urged the industry to challenge myths and misinformation concerning problems that do not exist, but serve to divert attention from real issues and concerns. In particular, Fink noted the perennial fallacy that mutual fund fees are rising, when in fact the total cost to shareholders of owning mutual fund shares has fallen during the past two decades. President Fink also stressed that the industry must ensure that regulatory requirements help investors make informed decisions. For example, Fink noted that not all employers provide complete information about investment options in defined contribution plans, and emphasized that the industry “must continue to urge the Department of Labor to require every sponsor of every 401(k) plan to provide every employee with full disclosure about every investment option.” Finally, Mr. Fink reminded the industry to remain committed to the education of investors, as well as all of the men and women who work in the industry. Doretha VanSlyke Zornada Assistant Counsel

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