

MEMO# 9866

April 21, 1998

IMMEDIATE ACTION NEEDED TO DEFEAT BANK-LIKE COMMUNITY REINVESTMENT OBLIGATIONS ON MUTUAL FUNDS

1[9866] April 21, 1998 TO: BOARD OF GOVERNORS No. 21-98 PRIMARY CONTACTS -
MEMBER COMPLEX No. 26-98 RE: IMMEDIATE ACTION NEEDED TO DEFEAT BANK-LIKE
COMMUNITY REINVESTMENT OBLIGATIONS ON MUTUAL FUNDS

_____ We need your immediate help in defeating serious legislative efforts to impose bank-like community reinvestment obligations on mutual funds, securities firms and insurance companies. Quick action is essential; Members of Congress need to hear from you by Wednesday, April 29. The amendment to expand obligations like those under the Community Reinvestment Act (CRA) is expected to be offered when the House votes on H.R. 10, the "Financial Services Act of 1998," during the week of May 4. Until now, the Institute has supported this legislation, which would modernize the nation's financial service laws. However, the Institute is unambiguous in its strong opposition to all attempts to impose any CRA-type obligation on mutual funds. The Community Reinvestment Act was passed in 1977 in response to concerns over the practice of "redlining." It requires bank regulators to take into account whether a bank is serving the convenience and needs of the community in which it is chartered when evaluating a bank's application to engage in certain activities. It applies only to depository institutions, which receive benefits from the government such as deposit insurance and access to the Federal Reserve discount window. In order to defeat this amendment, it is critical that you contact Members of Congress that you know and/or that represent states where you have a significant business presence to encourage them to oppose consideration of any amendments to H.R. 10 that would impose CRA-type obligations on the investment company industry. * * * * * Letters to Members of Congress should be written in your own words. Begin by identifying your firm—number of funds, shareholders, employees (if significant), assets and other information that establishes you as a constituent presence. Note the success of the fund industry in making investment opportunities available to all Americans, especially middle- class Americans. In addition, the following arguments, written in your own words, can be used to oppose CRA-type amendments, while supporting efforts to approve H.R. 10. 2` Explain that you oppose the imposition of CRA-type obligations on the mutual fund industry. ` Note that imposing community reinvestment requirements on mutual funds would require fund managers and directors to place the interests of others before fund shareholders. Mutual fund managers have a fiduciary responsibility to their shareholders to make investments based solely on sound investment policies. ` Note that there are no sound public policy or practical reasons to impose such requirements on the mutual fund industry. ` Investment companies have

never been subject to CRA-type obligations, for good reason. Unlike banks, investment companies derive no benefits from the federal government in the form of deposit insurance and the federal safety net. ` Note that, unlike banks, mutual funds are not chartered to serve the needs of a particular community. Most mutual funds sell their shares nationwide. In addition, most mutual fund investments are in publicly-traded securities, rather than loans to particular individuals or firms. ` Therefore, neither the fund industry, nor your company, has ever engaged in the types of discriminatory practices, such as "redlining," that the CRA was intended to address. ` Mutual funds already are a major source of capital. Mutual fund investments in municipal securities, mortgage-backed securities and U.S. government agency securities play a critical role in community development throughout the United States. ` Explain that you support efforts to modernize the nation's financial services laws and that your company endorses H.R. 10, the "Financial Services Act of 1998," as well as the efforts of the House Commerce and Banking Committees to move the bill. ` Advise the Member of Congress that your company may find it necessary to oppose this much-needed legislation if CRA-type obligations are imposed on the mutual fund industry. * * * * * Attached are lists of the key House members we would like you to contact: the House Commerce and Banking Committees and the California, Massachusetts, New York, Pennsylvania and Texas state delegations. Write to all representatives on the committee list from states in which your company has an office and any other Members of Congress that you know. If you have operations in one of the targeted states (CA, MA, NY, PA, TX), write to all other members of that delegation as well. It is critical that you contact as many members as possible. All letters should be sent by fax or overnight delivery by Wednesday, April 29. Please send a blind copy of your letters to the attention of Leslie Woolley, Vice President for Legislative Affairs. If you have questions, please call me (202/326-5801) or Leslie Woolley (ph: 202/326-8319; fax 202/326-5899). Also attached is an editorial column that supports the extension of community reinvestment obligations to mutual funds, securities firms and insurance companies. It appeared in The Washington Post on Sunday, April 19, 1998. Thank you for your assistance. We will keep you informed as the situation develops. 3Matthew P. Fink President Attachments

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