

**MEMO# 8743**

March 21, 1997

## **FUND EXPENSES**

March 21, 1997 TO: BOARD OF GOVERNORS No. 21-97 RE: FUND EXPENSES

As I reported at the January Board of Governors meeting, policymakers are focusing attention on the level of mutual fund fees and investor understanding of fees. Testifying before the Senate Appropriations Committee on March 19, SEC Chairman Arthur Levitt, Jr. observed that although assets under management have grown tremendously, "the fee structure of [mutual] funds appears to be going up, not down" and expressed concern that investors have an "inadequate" understanding of the fees that they are charged. Chairman Levitt noted, however, that he is reluctant to use a legislative approach to address his concerns, and would prefer to work with the industry on these issues. Questions regarding fund fees also were raised at recent House hearings. In an SEC authorization hearing, Representative Paul Gillmor (R-Ohio), Co-Chair of the House Commerce Committee, questioned the overall level of fees, economies of scale and fee disclosure. In an SEC appropriations hearing, Representative Hal Rogers (R- Kentucky), Chairman of the House Appropriations Committee, raised similar concerns. Representative Gillmor's concerns also are set forth in a recent Fund Action interview, a copy of which is attached. In a keynote address at the ICI/FBA Mutual Funds and Investment Management Conference in Palm Springs on March 17, Barry Barbash, Director of the SEC's Division of Investment Management, discussed possible improvements to fee disclosure. In particular, he observed that individualized performance and fee disclosure, provided in quarterly or annual statements, could be useful to investors. A copy of Mr. Barbash's remarks is enclosed. The Institute continues to meet with Members of Congress and the SEC to discuss these matters. Enclosed is a copy of a letter I sent to Chairman Levitt today. Matthew P. Fink President Enclosures