

**MEMO# 6810**

March 30, 1995

## **RECENT ADDRESS OF THE DIRECTOR OF THE DIVISION OF INVESTMENT MANAGEMENT CONCERNING MUTUAL FUND SALES PRACTICES**

March 30, 1995 TO: BOARD OF GOVERNORS No. 42-95 SEC RULES COMMITTEE No. 48-95  
SUBCOMMITTEE ON ADVERTISING No. 4-95 RE: RECENT ADDRESS OF THE DIRECTOR OF  
THE DIVISION OF INVESTMENT MANAGEMENT CONCERNING MUTUAL FUND SALES  
PRACTICES

Barry Barbash, the Director of the SECGs Division of Investment Management, recently delivered an address to the CCH Mutual Funds and Investment Management Conference, concerning mutual fund sales practices. Mr. Barbash stated that recent investor attention "on the deficiencies of funds" is due to "a growing number of mishaps and a slow, steady erosion of the credibility of many of the organizations that operate this vehicle." Mr. Barbash believes that the manner in which funds are sold to investors lies "at the heart of the recent difficulties." For example, "[s]hortsighted or deficient sales practices" would seem to explain "much of the problem mutual funds have had with derivatives and other potentially risky investments." Mr. Barbash stated that the Commission will continue working with the NASD to provide guidance to sales representatives recommending multiclass or master-feeder funds and will develop an investor brochure concerning those funds. In addition, the Commission has focused increasingly on sales practices in its inspections and "has showed its willingness... to institute enforcement proceedings relating to mutual fund sales practices." According to Mr. Barbash, the NASD should "track the activities of its members more closely," educate its membersG employees, and "consider how brokers are compensated for selling mutual fund sales and the manner in which the compensation is disclosed to investors." He also urged mutual funds and their distributors to ask themselves whether sales material provides a balanced presentation of the risks and rewards of particular funds. Fund managers need to ask "whether the flexibility provided to portfolio managers will result in investors being surprised at their fundsG investment results" and fund managers and boards should consider whether their fundsG names are consistent with their investment strategies. Mr. Barbash concluded, "The growth and strength of the mutual fund industry . . . has depended and will continue to depend on the ability of funds to meet the needs and expectations of investors," which are "largely shaped by the selling practices of the industry." Although Mr. BarbashGs address was not publicly available in writing, attached is a transcription (which contains a few typographical errors).  
Paul Schott Stevens General Counsel Attachment

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