

MEMO# 6318

October 21, 1994

CHAIRMAN LEVITT'S REMARKS AT ICI INVESTMENT COMPANY DIRECTORS CONFERENCE

October 21, 1994 TO: BOARD OF GOVERNORS NO. 108-94 SEC RULES COMMITTEE NO. 113-94 INVESTMENT COMPANY DIRECTORS CONFERENCE ATTENDEES RE: CHAIRMAN LEVITT'S REMARKS AT ICI INVESTMENT COMPANY DIRECTORS CONFERENCE

As part of a major new initiative to assist fund directors in fulfilling their increasingly challenging and complex responsibilities to shareholders, the Institute recently held its first Investment Company Directors Conference. At the conference, SEC Chairman Arthur Levitt gave a speech entitled "Mutual Fund Directors as Investor Advocates." Although Chairman Levitt's speech apparently was not released publicly by the Commission, the text of his prepared remarks was made available to the Institute this week. A copy is attached for your information. In his remarks, Chairman Levitt addressed four areas of "board activism and involvement," which included compliance activities, derivatives, soft dollars, and conflicts of interest. With respect to compliance activities, Chairman Levitt indicated that directors should not be involved in day-to-day matters but rather should ask hard questions -- such as questions about the resources that are devoted to compliance activities, and the degree of support and responsiveness of management to compliance issues. Concerning derivatives, Chairman Levitt stressed that directors should understand how derivatives work, how the fund is using them, how clearly their effects are described in the prospectus, and what the exposure of investors is. He noted that better disclosure and more reporting would help solve some of the recent problems funds have experienced with investments in derivatives, but he urged directors not to wait for the SEC to act before considering and approving their own proposals to deal with derivatives. Chairman Levitt also recommended that directors "stay on top of" issues relating to soft dollar arrangements. In addition, he suggested that directors monitor brokerage arrangements through which fund expenses are paid because although these arrangements can be beneficial to funds, they can raise numerous questions. Two other issues that Chairman Levitt highlighted as deserving directors' special attention (because of the potential for conflicts of interest) were performance-based portfolio manager compensation arrangements and personal trading by portfolio managers. Paul Schott Stevens General Counsel Attachment