

**MEMO# 9012**

June 25, 1997

# **GAO REPORT ON SEC REGULATION OF THE MUTUAL FUND INDUSTRY**

June 25, 1997 TO: BOARD OF GOVERNORS No. 40-97 PRIMARY CONTACTS - MEMBER  
COMPLEX No. 42-97 RE: GAO REPORT ON SEC REGULATION OF THE MUTUAL FUND  
INDUSTRY

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The US General Accounting Office recently released the results of its review of the Securities and Exchange Commission's oversight of investment companies. The enclosed May 1997 Report, "Mutual Funds - SEC Adjusted Its Oversight in Response to Rapid Industry Growth," concludes that the SEC has redesigned its procedures and reallocated its resources to meet the regulatory challenges posed by industry growth. The Report states that of the SEC's six major regulatory programs, its investment management program was the second smallest in fiscal 1990, and comprised about twelve percent of the Commission's total authorized positions. By fiscal 1996, it had become the agency's second largest regulatory program, accounting for almost twenty percent of total authorized positions. The Report notes that since 1990, the Commission has more than doubled the number of staff available to conduct fund inspections. The Report finds that although fund inspections have become more comprehensive and the number of deficiencies uncovered has increased, few deficiencies have been serious enough to be referred for potential enforcement action. The Report also states that violations of the Investment Company Act typically do not involve fraud or investor losses, but rather are more "technical" in nature. The Report sets forth certain SEC observations on the mutual fund industry. For example, the SEC's conclusion that the mutual fund industry generally has been free of scandal for the past two decades is noted. SEC officials also are cited in the Report as crediting the mutual fund industry with support for "strong regulation and strict compliance with the federal securities laws." SEC Chairman Arthur Levitt's comments on the Report (See Appendix 1) commend the GAO and observe that the Commission has sought to direct its resources so as to best serve investors while accommodating innovation and continued growth in the industry. He states that the Commission is concerned, however, that continued industry growth will require additional SEC resources to meet increasing demands on the regulatory and examination programs. The Institute will continue to support adequate funding for the SEC's oversight of the mutual fund industry. Matthew P. Fink Enclosure