

MEMO# 16776

November 18, 2003

HOUSE OF REPRESENTATIVES TO CONSIDER MUTUAL FUND LEGISLATION ON NOVEMBER 19

[16776] November 18, 2003 TO: BOARD OF GOVERNORS No. 62-03 CEOS
ACCOUNTING/TREASURERS COMMITTEE No. 36-03 BROKER/DEALER ADVISORY COMMITTEE
No. 32-03 COMPLIANCE ADVISORY COMMITTEE No. 100-03 FEDERAL LEGISLATION
MEMBERS No. 23-03 INVESTMENT COMPANY DIRECTORS No. 18-03 OPERATIONS
COMMITTEE No. 24-03 PENSION COMMITTEE No. 44-03 PRIMARY CONTACTS - MEMBER
COMPLEX No. 101-03 PUBLIC INFORMATION COMMITTEE No. 39-03 SEC RULES COMMITTEE
No. 92-03 TAX COMMITTEE No. 74-03 TRANSFER AGENT ADVISORY COMMITTEE No. 103-03
RE: HOUSE OF REPRESENTATIVES TO CONSIDER MUTUAL FUND LEGISLATION ON
NOVEMBER 19 On Wednesday, November 19, the House of Representatives is scheduled to
consider H.R. 2420, the Mutual Funds Integrity and Fee Transparency Act of 2003. The
bill—approved by the House Financial Services Committee in July¹—addresses a number of
issues including the disclosure of fund costs and practices and the structure and duties of
fund boards. The Institute has endorsed the bill as approved by the committee. During floor
consideration, a manager's amendment will be introduced to add provisions to H.R. 2420
that would: • prohibit fraudulent trading of fund shares by fund personnel; • require funds
to adopt a code of ethics; • require a chief compliance officer who reports to the
independent directors; • require independent directors to certify that they have reviewed
and approved the portfolio manager's compensation and that procedures are in place for
verifying net asset value, overseeing fund flows, 1 See Institute Memorandum [16346],
dated July 25, 2003. 2 ensuring that investors receive breakpoint discounts, ensuring that
share classes are designed in the interests of investors, preventing improper disclosure of
portfolio holdings, and confirming compliance with securities laws and codes of ethics; •
prohibit an individual from managing both a mutual fund and a hedge fund; • prohibit fund
personnel from engaging in short-term trading of their own funds, with certain exceptions;
• permit funds to charge redemption fees in excess of 2 percent for short-term trading; •
require the SEC to prescribe standards concerning the use of fair value methods for
determining net asset value; and • require the SEC to issue rules to prevent late trading
that allow for the after-hours execution of trades collected by intermediaries if certain
conditions are met. H.R. 2420 will be considered under suspension of the rules, an
expedited process that requires a two-thirds majority for approval. We will keep you
informed of further developments. Matthew P. Fink President

abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.