

MEMO# 7892

May 24, 1996

INSTITUTE LETTER TO SEC CHAIRMAN LEVITT ON PERSONAL INVESTING

May 24, 1996 TO: BOARD OF GOVERNORS No. 23-96 MEMBERS - ONE PER COMPLEX No. 40-96 RE: Institute Letter to SEC Chairman Levitt on Personal Investing

In his remarks at the Institute's General Membership Meeting on Wednesday, SEC Chairman Arthur Levitt discussed the issue of personal investing by fund managers. Chairman Levitt stated: "Central to their [independent directors] duties is to oversee and address potential conflicts of interest between the fund and its investment adviser. In fulfilling this mission, fund directors must ask tough questions about tough subjects. They must tackle, for instance, the issue that refuses to go away -- personal trading by fund insiders. What purpose does it serve? How does it benefit shareholders? Should it be allowed -- but only with limitations? If I were a director, I would have reservations about portfolio managers trading for their own account. With millions of investors migrating from insured bank accounts, this industry can hardly afford even the appearance of conflicts. If fund management is satisfied that personal trading is desirable and serves a useful purpose -- then directors should ask for a clear statement of why this is so. And, if personal trading is permitted, directors should ensure that the fund's code of ethics contains strict safeguards, reporting and verification procedures." A number of press articles have interpreted Chairman Levitt's remarks as reopening the issue of personal investing by fund personnel. Attached is a copy of a letter that I sent to Chairman Levitt yesterday. Our letter states that the fund industry shares his commitment to high ethical standards, and describes the steps taken by the industry in recent years to ensure that personal investing is consistent with the fiduciary obligations owed to fund shareholders. In particular, we note the -2- recommendations of the Institute's Advisory Group on Personal Investing and the fact that an overwhelming majority of Institute members has voluntarily adopted the Report's recommendations. The letter reiterates our strong support for the Commission's proposed amendments to Rule 17j-1 concerning personal investment activities. We also state our belief that the actions taken by the industry and the Commission effectively address the issues presented by personal investing activities. Matthew P. Fink President Attachment

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