

**MEMO# 20677**

December 11, 2006

## **2006 Securities Law Developments Conference Speeches**

©2006 Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice. [20677] December 11, 2006 TO: BOARD OF GOVERNORS No. 29-06 BROKER/DEALER ADVISORY COMMITTEE No. 48-06 BROKER/DEALER ASSOCIATE MEMBERS No. 6-06 CEOS CLOSED-END INVESTMENT COMPANY MEMBERS No. 59-06 COMPLIANCE MEMBERS No. 50-06 SMALL FUNDS COMMITTEE No. 31-06 UNIT INVESTMENT TRUST MEMBERS No. 27-06 SEC RULES MEMBERS No. 106-06 RE: 2006 SECURITIES LAW DEVELOPMENTS CONFERENCE SPEECHES On December 4th and 5th, Paul Stevens, The Institute's President, Andrew Donohue, Director of the Division of Investment Management of the SEC, Brian Cartwright, General Counsel of the SEC, and Lori Richards, Director of the Office of Compliance, Inspections and Examinations of the SEC, delivered speeches at the Institute's 2006 Securities Law Developments Conference. Their remarks are briefly summarized below, and links to the full text are provided. Remarks by Mr. Stevens Mr. Stevens focused on the importance of analyzing the relative costs and benefits of regulations, and the mandate in the securities laws that the SEC evaluate the effects of regulation on efficiency, competition, and capital formation. He stressed that the Institute supports strong regulation and SEC oversight, but recommended that the regulator pause and reflect on investment management regulation after the past seven years of accelerated rulemaking activity. Mr. Stevens highlighted two types of regulation that have brought higher costs and compromised the competitiveness of mutual funds: those with costs that are disproportionate to their benefits, and those that impose burdens uniquely on mutual funds and not on similar investment products. Mr. Stevens closed by expressing his confidence that regulators and political leadership can strike the right balance to protect investors and the health of the American financial markets. 2 Mr. Stevens' remarks are available on the ICI website at [http://www.ici.org/home/06\\_seclaw\\_stevens\\_spch.html](http://www.ici.org/home/06_seclaw_stevens_spch.html). Remarks by Mr. Donohue Mr. Donohue outlined the Division of Investment Management's priorities for 2007. He discussed the challenges associated with the SEC's mutual fund disclosure reform and interactive data initiatives, and commended the Institute for its leadership in this area. "The goal is giving investors the information they need, in a form they can use," he said. Mr. Donohue also outlined steps the Division is taking to improve the efficiency of exemptive application processing. In addition, he spoke about the fiduciary culture of the fund industry, urging fund managers to continue to focus on the investor. "The fiduciary culture is integral to the fund industry, and is one of the true strengths of mutual funds." Mr. Donohue's remarks are available on the SEC's website at <http://www.sec.gov/news/speech/2006/spch120406ajd.htm>. Remarks by Mr. Cartwright Mr. Cartwright's remarks focused on the competitiveness of the mutual fund marketplace. He noted that the market is not highly concentrated. He suggested that efficient markets

ought also to obey the “law of one price,” which states that nearly identical products should sell for nearly identical prices. Mr. Cartwright maintained that this is not the case in the mutual fund marketplace, as expenses vary widely across what he deemed to be comparable funds, such as index funds based on a common index. He asserted that this disparity may be more apparent in actively managed funds. Mr. Cartwright concluded by encouraging the industry to participate in searching for ways to improve the competitiveness of the mutual fund market. Mr. Cartwright’s remarks are available on the SEC’s website at <http://www.sec.gov/news/speech/2006/spch120406bgc.htm>. Remarks by Ms. Richards Ms. Richards began by discussing the SEC’s “CCOutreach” program. She shared her view that the SEC staff and fund and adviser compliance professionals have a shared mission to ensure that companies are in compliance and that investors’ interests are protected. Ms. Richards stressed that the goal of the CCOutreach program is to work with compliance professionals to strengthen compliance regimes, and described some of the themes that have emerged in the program seminars. Ms. Richards shared the inspections staff’s observations on how firms have been implementing the annual review component of the compliance rule. She described the factors that SEC examiners consider in evaluating annual reviews, and the scope of the reviews conducted by the 60 percent of firms found to have completed the process satisfactorily. She also outlined the deficiencies found at the other firms. Ms. Richards concluded by expressing her hope that dialogue between the SEC staff and compliance 3 professionals through the CCOutreach program will help improve compliance programs for the benefit of mutual fund investors. Ms. Richards’ remarks are available on the SEC’s website at <http://www.sec.gov/news/speech/2006/spch120506lar.htm>. Elizabeth Krentzman General Counsel