

MEMO# 9955

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ICI 1998 GENERAL MEMBERSHIP MEETING SPEECHES

[9955] May 22, 1998 TO: BOARD OF GOVERNORS No. 33-98 PRIMARY CONTACTS - MEMBER COMPLEX No. 40-98 RE: ICI 1998 GENERAL MEMBERSHIP MEETING SPEECHES

_____, Arthur Levitt, Chairman of the Securities and Exchange Commission, Don G. Powell, Chairman of the Institute's Board of Governors, and Institute President Matthew P. Fink each spoke at the Institute's 1998 General Membership Meeting. Copies of the speeches are attached, and they are summarized below. Chairman Levitt's Address Chairman Levitt's address focused on the improvement of three critical areas necessary to respond to investors' needs: (1) investor education; (2) adequate communication to investors; and (3) fund oversight and the role of directors. With respect to investor education, Levitt expressed concern that the financial literacy of Americans has not kept pace with the growth of fund investments, which he viewed as particularly troublesome because workers now are shouldering a significant portion of their retirement planning through 401(k) plans and IRAs. Although Levitt praised the efforts of the Institute and the mutual fund industry, he urged funds to do more to educate investors about how to safeguard their financial future. With respect to investor communication, Levitt called attention to the recent overhaul of the mutual fund prospectus, the creation of the profile, and the Commission's plain English initiative, but expressed concern that some mutual funds may only make a few cosmetic changes to their prospectuses. He also urged fund groups to look beyond their prospectuses in thinking of ways to communicate with investors, and expressed concern that the industry may be building unrealistic expectations through performance advertisements, noting that many ads seem to stress performance without outlining clearly the impact of expenses or the nature of risks. Finally, Chairman Levitt discussed the role of fund directors, and announced that the Commission plans to host a roundtable this fall on fund governance, where investor advocates, directors, fund managers, academics, and others will engage in a "lively exchange of ideas" to work toward a consensus on whether changes are needed in the current system of governance. Chairman Powell's Report Chairman Powell's report focused on building investor knowledge and efforts to maintain investor trust. Powell stated that building investor knowledge is an important element in developing realistic shareholder expectations and identified ways in which mutual funds could help build such knowledge, including open and honest communication with shareholders about the risks, as well as the rewards, of their investments, and educating shareholders about the importance of planning and saving for secure retirements and other long-term goals. Powell also discussed challenges and opportunities for mutual funds in the future. One example of the former he mentioned, was the possibility of mutual funds becoming a target for unrelated programs and taxes, such as the Community Reinvestment Act and other "success taxes." Among the opportunities he noted were the ongoing discussions held by Congressional

leaders on Social Security reform. President Fink's Report President Fink's report stressed the importance of maintaining and strengthening widespread public confidence in mutual fund investing and focused on ways to prevent the two greatest threats to public confidence in mutual funds from becoming a reality: unrealistic investor expectations, and mismanagement by one or more companies that potentially could harm the entire industry's reputation. Regarding investor expectations, Fink identified the recent overhaul of the mutual fund prospectus and the creation of the profile as government initiatives that can help investors form realistic expectations. He noted that the Institute supports the Commission in its efforts to reform annual and semi-annual reports. In addition, Fink urged other regulators to assist in the education effort including, for example, the Department of Labor, regarding 401(k) plan disclosure, and Social Security reform. Regarding the threat of mismanagement, Fink commented that the stringent prohibitions of the Investment Company Act of 1940 have been instrumental in allowing the industry to avoid the problems that have beset other financial industries. While emphasizing the Institute's support for government proposals that would tighten regulatory standards, Fink stressed the importance of opposing proposals that would displace Commission regulation, and thus weaken investor protections, such as imposing the Community Reinvestment Act on mutual funds. Barry E. Simmons Assistant Counsel Attachments

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