

MEMO# 5003

July 23, 1993

INSTITUTE TESTIFIES AT CONGRESSIONAL HEARING ON MUTUAL FUND INDUSTRY

July 23, 1993 TO: BOARD OF GOVERNORS NO. 64-93 MEMBERS - ONE PER COMPLEX NO.
48-93 RE: INSTITUTE TESTIFIES AT CONGRESSIONAL HEARING ON MUTUAL FUND INDUSTRY

On July 22, the Institute testified before the Telecommunications and Finance Subcommittee of the House Energy and Commerce Committee at a hearing on the "general state of the nation's mutual fund industry." The other witnesses at the hearing were: Robert Egelston, Former Chairman, The Capital Group; Edward C. Johnson 3d, Chairman & CEO, Fidelity Management and Research; Thomas R. Powers, Chairman of the Board, Transamerica Fund Management; and Arthur Zeikel, President, Merrill Lynch Asset Management. Institute Testimony In its testimony, the Institute provided a general overview of the mutual fund industry. Specifically, the Institute described the growth of the industry since the enactment of the Investment Company Act of 1940, noting that the growth in mutual fund assets is due to both capital appreciation of portfolio securities and to new sales. The Institute attributed the popularity of mutual funds to a number of factors, including new types of funds, improved shareholder services, increased investment in mutual funds by retirement plans and by institutional investors, new channels of distribution, a shift by individuals from direct investment in securities and CDs into mutual funds, and additional investments by existing shareholders. The Institute testified that the most critical reason for the industry's growth is public confidence in the industry, which is based on the strict regulatory regime to which mutual funds are subject. The Institute recommended several legislative and regulatory changes that are necessary to ensure that the high level of investor protection afforded to mutual fund shareholders continues and to meet new and anticipated investor needs. In doing so, the Institute testified that the most critical need is to ensure that the SEC is provided with adequate resources to oversee the industry in the future. The Institute's testimony also discussed the educational efforts undertaken by the industry to explain to the public the risks, as well as potential rewards, of investing in mutual funds to ensure that investors do not have unrealistic expectations when they purchase mutual fund shares. In addition, the Institute testified on the mutual fund industry's role (1) in the economy through its effect on overall capital formation and on capital markets and (2) in the marketplace, particularly in its ability to act as a "shock absorber" helping to cushion against sharp price changes, as demonstrated by the fact that in the 1987 stock market break mutual funds were able to meet most shareholder redemptions from their cash reserves, rather than through the sale of portfolio securities. Finally, the Institute expressed two concerns with respect to the internationalization of the mutual fund industry. First, the Institute testified that the U.S. should negotiate to secure better access for U.S. mutual fund managers seeking to enter

foreign markets. Second, the Institute opposed any changes to the Investment Company Act that would permit foreign funds to be distributed in the U.S. without complying with the basic investor protections applicable to U.S. funds. Chairman's Statement In his opening statement, Chairman Markey noted the tremendous growth of the mutual fund industry, which he said had "developed into a genuine American success story." He explained that the hearing was scheduled not because of any perceived problems but rather to examine, in light of the industry's growth, whether the Investment Company Act of 1940 "remains fundamentally sound," and whether the Securities and Exchange Commission has the resources to ensure compliance with the Act. PROMPT(`PRINTNESTFORM(NEXTRECORD CHAINMACRO(f the Institute"s and other witnesses" testimony and of Chairman Markey"s opening statement are attached. Matthew P. Fink President Attachments

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