

MEMO# 7694

March 8, 1996

SUBCOMMITTEE REPORTS LEGISLATION TO RATIONALIZE STATE MUTUAL FUND REGULATION

March 8, 1996 TO: BOARD OF GOVERNORS No. 10-96 FEDERAL LEGISLATION MEMBERS No. 1-96 MEMBERS - ONE PER COMPLEX No. 20-96 PUBLIC INFORMATION COMMITTEE No. 8-96 SEC RULES COMMITTEE No. 17-96 STATE LIAISON COMMITTEE No. 6-96 RE: SUBCOMMITTEE REPORTS LEGISLATION TO RATIONALIZE STATE MUTUAL FUND REGULATION

On March 7, the House Subcommittee on Telecommunications and Finance unanimously approved the "Securities Amendments of 1996" (H.R. 3005). The bill combines provisions previously included in the "Capital Markets Deregulation and Liberalization Act of 1996" (H.R. 2131) and the "Investment Company Act Amendments of 1996" (H.R. 1495). (A copy of the bill and related materials are attached.) We are very pleased to report that H.R. 3005, for the first time in federal legislation, redefines the manner in which mutual funds will be regulated by state and federal regulators. The bill would eliminate state registration of mutual funds, eliminate state review of fund prospectuses and sales literature, and preclude states from imposing merit standards on funds. States would continue to be able to require funds to make notice filings, to pay fees, and to bring antifraud actions. The bill also amends the Investment Company Act of 1940 in several respects. These provisions reflect comments and concerns expressed by the Institute. Among other provisions, the bill would: Establish an exemption from the current restrictions on "fund of funds" for certain funds that invest in affiliated funds and provide the SEC with broader authority to exempt other funds from these restrictions; Simplify funds calculation of registration fees; Direct the SEC to permit mutual fund advertisements to contain information the "substance of which" is not included in the funds prospectus; -2- Permit the SEC to require funds to file reports more frequently and expand the types of information the SEC could require in shareholder reports, while also requiring the SEC to take into account burdens placed on funds and feasible alternatives in establishing new requirements; Permit the SEC to require funds to keep books and records beyond those related to the funds financial statements and require the SEC to take steps to avoid unnecessary recordkeeping by and minimize compliance burdens on persons required to maintain records; Permit the SEC to prohibit misleading fund names by rule or order; Establish an exemption for funds sold only to institutional investors and wealthy individuals that meet certain standards set forth in the bill. Consistent with the Institutes position, the SEC would not have the discretion to lower these standards. The legislation will be considered by the full Commerce Committee. It is also expected that similar legislation will be introduced in the Senate by mid-Spring. Legislation to rationalize federal-state regulation of mutual funds remains an Institute

priority. I would be remiss if I did not thank the many Institute members who have assisted in this effort by contacting Members of Congress. Your letters were instrumental in our industrys success. We will keep you informed as this matter progresses. For those members with access privileges, this memo can be found on ICINet. Matthew P. Fink President
Attachments

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