

MEMO# 6574

January 17, 1995

HAWAII BOARD OF GOVERNORS MEETING -- DISCUSSION ON WEDNESDAY, FEBRUARY 1

January 17, 1995 TO: BOARD OF GOVERNORS No. 11-95 RE: HAWAII BOARD OF GOVERNORS MEETING -- DISCUSSION ON WEDNESDAY, FEBRUARY 1

The second day of the Winter Board Meeting traditionally is devoted to a discussion of key issues facing the investment company industry. As noted in my January 10 memorandum, the Board this year will discuss mutual fund sales practices and the future regulatory oversight of the fund industry. Attached are background papers to assist the Board in preparing for discussion of these two topics.

Mutual Fund Sales Practices The Wednesday morning session will begin with an 8 am breakfast featuring small group discussions on sales practices. In the past year, concerns about mutual fund sales practices have been raised frequently by regulators, Congress and the media. Some in the industry believe that public confidence in mutual funds themselves is threatened by concern over sales practices. Attachment A is an outline of issues relating to sales practices generally, and specific issues relating to sales of bond funds, sales through brokers and banks, direct sales, and defined contribution plans. Please note that these ideas are offered for discussion purposes only and do not necessarily represent Institute views or recommendations.

Regulatory Oversight of the Mutual Fund Industry The second part of the Wednesday morning session will be devoted to a discussion of the future regulatory oversight of the fund industry. When he first assumed office, SEC Chairman Arthur Levitt expressed support for the creation of a self-regulatory organization (SRO) for the mutual fund industry, apparently due to SEC resource concerns. While Chairman Levitt to date has not pursued this proposal, the concept of a mutual fund SRO arises frequently in the Congressional context. In addition, a number of members (mostly new to the industry) have expressed interest in a mutual fund SRO. Also, at the October Board meeting, several Governors indicated support for an enhanced mutual fund regulatory program at the National Association of Securities Dealers, Inc. (NASD). Another Governor has suggested that the Institute itself take on a quasi-SRO role by, for example, expelling from membership mutual fund organizations that fail to maintain and enforce professional standards. In light of these developments and the overall growth of the industry, the Institute's Executive Committee recently discussed these issues. The Executive Committee concluded that an SRO would be inappropriate for the fund industry, and that the Institute instead should work to improve the existing system of SEC/NASD oversight. Attachment B is a memorandum that describes these issues and potential measures to improve SEC/NASD oversight. * * * I look forward to seeing you in Hawaii.

Matthew P. Fink President Attachments

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