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REMARKS BY INSTITUTE PRESIDENT AND SEC CHAIRMAN DONALDSON AT THE 2005 MUTUAL FUNDS AND INVESTMENT MANAGEMENT CONFERENCE

[18667] March 23, 2005 TO: BOARD OF GOVERNORS No. 13-05 CEOS CHIEF COMPLIANCE OFFICER COMMITTEE No. 28-05 CLOSED-END INVESTMENT COMPANY MEMBERS No. 17-05 INVESTMENT COMPANY DIRECTORS No. 7-05 PRIMARY CONTACTS - MEMBER COMPLEX No. 13-05 SEC RULES MEMBERS No. 42-05 SMALL FUNDS MEMBERS No. 27-05 UNIT INVESTMENT TRUST MEMBERS No. 2-05 RE: REMARKS BY INSTITUTE PRESIDENT AND SEC CHAIRMAN DONALDSON AT THE 2005 MUTUAL FUNDS AND INVESTMENT MANAGEMENT CONFERENCE Last week, Investment Company Institute President Paul Schott Stevens and Securities and Exchange Commission Chairman William H. Donaldson delivered the keynote addresses at the 2005 Mutual Funds and Investment Management Conference in Palm Desert, California. Their remarks are briefly summarized below.* Remarks by Mr. Stevens Mr. Stevens began his remarks by recognizing the regulatory changes the Institute believes are necessary to help protect the interests of mutual fund shareholders. Mr. Stevens noted that a month after the mutual fund trading abuses were discovered, the Institute called for requiring that only mutual fund trades reported to mutual fund companies by 4 p.m. receive the current day’s price. He added that although the Institute had concluded that a hard close would provide ample protection against late trading abuses, he recognized that there may well be more flexible alternatives that provide effective safeguards. Mr. Stevens stated that the Institute supports the Commission’s deliberate approach to this issue. With respect to abusive short-term trading, Mr. Stevens stated that because of widespread industry practice, funds often must rely on their intermediaries to help implement policies like redemption fees. He added that because such policies can differ from fund to fund, intermediaries confront real operational challenges and costs in satisfying the requirements of * A copy of Mr. Stevens’ remarks is available on the Institute’s public website at http://www.ici.org/statements/remarks/05_mfimc_stevens_spch.html. A copy of Chairman Donaldson’s remarks is available on the SEC’s website at http://www.sec.gov/news/speech/spch031405whd.htm. 2 the various fund partners. To resolve this dilemma, he noted that the Institute has called for a uniform, industry minimum redemption fee requirement that would be payable to the fund, for the exclusive benefit of long-term shareholders. Mr. Stevens noted that although the Commission had recently taken steps to facilitate the effectiveness of voluntary redemption fees, the Institute remained concerned that abusive market timers will still be able to play “catch us if you can” with mutual funds. Next, Mr. Stevens discussed the debate over 12b-1 fees. He noted that a recent Institute survey determined that 92 percent of the 12b-1 fees mutual funds

collect compensates financial advisers and other intermediaries for assisting shareholders before and after purchasing funds. He also stated that about three-quarters of those who purchase funds outside of 401(k) plans do so through a professional adviser and that any revisions to Rule 12b-1 must take into account the needs and preferences of fund investors, and reflect how these fees are actually used today. Mr. Stevens then remarked about the impact of the “unprecedented pace” of regulatory activity in recent years, noting that since September 2003, the SEC adopted or proposed 19 new fund industry regulations. Mr. Stevens stated that many of the initiatives are “far-reaching, intended to transform fundamental business operating systems and in some cases change business culture – not things that happen overnight.” He noted that the greatest burden falls on the smaller firms and suggested that such burdens may drive some out of the fund business or discourage others from entering it. Mr. Stevens stated that the Institute has launched several initiatives to assist mutual funds in implementing new SEC regulations. He also added that the Independent Directors Council has issued reports and has other pending projects to assist directors in implementing new governance requirements. Mr. Stevens next discussed mutual fund disclosure, noting that the Institute is pleased the SEC plans to comprehensively review this area. He noted that disclosure today must serve “disparate purposes,” from informing investors and others to shielding fund companies from liability. Mr. Stevens further recognized that we must use technology, such as the Internet, to facilitate disclosure that is “thorough, fast, and flexible.” Mr. Stevens devoted the balance of his remarks to discussing the issue of retirement security. First, he noted that the time for a debate about Social Security is now. Specifically, he stated that we must remedy the structural imbalance in Social Security, with the “goal of permanent solvency and sustainability.” Second, he opined that time can give people a “reasonable window of opportunity” to prepare for any major change in the way they must plan for their financial future. He added that, although the Institute is not advocating the establishment of personal retirement accounts, it is determined to encourage Americans to save and invest. In closing, Mr. Stevens stated that, in addition to ensuring the solvency of Social Security, we must strengthen the private retirement system. Remarks by Chairman Donaldson Chairman Donaldson began his remarks by noting that Mr. Stevens has shown “tremendous leadership” in his new position as President of the Institute. He also acknowledged the “thoughtful comments and input” the SEC has received from the Institute on its regulatory initiatives. 3 Turning to the topic of the Commission’s regulatory agenda, Chairman Donaldson noted that the Commission recently voted to require fund boards to consider whether to charge a redemption fee of up to two percent in order to address abusive market timing and that the Commission expected to take action in the coming months on its “hard 4:00 p.m.” proposal. He acknowledged that SEC staff is evaluating the utility of certain technological alternatives to a hard 4:00 p.m. rule that will be “effective in addressing the problem of late trading, without imposing unnecessary burdens on ordinary investors.” Next, Chairman Donaldson stated that a “Chairman’s Task Force” is reviewing the use of soft dollars, the impact of soft dollars on our nation’s securities markets, how soft dollars impact the interests of investors, and ways to improve disclosure to better inform investors and fund directors about the use and benefits of soft dollars. He also remarked that another issue under review is potential revisions to Rule 12b-1. Chairman Donaldson next discussed mutual fund disclosure reform. He stated that the Commission’s ongoing point of sale initiative has generated helpful input from commenters and focus groups and that the SEC continues to search for the best method of informing investors about broker conflicts and compensation. Chairman Donaldson then stated that he expects the Commission to take up an initiative to better inform investors about mutual fund transaction costs later this year. From a broader perspective, Chairman Donaldson acknowledged that he has asked the SEC staff to carry out a “top-to-bottom review” of the mutual fund disclosure regime. He added that “investors need disclosure that is clear, understandable, and in a usable format in order to make informed investment decisions.” He also noted that investors need information that is timely and that the SEC needs to examine ways that it can make better use of technology, including the Internet, in the disclosure regime. Chairman Donaldson stated that “[n]o good idea will be off the table” and expressed hope that the fund industry will be active participants in the mutual fund disclosure reform process. Chairman Donaldson next remarked that “[f]undamental” to the proposed reforms, and those already approved, is ensuring that mutual fund companies comply with the reforms. To that end, he remarked that the Commission is committed to providing assistance to chief compliance officers, who are “the eyes and ears of the board on matters of compliance.” Chairman Donaldson noted that the SEC views CCOs as its allies in their “parallel mission to protect investors.” He then announced that to assist CCOs to fulfill their function, the SEC has developed a “CCO Outreach” program to enable the Commission and its staff to better communicate and coordinate with CCOs. This program, he noted, will feature a number of elements. Specifically, the SEC’s examination staff will host Regional Seminars at which CCOs can learn about the examination process and Commission resources available to them. He next announced plans for the SEC’s first CCO National Seminar, which will feature presentations by SEC staff. The staff also plans to issue a periodic newsletter, the “CCO Observer,” which will serve to communicate directly with CCOs about issues of interest, including new rules, interpretive releases, recent examination findings, and relevant enforcement actions. In addition, the SEC will be communicating with CCOs about emerging issues, such as e-mailing “compliance alerts” to CCOs, to inform them of matters that may 4 require urgent attention. Chairman Donaldson also revealed that the SEC has added an “Exam Hotline” that CCOs can call if they have a complaint or a concern about an SEC examination. Chairman Donaldson noted that CCOs continue to report to the fund’s board and that the Commission’s program is not an effort to “deputize” CCOs as agents of the SEC. Chairman Donaldson suggested, however, that the reforms are only “half the answer.” He stated that the other half of the equation is the fund industry, which, he noted, “must embrace not only the letter of the law, but also its spirit.” Quoting Mr. Stevens, Chairman Donaldson noted that the answer to addressing the mutual fund scandals “resides in the strength of [fund] firms’ fiduciary cultures, of [their] commitment to ethical practices, and [their commitment] to serving the interests of fund shareholders.” Chairman Donaldson applauded the efforts of the Independent Directors Council in developing guidance on the implementation of the SEC’s reform rules. Specifically, he noted that the IDC’s reports on the independent chair and board self-assessment provisions have been particularly helpful to fund boards. Chairman Donaldson suggested that the fund industry is defined by its “dynamism and frequent change.” He encouraged the industry to apply its judgment to new situations as they evolve and to always look to “identify today’s issues and prevent them from blossoming into tomorrow’s scandals.” As an example, he pointed to how much anguish could have been avoided if a few advisors from the legal, accounting, or management consulting professions had told their hedge fund clients that late trading of mutual fund shares is illegal. He noted that this sort of “common sense” advice would have been more effective in keeping the client out of trouble than engaging in “rhetorical somersaults” to justify the client’s activities. In closing, Chairman Donaldson acknowledged that the past 18 months have been something of a “whirlwind” for the fund industry and the Commission. Along with the recently enacted reforms, he noted that there is a recognition, present at all levels of the fund industry, that the abuses and questionable practices of the past must not be repeated. He also recognized that with “change comes anxiety” and provided assurances that the Commission “stands ready to assist [the fund industry] during the period ahead.” Elizabeth Krentzman General Counsel