

MEMO# 14771

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ICI 2002 GENERAL MEMBERSHIP MEETING SPEECHES

[14771] May 29, 2002 TO: BOARD OF GOVERNORS No. 20-02 PRIMARY CONTACTS - MEMBER COMPLEX No. 42-02 SEC RULES MEMBERS No. 42-02 RE: ICI 2002 GENERAL MEMBERSHIP MEETING SPEECHES SEC Chairman Harvey L. Pitt, Terry K. Glenn, Chairman of the Institute's Board of Governors, and Institute President Matthew P. Fink spoke at the Institute's 2002 General Membership Meeting.* Their speeches are summarized below. SEC Chairman Pitt's Address Chairman Pitt opened his remarks by expressing concern for the erosion of investor confidence as a result of negative forces affecting our nation's capital markets. According to Mr. Pitt, participants in the securities industry grew complacent during the long bull market and forgot their responsibilities to shareholders. He stated that now that the euphoria of the 80's and 90's has worn off and been replaced with investor distrust and shaken confidence, "we must not delay in addressing the critical need to effect a massive restructuring of the regulatory regime that governs our capital markets, nor can we be cavalier about fulfilling our obligation to restore investor confidence and trust." Mr. Pitt commented on the SEC's role and the solutions the agency envisions as it seeks to effectuate fundamental, long-needed, changes in our capital markets and system of securities regulation. He noted that substantial improvement was needed in three key areas - corporate disclosure must be truly informative, timely and honest; oversight of accountants and the accounting profession must be strengthened and accounting principles that underlie financial disclosures must be made more relevant and comprehensible; and corporate governance must be upgraded. The Commission has already announced or taken a number of initiatives in these areas. Mr. Pitt pointed out that the industry plays a key role in the efforts to restore investor confidence and improve the functioning of our capital markets. He identified several current issues that are before the Commission that are of direct consequence to the industry. He cited * Chairman Pitt's speech may be found at (<http://www.sec.gov>). Terry Glenn's and Matt Fink's speeches may be found at (http://www.ici.org/ici_info/glenn_02_report_speeches.html) and (http://www.ici.org/ici_info/fink_02_report_speeches.html), respectively. 2 the Commission's exercise of its exemptive authority in connection with recent rule proposals relating to affiliated transactions involving fund sub-advisers and portfolio affiliates. Other initiatives he referenced include proposed amendments to fund advertising rules and a review of issues relating to exchange-traded funds. Chairman Pitt indicated that there are three specific areas of concern to the Commission relating to the fund industry: private investment funds, fund distribution practices, and proxy voting by investment advisers. With respect to private investment funds, he noted that the Commission will review the current state of regulation to ensure that the regulation—or lack thereof—is in the public interest. With respect to fund distribution practices, he noted that some funds and advisers have changed their practices since 1980 when Rule 12b-1 was adopted. As a result, the

Commission must reexamine certain aspects of the rule. The Commission also intends to examine indirect methods of financing distribution to ensure that these arrangements are properly considered by fund directors. Finally, with respect to proxy voting, he noted the Commission is considering several rulemaking petitions that request that mutual funds be required to disclose their proxy voting policies and the way votes are cast. In conjunction with this overview of regulation, the Commission is conducting an internal review of its own operations, resources, efficiency and productivity. In closing, Mr. Pitt invited the industry to join with the Commission in advancing the interests of America's investors. He said, "Together we can improve the mutual fund regulatory framework, and reshape the essence of corporate disclosure, corporate governance and accounting regulation with thoughtfulness, care and creativity." Chairman's Report

Terry Glenn's address focused on the mutual fund industry's tradition of integrity and how, despite the adversity of the past year, the enduring benefits and investor protections of mutual funds continue to attract shareholders. Mr. Glenn commented on the growth of the mutual fund industry, noting that one out of every three individuals and more than one-half of all Americans now own mutual funds. Increased competition in the industry has not only served to offer Americans more investment choices, he said, it has produced substantially lower mutual fund costs and has helped make saving and investing in mutual funds simpler and more accessible to millions of Americans. In addition, despite the downturn in the market in the last year, Americans increased their reliance on mutual funds as a way of investing in stocks, bonds and money market instruments. This trend has continued irrespective of the increase in the number of alternatives to traditional mutual funds. Mr. Glenn remarked that, in a year when so much has changed for us as a nation and individually, certain things have held fast and true. He stated that "[t]he tremendous benefits and protections enjoyed by mutual fund shareholders remain intact. Mutual funds continue to be attractive to investors for the same reasons that have driven the growth of the industry for decades – an unsurpassed combination of professional oversight, diversified portfolios, risk and volatility management, affordability and innovative account services. And, unlike other pooled investment products, the mutual fund industry has been untainted by major scandal for more than 60 years." 3 Mutual funds continue to be viewed as long-term investments by shareholders, according to Mr. Glenn. The fortitude of mutual fund investors during recent downturns demonstrates the importance of educating investors, particularly on the importance of diversification and the need for a long-term investment horizon. He stated that "education will continue to be important, especially in light of the fact that greater responsibility for retirement planning and saving for higher education is increasingly placed on individuals." Mr. Glenn closed by noting that the industry's tradition of integrity and its tradition of serving investors responsibly allows the industry to retain the respect of our regulators and, most importantly, the trust of our shareholders. This tradition of integrity "provides mutual fund shareholders with a measure of confidence in adverse, as well as prosperous, times."

President's Report

Matthew Fink, building on the meeting's theme of Continuing a Tradition of Integrity in Challenging Times, noted that the only way to ensure the continued integrity of our industry is to judge every action on whether it is in the best interests of fund shareholders. Mr. Fink cited the commitment of Paul Bartholet, the first president of the Institute, to this principle. In the 1940's, Mr. Bartholet urged the industry to: 1) take an active, pro-consumer approach to regulation; 2) work with, not against, legislators and regulators who are concerned about the needs of fund shareholders; and 3) put aside their differences and work together in support of high standards that serve the interests of fund shareholders. Evaluating the current state of the industry, Mr. Fink concluded that Mr. Bartholet would likely be enormously proud to see that the principles he set forth sixty years ago are an essential part of the mutual fund industry. However, he likely would warn us not to rest on our laurels. Mr. Fink opined on the advice Mr. Bartholet might give the

industry if he were here today: • continue to protect the safeguards of the 1940 Act that are essential to investor confidence – diversification requirements, prohibitions against self-dealing, the requirement to mark all assets to market, limits on leveraging, full and fair disclosure and oversight by independent directors; • continue to support regulation by a single agency – a strong, well-funded SEC; • support continual regulatory modernization that does not compromise investor protections; • oppose increased risks to investors that arise from unwarranted exemptions from the Act, including those that permit the expansion of unregulated hedge fund activity; and • resist the efforts of outsiders who would use mutual funds for their own benefit at the expense of fund shareholders, such as attempts to impose community reinvestment requirements on mutual funds and requests that the SEC weaken its strident requirements on money market fund investments. In addition, the industry should continue its efforts to limit the use of the information on Form 13F by speculators and arbitrageurs seeking to engage in abusive trading. Mr. Fink noted that, in 1942, Mr. Bartholet gave a speech in which he emphasized the industry’s continuing obligation to serve the many needs of small investors. As evidence of our commitment to this goal, Mr. Fink cited the industry’s efforts to help middle class Americans 4 save for retirement; our support of disclosure reform so that investors will be fully informed about investment options; our support of legislation that would permit plan service providers to offer advice to plan participants; and our support of clear disclosure about the tax implications of Section 529 plans. Going forward, Mr. Fink stressed, the success of the industry will depend on our ability to reach out to and extend the benefits of mutual funds to all Americans; our commitment to ensure that federal tax policies do not needlessly impede the ability of shareholders to achieve their investing goals; and our support of reforms that make our markets more efficient, transparent and fair. In closing, Mr. Fink surmised that Mr. Bartholet likely would agree that “our most important responsibility is to continue the tradition of integrity that has been the hallmark of our industry for more than 60 years.” Marguerite C. Bateman Associate Counsel