

MEMO# 7894

May 24, 1996

IMMEDIATE ACTION ITEM

May 24, 1996 TO: BOARD OF GOVERNORS No. 24-96 MEMBERS - ONE PER COMPLEX No. 41-96 RE: IMMEDIATE ACTION ITEM

_____ Write the U.S. Senate NOW to Eliminate Duplicative State Regulation of Mutual Funds: Urge Senate Committee to Act Now Yesterday, Senators DAmato, Dodd, and Gramm, joined by Senators Bryan and Moseley- Braun, introduced S. 1815, the "Securities Investment Promotion Act of 1996," the Senate version of H.R. 3005, the mutual fund deregulation bill reported by the House Commerce Committee Wednesday, May 15, and now awaiting floor action following the Memorial Day Recess. S. 1815 would, among other things, eliminate duplicative state regulation of mutual funds. The Senate has scheduled a hearing on June 5, at which the ICI expects to testify. We are therefore asking you to contact Senators on the Senate Banking Committee and in the Republican and Democratic Leadership to urge them to support the provisions in S. 1815 that provide for the elimination of duplicative state regulation governing the mutual fund industry and move S. 1815 through the Senate as quickly as possible. _____ Letters to Members of Congress should be in your own words. You might begin by identifying your firm (e.g. number of funds, employees, shareholders, assets, etc). The following arguments can be used to support elimination of duplicative state regulation of mutual funds and quick action by the Senate Banking Committee: Mutual funds are the most strictly regulated segment of the securities industry; they are subject to all of the major federal securities statutes--not only the Investment Company Act of 1940 that would be revised by the bill--but also the Securities Act of 1933, the Securities Exchange Act of 1934, and the Investment Advisers Act of 1940. The Acts are enforced uniformly, on a nationwide basis, by the SEC. In addition to this extensive regime of federal regulation, mutual funds are subject to an array of disparate requirements imposed by state governments. This "patchwork" of state regulation unnecessarily duplicates federal regulation, produces conflicts and inconsistencies, and frustrates uniform national regulatory policy. Because mutual funds are sold nationally, they must comply with law of all 50 states. Thus, any single state can dictate policy for mutual fund shareholders throughout the nation--and a minority of "activist" states regularly do so. Piecemeal state regulation is contrary to the interests of mutual fund shareholders: * It undermines SEC initiatives to improve investor protection; * It helps produce prospectuses that are lengthy, complex, and difficult to comprehend; and * It hinders innovation in fund products and services permitted by federal law. The current system diverts scarce state government resources from higher priorities, such as investigating customer complaints and addressing fraud and abuse. Under S. 1815 and its House counterpart, H.R. 3005, existing state enforcement powers and the ability of states to receive notice filings, prosecute fraud, and collect fees from mutual funds would be fully preserved. Mutual fund prospectuses, however, as well as advertising and fund portfolio investments, would be exclusively

regulated by the SEC under federal law. The House version of this legislation enjoys broad bipartisan support and passed both the House Subcommittee on Telecommunications and Finance and the full House Commerce Committee by unanimous votes.

The attachment lists members of the Senate Banking Committee and members of the Senate Leadership, with contact information. All letters should be sent as soon as possible. Please write all Senators from this list who represent states in which your company has an office and emphasize your presence in their state. Please copy your letters to 1) Senate Banking Committee Chairman Alfonse M. D'Amato (R-NY); 2) Ranking Minority Member Paul S. Sarbanes (D-Md.); 3) Securities Subcommittee Chairman Phil Gramm (R-TX); and 4) Securities Subcommittee Ranking Minority Member Christopher J. Dodd (D-CT). If none of the Senators listed come from your state, please write directly to the four Senators listed in the preceding paragraph. When you write to Senators D'Amato, Gramm, Dodd, Bryan, and Moseley-Braun, please be sure to thank them for their introduction and support for the bill. Please send a blind copy of your letters to the attention of Tom Boyd (202/326-8319); fax number (202/326-5899). Thank you very much for your assistance. Matthew P. Fink President Attachments

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