

**MEMO# 16579**

September 26, 2003

# **EXECUTIVE COMMITTEE STATEMENT ON THE FIDUCIARY OBLIGATIONS OF MUTUAL FUNDS TO INDIVIDUAL SHAREHOLDERS REGARDING LATE TRADING, MARKET TIMING AND RELATED ISSUES**

[16579] September 26, 2003 TO: BOARD OF GOVERNORS No. 51-03 PRIMARY CONTACTS - MEMBER COMPLEX No. 79-03 RE: EXECUTIVE COMMITTEE STATEMENT ON THE FIDUCIARY OBLIGATIONS OF MUTUAL FUNDS TO INDIVIDUAL SHAREHOLDERS REGARDING LATE TRADING, MARKET TIMING AND RELATED ISSUES Today the Executive Committee of the ICI issued the following Statement on behalf of the Institute. The statement articulates the Institute's position on the fiduciary obligations of mutual funds to individual shareholders regarding late trading, market timing and related issues, and acts as a reminder to all that mutual funds' fundamental obligation is to put shareholders first. The Committee said that the following initial policy objectives must be met: First, every mutual fund and every intermediary should be required to take any steps needed to provide reasonable assurance that existing legal prohibitions regarding the late trading of mutual fund shares are strictly adhered to. Second, no mutual fund should ever permit an individual or institutional investor to engage in otherwise proscribed trading activity in exchange for compensation or the provision of similar benefits to the fund's adviser or other fund affiliate. Third, no mutual fund should ever selectively release non-public information regarding its portfolio investments in a manner that is harmful to some or all of the fund's shareholders. The Committee also directed that the Chairman (Paul Haaga) recommend to the Board of Governors, at its meeting on October 3, additional steps, including the establishment of working groups, that the Institute should take to implement the above objectives. 2 I would welcome your comments on the above and on other ways that the Institute can address these serious matters. Matthew P. Fink President Note: Not all recipients receive the attachments. To obtain copies of the attachments, please visit our members website (<http://members.ici.org>) and search for memo 16579, or call the ICI Library at (202) 326-8304 and request the attachments for memo 16579. Attachment no. 1 (in .pdf format)

should not be considered a substitute for, legal advice.