

MEMO# 7344

October 12, 1995

REMARKS OF SEC COMMISSIONER WALLMAN AT INSTITUTE DIRECTORS CONFERENCE

October 12, 1995 TO: BOARD OF GOVERNORS No. 69-95 PENSION COMMITTEE No. 18-95
SEC RULES COMMITTEE No. 111-95 RE: REMARKS OF SEC COMMISSIONER WALLMAN AT
INSTITUTE DIRECTORS CONFERENCE

SEC

Commissioner Steven M.H. Wallman delivered a keynote luncheon address at the Institutes Investment Company Directors Conference on September 22 in Washington, DC. A copy of Commissioner Wallmans remarks is attached. Commissioner Wallman began his remarks with praise for the oversight role performed by investment company boards of directors. He observed that effective director oversight is one of the reasons why the SEC has been able to regulate the mutual fund business successfully at a fraction of the cost to taxpayers of banking regulation. He had high praise for the willingness of fund directors and the Institute to work cooperatively with the SEC. Commissioner Wallman singled out two specific director responsibilities -- valuation of illiquid securities and approval of advisory fees -- for comment. With regard to valuation, he noted that the Commission and SEC staff are paying increased attention to this area. He emphasized the duty of directors to inquire as to whether illiquid securities are valued appropriately, and stated that the SEC has begun examinations of funds that have improperly valued portfolio securities. On advisory fees, he noted that he personally has received complaints from fund shareholders on this issue, and that a recurring question relates to advisory fees that remain a constant percentage of fund assets as assets rise. He observed that directors should be careful to ensure that the level of fees is justified and adequately explained to the public. Commissioner Wallman also commented on a number of other issues under consideration by the SEC, including: a) Defined Contribution Plans Commissioner Wallman expressed concern over whether individuals saving for retirement receive the information needed to make informed investment choices. He noted that the SEC has been working with the Department of Labor and the Treasury Department to encourage plan sponsors and others to provide better information. A joint release from the SEC and DOL may be issued soon on these issues. b) Risk Measure Commissioner Wallman discussed the Commissions efforts to develop an appropriate risk measure for mutual funds. He noted that a historical bar chart showing a fund s performance over a specified time period, such as the one recommended by the Institute, could improve current disclosure. He cautioned, however, that it might not be a complete solution. After describing a number of alternatives, he indicated his belief that it might be beneficial for the SEC to require that funds provide a risk measure of their own choosing. With such an approach, he hopes that the market might decide on the appropriate risk assessment methodology. c) Electronic Delivery Commissioner Wallman

indicated that the Commission would issue an interpretive release in the near future to permit the use of electronic media wherever paper is now used. He stated that the release will make available to issuers and investors a greater choice of electronic media -- including CD ROM technology, audio tape, video tape, fax-modem technology, on-line services, and Internet resources. The release was issued by the Commission on October 5. Matthew P. Fink President Attachment

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