

**MEMO# 11667**

February 22, 2000

# **LEVITT SPEECH ADDRESSING MUTUAL FUND TOPICS AND ANNOUNCING SPECIAL REVIEW OF FUND ADVERTISING**

\* Remarks of Chairman Arthur Levitt, Securities and Exchange Commission, before the Mutual Fund Directors Education Council Conference, Washington, D.C., February 17, 2000. Attached to the speech is a "fact sheet" on the Commission's special review of fund advertising. 1 [11667] February 22, 2000 TO: ADVERTISING COMPLIANCE ADVISORY COMMITTEE No. 6-00 BOARD OF GOVERNORS No. 9-00 COMPLIANCE ADVISORY COMMITTEE No. 11-00 INVESTMENT COMPANY DIRECTORS No. 4-00 SEC RULES MEMBERS No. 14-00 SMALL FUNDS MEMBERS No. 4-00 RE: LEVITT SPEECH ADDRESSING MUTUAL FUND TOPICS AND ANNOUNCING SPECIAL REVIEW OF FUND ADVERTISING

SEC

Chairman Levitt recently delivered a speech at a conference for fund directors in which he addressed a number of current mutual fund issues. Specifically, he discussed the Commission's recent proposals relating to mutual fund governance. He also announced a new initiative that would involve a special review of fund advertising. Finally, he indicated that the Commission plans to propose that funds disclose after-tax performance information. A copy of Chairman Levitt's speech is attached\* and his remarks are summarized below. Mutual Fund Governance Chairman Levitt discussed the cooperative roles of the Commission and the fund industry in providing fund directors the tools and authority to act as "independent watchdogs" for shareholders. Mr. Levitt acknowledged the industry's efforts, through the ICI, in establishing "best practices" for fund directors, and he briefly described the Commission's recent governance proposals. He noted that the Commission had received a number of constructive comments about how the proposal could be amended to better meet the needs of fund directors. He reiterated the Commission's commitment to bolster the effectiveness of directors but not require that independent directors micro-manage funds. He cited several recent examples of areas where the Commission has permitted fund directors to delegate various functions and responsibilities to fund advisers, such as fair value pricing, repurchase agreements and foreign custody arrangements. Special Review of Fund Advertising 2Chairman Levitt urged fund directors to pay more attention to the types of advertisements and commercials that are being used to market their funds. He announced an initiative in which the SEC's Division of Investment Management and Office of Compliance Inspections and Examinations will conduct a special review of fund marketing - including fund web-sites, sales literature and advertisements. This review is intended to ensure that a fund's actual portfolio performance and investment strategies are consistent with its marketing materials. The Commission will be reviewing the current rules governing fund advertising and will work

closely with the NASD in clarifying what is meaningful and appropriate to tell investors. Chairman Levitt also said that the Commission would be asking fund directors “to review critically their own fund’s advertising and to challenge ‘accurate’ but perhaps overly aggressive ads.” After-Tax Performance The Chairman announced that, in furthering its efforts to “bring to light the most useful information to investors as they compare funds,” the Commission will propose that funds show the effects of taxes on performance. On a more general note, he urged everyone to work harder to communicate to investors the things they should be thinking about before investing in mutual funds, such as their time frame for investing, the impact of poor performance, their tolerance for risk and the impact of fees and expenses. Chairman Levitt exhorted fund directors to encourage their fund groups to join efforts to educate investors regarding fundamental investment principles and to manage shareholder expectations, thereby laying the groundwork for a long-term investment strategy. Marguerite C. Bateman Associate Counsel Attachment Note: Not all recipients receive the attachment. To obtain a copy of the attachment referred to in this Memo, please call the ICI Library at (202) 326-8304, and ask for attachment number 11667. ICI Members may retrieve this Memo and its attachment from ICINet (<http://members.ici.org>).

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