INVESTMENT COMPANY INSTITUTE

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May 24, 1999

PAUL ROYE'S SPEECH AT 1999 GENERAL MEMBERSHIP MEETING

[11006] May 24, 1999 TO: BOARD OF GOVERNORS No. 38-99 SEC RULES MEMBERS No. 33-99 RE: PAUL ROYE'S SPEECH AT 1999 GENERAL MEMBERSHIP MEETING ____ Paul Roye, Director of the Securities and Exchange Commission’s Division of Investment Management, spoke at the Institute’s General Membership Meeting on May 21, 1999. Mr. Roye’s speech focused on: (i) the Investment Company Act of 1940; (ii) a proposal to amend Section 17(a) of the Act; and (iii) some challenges confronting the mutual fund industry. A copy of Mr. Roye’s speech is attached and it is summarized below. Mr. Roye stated that the success of the mutual fund industry is dependent on its ability to command the confidence of investors. He attributed this ongoing confidence in large part to the effectiveness of the Investment Company Act in preventing many of the abusive practices that prompted its adoption. Roye also praised the exemptive authority given to the Commission in the Investment Company Act, noting that it provides the flexibility to accommodate change and innovation. In discussing the importance of the Act’s requirement for independent directors, Mr. Roye highlighted the Commission’s plans to propose rules this summer to strengthen fund boards and the corporate governance provisions of the Act. He acknowledged the ICI’s response to SEC Chairman Levitt’s call for action by the industry in this area, noting the creation of a special committee to develop best practices regarding investment company governance. Roye urged the committee to “take a hard look at recommendations which would significantly improve the governance structure and go beyond what we could properly propose as regulators.” He also stated his belief that, “[t]ogether, through these initiatives, we can make sure that independent directors have the tools needed to fulfill their role as representatives and guardians of the shareholders’ interest.” Mr. Roye spoke strongly against a proposal to amend Section 17(a) of the Investment Company Act that was recently submitted to Congress. He warned that this proposal has “the potential to open the door to overreaching, self-dealing, and the other abusive practices that prompted enactment of the statute.” While Roye noted that the proposal would not entirely repeal Section 17(a), he stated that “it would represent a breach of the wall that was built around mutual fund assets.” He stressed that problems posed by Section 17(a) are best addressed administratively by the Commission through its broad exemptive authority. Towards that end, Roye explained that the Commission is currently reviewing a series of exemptive rule proposals under Section 17 that were submitted by the Institute, and also is examining the possibility of an exemptive rule under Section 206(3) of the Investment Advisers Act. Finally, Mr. Roye discussed the challenges that the industry will face in the 21st century, including new technology, consolidation of the financial services industry, and increased competition. In facing these challenges, Roye urged the industry to remember that investor

trust and confidence have been the key ingredients of its success, and not to let others who do not appreciate the importance of the standards reflected in the Investment Company Act dictate the course of the industry. Matthew P. Fink President 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 11006. ICI Members may retrieve this Memo and its attachment from ICINet (http://members.ici.org).

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