

**MEMO# 13668**

June 22, 2001

## **LORI RICHARDS' SPEECH ON VALUATION, TRADING AND DISCLOSURE AT ICI 2001 MUTUAL FUND COMPLIANCE CONFERENCE**

[13668] June 22, 2001 TO: COMPLIANCE ADVISORY COMMITTEE No. 26-01 SEC RULES MEMBERS No. 51-01 RE: LORI RICHARDS' SPEECH ON VALUATION, TRADING AND DISCLOSURE AT ICI 2001 MUTUAL FUND COMPLIANCE CONFERENCE Lori Richards, Director of the SEC's Office of Compliance Inspections and Examinations, delivered a luncheon address entitled "Valuation, Trading, and Disclosure: Three Compliance Imperatives" at the Institute's 2001 Mutual Fund Compliance Conference. The text of her remarks is attached and is summarized below. Ms. Richards began by noting that compliance professionals and the SEC staff have a shared purpose and commitment in ensuring that the compliance component of the mutual fund business is strong, well-staffed, respected within the firm, and equipped to do the job. She recommended that compliance be considered a "bread and butter" part of all firms' infrastructure and that it be protected from business cycle cutbacks. She urged conference participants to strive to exceed the legal requirements applicable to mutual funds, and gave examples of practices that funds should consider in the areas of valuation, trading and disclosure. Based on recent examinations, Ms. Richards recommended the adoption of strong internal controls in the area of valuation, including valuation committees, board of directors involvement in understanding pricing methodologies for securities that are difficult to value, close investigation of pricing services, use of more than one pricing service, automatic checks on pricing changes exceeding a certain threshold, controls on price overrides, monitoring of "stale" pricing, comparison of "fair value" prices to sales in the market, and "shadow pricing" for money market fund portfolios. Ms. Richards also addressed the duty to seek best execution for fund transactions, and cited, as factors in analyzing best execution, obtaining the best price, speed of execution, certainty of execution, and the commission rate or spread. She urged the conference participants to consider the following practices: (1) establishing a committee to review trade placement and best execution; (2) establishing criteria to measure the factors integral to best execution; (3) providing the fund's board with enough information to fulfill its oversight responsibilities; and (4) identifying, questioning, resolving, and disclosing conflicts of interest in trade placement. Finally, Ms. Richards discussed the importance of disclosure, and cited several examples of situations in which disclosure is especially important. Her examples included: the use of accurate performance numbers in advertisements and client presentations, as well as any factors giving rise to the performance that are not likely to be repeated; policies for obtaining best execution; the routing of fund portfolio orders to broker-dealers that sell fund shares or in exchange for



client referrals; and practices concerning the allocation of attractive investment opportunities among clients. The text of Ms. Richards' remarks is also available on the SEC's website at <http://www.sec.gov/news/speech/spch499.htm>. Kathy D. Ireland Associate Counsel Attachment Attachment Note: Not all recipients receive the attachment. To obtain a copy of the attachment to which this memo refers, please call the ICI Library at (202) 326-8304 and request the attachment for memo 13668. ICI Members may retrieve this memo and its attachment from ICINet (<http://members.ici.org>). Attachment (in .pdf format)

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