

**MEMO# 5045**

August 10, 1993

## **SEC CHAIRMAN LEVITT TESTIFIES ON MUTUAL FUND INDUSTRY**

August 10, 1993 TO: BOARD OF GOVERNORS NO. 71-93 FEDERAL LEGISLATION COMMITTEE  
NO. 27-93 FEDERAL LEGISLATION MEMBERS NO. 25-93 SEC RULES COMMITTEE NO. 72-93  
RE: SEC CHAIRMAN LEVITT TESTIFIES ON MUTUAL FUND INDUSTRY

\_\_\_\_\_ Last week SEC Chairman Levitt testified before the House Telecommunications and Finance Subcommittee (chaired by Representative Edward J. Markey, D-MA) on the state of the mutual fund industry. The Chairman addressed four major areas: 1) the state of the investment company industry, focusing especially on the growth the industry has enjoyed over the last decade; 2) the effect of such growth on the structure of the investment company industry and the operation of the securities markets; 3) the implications of the industry's growth on the Commission's ability to carry out its regulatory duties; and 4) current legislative and regulatory issues under Commission consideration in this area. Each of these areas is covered extensively in the Chairman's written statement, a copy of which is attached. Chairman Levitt's testimony strongly endorsed the need for additional resources for the SEC to oversee the industry. Levitt noted that the growth in the industry has affected "all aspects of Commission oversight...not only the inspection of funds, but also the reviewing of prospectuses, and the handling of exemptive, interpretive and no-action requests. The investment company inspection program, however, has been hardest hit....While staff levels have risen, it is clear that each individual examiner is responsible for many more billions of dollars in fund assets, and dozens more portfolios". - 2 - Chairman Levitt continued: "Most critical, however, has been the cutback in the scope and focus of examinations over the past decade. Ten years ago, 355 portfolios in various fund complexes were inspected comprehensively....While the staff inspected 125 medium and small complexes, some portfolios within the 100 largest fund complexes, and 1,075 money market funds in 1992, virtually all of these inspections were limited in scope, focusing only on portfolio management. Fund marketing and shareholder services, for example, were rarely scrutinized." In wide-ranging questions to Chairman Levitt, the following industry issues were discussed: ! loads and expenses; ! the SEC's summary prospectus proposal; ! the complaints filed by the NYC Office of Consumer Affairs; ! the adequacy of NASD resources; ! use of derivatives by mutual funds; ! trade barriers; ! regulatory developments that occur as banks' role in the fund industry increases; ! amendments to the federal securities laws to improve disclosure to participants in defined contribution plans; ! redemptions-in-kind; ! the repeal of 22(d); ! level of complaints to the SEC from fund shareholders. The Subcommittee's oversight of the industry is expected to continue. Although no additional hearings have been announced, the SEC is expected to make legislative recommendations to the Congress. These recommendations would be based on, but not limited to, the SEC staff's report, "Protecting Investors: A Half Century of Investment Company Regulation." - 3

- Copies of Chairman Markey's opening statement and Chairman Levitt's testimony are attached. Please call if you wish additional information. We will keep you informed as developments occur. This memo can also be found on FUNDS, the Institute's Fund User Network and Delivery System, under Legislative Affairs; Washington Update. Julie Domenick Senior Vice President Legislative Affairs Attachments

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