SPEECH

October 19, 2005

19th Annual Meeting, International Investment Funds Association: Welcome Address

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Welcome Address by
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October 19, 2005
Washington, D.C.

Good morning. I am Paul Stevens, president of the Investment Company Institute, and it is my distinct privilege to I am proud and honored to welcome you to Washington for the 19th Annual Meeting of the International Investment Funds Association. TheOne thing that is very clear, as I look around the room, is that the annual IIFA meeting has become the foremost assembly of fund industry association executives in the world. We are glad that each of you could make the time in your busy schedules to be here. We think the program we have put together, with the help of the IIFA Steering Committee, is an excellent one, and well worth your time. By the strength of our numbers – this year's meeting includes more than 75 delegates from 33 differentIIFA members.

I see many delegates in the room today that I first met during the four IIFA meetings that I attended in the mid-1990s when I was general counsel of the ICI – a reminder of the close personal and professional relationships that these meetings help establish. can form during these gatherings. I also see many new faces, and I look forward to getting to know each of you over the next few days.

I know I speak for all the delegates here in extending deepest sympathy to Zaigham Rizvi, the head of the Pakistan association, and Peter Kurian, head of the India association, on the terrible devastation and loss of life caused by the recent earthquake in South Asia. You and your countrymen are in our thoughts during this time. As with the tsunami last year and the hurricanes more recently, I am encouraging the staff of our Institute to give generously to the relief effort. I do hope that all here will do the same within your own organizations.

It has been 12 years since the United States last had the opportunity to host the IIFA annual meetingthis prestigious gathering. In the intervening years, the global fund industry has continued to experience dramatic growth and evolution and has become a truly global financial sector. Today, some US$16 trillion are entrusted collectively to our care. We all have been witnesses to a remarkable chapter in the history of the world's financial market.

The assets invested in retail investment funds worldwide today are three times what they were a decade ago. These assets represent an enormous source of capital and stimulus to economic growth. At year-end 2004, the World Federation of Exchanges reported more than $39 trillion in equity market capitalization of its member exchanges. Investment funds hold approximatelyXX percent of that one-fifth of that global market value. The same is true in the United States, where mutual funds hold more than one-fifth of all U.S. corporate equities outstanding – as well as nearly one-third of U.S. municipal securities, and more than one-third of the U.S. commercial paper market.

To be sure, the investment funds industry differs from country to country in important ways. I suspect, however, that we all perceive similar issues, challenges, and opportunities in the current environment. Over the next three days, we once again have the chance to learn from one another -- and to work together to address ourcommon concerns. What might these concerns be? Let me suggest a few for consideration.

How best to inform our investors?

This is a perennial challenge for our industry, one with which each of our associations continues to wrestle. Revolutionary new tools are at our disposal for this purpose, in particular the Internet – a technology with tremendous potential to inform and educate investors, to help them make sound investment decisions and achieve their long-term financial goals, and to do all this in a convenient, efficient and highly cost-effective manner.

How best to work with sales intermediaries in the interest of fund investors?

Fund investors rely upon the help and advice of banks, brokers, financial advisers, and an array of other intermediaries. The quality of the service provided by these intermediaries is a matter of consequence not just to their own customers but also to the sponsors of investment funds.

How best to assure that investment funds are faithful to the interests of fund investors in the conduct of their own operations?

For reasons you appreciate, in the aftermath of the fund trading abuses uncovered in our market, this has been a matter of intense concern throughout my tenure as president of the ICI. It seems clear, however, that the focus on legal compliance – even more broadly, on business ethics – transcends individual markets. More than most businesses, ours is built on a foundation of trust between fund managers and shareholders. We must do all we can to maintain and build upon that foundation.

Not surprisingly, our regulators also share common concerns. Individual securities regulators are paying far closer attention to the approaches taken by their counterparts elsewhere, and international organizations such as IOSCO are increasingly active in the fund area. How we can most effectively interact with IOSCO is a key topic of discussion for us this week. I believe we all have an interest in working more effectively with IOSCO and in advancing our views more forcefully as representatives of the world's fund industries in its councils.

As trade associations, we also have a strong interest in identifying new and more effective ways to provide both service and leadership to our members. One particular challenge consists of promoting better understanding of funds and fund investing, and of devising effective public communications and media relations strategies for this purpose. A significant portion of our agenda is devoted to these issues. During these sessions, and indeed throughout the meeting, we hope that each of you will share your own experiences. There is much that we can learn from each otheron these topics.

In our line of work, as you all well know, challenge is not in short supply. But even though I assumed leadership of the Institute during a period of what may be the greatest difficulty ever to face the modern U.S. fund industry, I find the opportunities ahead to be more exciting still.

The ground truth of our business is this: investment funds are and likely will remain the very best vehicle for average investors to participate in the securities markets, accumulate wealth, and achieve their most important, long-term financial goals. At their best, investment funds offer unparalleled advantages -- professional management, broad diversification, liquidity, abundant information, a wide array of choice, and a high degree of convenience and investor service, all at relatively low cost. Funds conduct their business within a framework of government regulation to protect the interests of their investors. And market forces, particularly competition, tend to regulate them at least as effectively. As our respective markets inexorably grow more closely linked, the extent of this competition will increase -- and with it, the benefits to our investors. the world is converging, becoming a more integrated and closely linked place. This is a trend that I had the opportunity to see closely in action at a relatively early stage in the late 1980s, when I worked in the White House as a Special Assistant for National Security Affairs to President Reagan and as Executive Secretary of the National Security Council under Colin Powell. I have had further opportunities to participate in international forums, as Executive Assistant to Dick Cheney when he was Secretary of Defense and in my work as General Counsel to Charles Schwab. I am continually impressed by how much the peoples of the world have in common. Numbers like these make it is easy to understand why mutual funds are becoming an increasingly popular form of investment. Funds are able to bring to a wide and diverse base of investors the opportunity for diversification and professional management of investments, combined with valuable services and liquidity. All of these features are available at a relatively low cost because of the advantages of scale.

For these and other reasons, I believe investment funds will feature centrally in solving one of the largest problems many of our societies will face in this century – a problem visited upon us, as you know, by demographic trends over which we have little control: declining birth rates, aging populations consisting of a growing percentage of retirees, increasing life expectancy, and escalating costs. These trends stand to make the “defined benefit” and “pay as you go” structures of many public and corporate pension schemes simply unsustainable. Inescapably, individuals will have to take greater charge of their own destinies and take more responsibility for their financial security. one of the most important roles that mutual funds fulfill is providing workers with the opportunity to build retirement savings. This is gathering growing attention as the result of the demographic challenge so many countries face.

The demographic concerns are easy to understand. In 1940, the U.S. had 16 workers for every retiree. Today, according to a Wharton School study, the number of workers per retiree is just 3.9, projected to drop to 2.2 in 2030.

Other countries face the same problem. Some face it even earlier and to a greater degree.

Japan, for example, has only 2.8 workers per retiree today, a number that is expected to drop to 1.5 by 2030. Europe has only 3 workers per retiree today and is expected to have just 1.7 by 2030. The overall population of Germany is projected to shrink by almost 4 percent over the next 25 years and the working-age population is projected to shrink by more than 10 percent. In 2030, over one-quarter of the German population will be elderly.

Among our neighbors in Latin America, 6 percent of the population today is age 65 or older. By 2030, that percentage is expected to double.

A growing part of the solution to these demographic trends has been to move pensions toward a defined contribution approach, shifting more responsibility for accumulating retirement savings into the hands of individual workers. This is a natural environment for investment funds to grow, because they are an ideal vehicle to help individuals save little by little, year after year, to meet long-term needs.

In the United States, this shift is well under way. As of the end of last year, Americans had saved $3.2 trillion in defined contribution plans, with about half invested in mutual funds. Another $3.5 trillion was held in Individual Retirement Accounts, or IRAs. About 43 percent of IRA assets are invested in mutual funds.

I realize that this trend in saving for retirement income security is by no means restricted to the United States. Analysts conclude that pensions currently are driving much of the growth in the fund management industry around the world. In France, developments in fund-based pension products include promotion of defined contribution plans and outsourcing of the financial management of assets of the social security buffer fund.

In the new EU member states, efforts are also underway to implement or improve defined contribution plans. Fueled in part by pension reforms, the Czech Republic alone has seen investment fund assets more than triple over the past five years.

Pension reform is also a common theme across the Asian and Pacific countries. There have been major developments in defined contribution savings in several countries. That includes Japan, with its 401(k) plans; Hong Kong, with its Mandatory Provident Fund; and Australia, with its mandatory contributions through its Superannuation Guarantee System.

Just this summer Taiwan enacted reforms requiring that 6 percent of employees’ salaries be saved for retirement, along with a 6 percent matching contribution by the employer. This is expected to provide a considerable boost to individual retirement asset accumulation.

In India, the government is working out the details of a pension reform plan with an anticipated role for investment funds.

These and other trends clearly favor investment funds worldwide as a unique and vital tool for individuals to realize their most important financial goals.

Finally, there is another type of opportunity that I would like to mention, and that’s the opportunity to do more collectively as members of the IIFA. I do not suggest that we establish a formal secretariat or pay dues to fund further activities of the organization. I do suggest, however, that we can stand together as representatives of the world’s fund industries and begin to find a collective voice. A first step – perhaps modest – would be the adoption of the proposed “Statement of Principles” for the IIFA. These Principles, which build upon the mission statement adopted in Buenos Aires in 2001, deserve the careful consideration of us all. A second step may be to formalize some collective effort vis-à-vis IOSCO, perhaps in the nature of a subcommittee or working group devoted to responding to IOSCO consultations. Both of these would be important and valuable outcomes from our Washington meeting.

We have much to discuss this week, and there is much we can accomplish.

On behalf of the ICI, I thank you for giving us and the United States the opportunity to host you and this important meeting. Again, welcome to Washington. We hope the meeting proves to be valuable and enjoyable and memorable for you all.

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