

## ICI President Urges Industry to Maintain Tradition of Integrity in Internet Era, May 2000

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**Washington, DC, May 18, 2000** - Advancing the mutual fund industry's tradition of integrity during a period of extraordinary change ranks as "one of the most formidable challenges ever faced by our industry," Investment Company Institute President Matthew P. Fink said today.

The key to maintaining the confidence of the nation's 83 million mutual fund investors is to embrace innovation that benefits them and to oppose change that would harm their interests, Fink said. "To meet our shareholders' needs, our business practices must change, but our business principles must not," he said. "Sixty years of experience under the Investment Company Act leaves no doubt in my mind that we will rise to this challenge.

Matthew P. Fink at the 2000 General Membership Meeting.

Technological developments in the world of financial services, as well as in other sectors of the economy, are fueling entrepreneurial ventures, rewriting the rules of competition, and prompting wholesale reconsideration of the role of regulation, Fink said in [remarks](#) during the Institute's [General Membership Meeting](#).

"It is obvious that to serve fund shareholders, our industry must embrace change. However, at the same time, we must vigilantly guard against a 'new-economy' hubris that could result in our abandoning basic principles that have been instrumental to our success. Fortunately, balancing the need for change and the need to maintain core values is built into our industry's culture," Fink said.

He noted that 60 years ago this month, SEC and fund industry representatives reached agreement on legislation that became the Investment Company Act of 1940, the primary federal law governing mutual funds. The Act established strict investor protections—flat prohibitions on self-dealing; a requirement that every fund mark all of its assets to market every day; tough limits on leveraging; and oversight by independent directors—that form the bedrock upon which the fund industry has grown and earned the confidence of 83 million shareholders. "Our industry's support for the high fiduciary standards of the Investment Company Act has produced widespread public confidence in our industry," Fink said. Since the Act became law, the investment company industry has continued to support laws and regulations designed to protect investors, Fink noted. The industry also has supported and developed tough voluntary standards beyond the requirements of the law, such as recommended best practices on personal investing and mutual fund directors.

"The Act's exacting fiduciary standards have helped keep mutual funds free from major scandal and have contributed to extraordinary investor confidence in our industry," Fink said. "At the same time, the SEC's ability to administer the Act flexibly has permitted dramatic innovations that have benefited millions of fund shareholders. Respecting this balance is essential if we are to ensure success for our shareholders in the years ahead."

Fink cited three examples showing how the Investment Company Act has enabled the SEC to effectively use its authority to serve evolving shareholder needs.

The SEC permitted the creation of money market funds in the early 1970s, a development endorsed almost instantaneously by millions of investors. "Enthusiasm for money market funds continues to this day, and the funds are viewed by individuals and institutional investors as an essential element of prudent cash management," Fink said.

In 1979, the SEC allowed funds to advertise their performance. This development prompted far-reaching changes and contributed to

the rapid growth of direct marketed mutual funds. The popularity of no-load funds led to competitive pressure on fees and expenses. One result is that since 1980, the total cost of investing in equity mutual funds has fallen by 40 percent; in bond funds, 29 percent; and in money market funds, 24 percent. "The ability to advertise performance depends, to this day, on the SEC's continued faith that the industry will exercise the privilege responsibly, adhering to the spirit as well as the letter of the law," Fink said. "The extraordinary performance of many technology funds in 1999 recently created special challenges in this area. I was pleased to see the NASDR issue guidance on the use of extraordinary performance figures in advertisements. But ultimate responsibility lies with us: if we don't continue to advertise prudently, questions will inevitably arise about additional restrictions."

In 1998, the SEC overhauled the rules governing mutual fund prospectuses and permitted the use of fund profiles. Similar disclosure reforms are planned for shareholder reports. "The overall impact of the disclosure reforms has been very beneficial to fund investors and I believe their significance will become more apparent in the years ahead," Fink said.

Fink noted that the fund industry's support for the high fiduciary standards of the Investment Company Act has produced widespread public confidence. "Past generations have done their job. Now it is up to us. We must live up to tradition of integrity established by those who came before us," Fink said. "If we continue to work together, I have no doubt that the next sixty years will be as successful for our shareholders and for our industry as the years with which we have been blessed since 1940."