

## ICI Pledges Prompt, Decisive Action to Advance Investor Protection and Awareness, June 2003

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**Washington, DC, June 18, 2003** - The mutual fund industry today pledged to take specific steps to enhance mutual fund disclosure and governance practices and called upon the U.S. Securities and Exchange Commission to take swift regulatory action to pursue meaningful reforms to benefit the nation's 95 million mutual fund shareholders.

"We clearly recognize the need, especially in the current environment, to re-examine our regulatory system in order to determine if it is working as intended, and, even if it is, to determine whether there are ways to make it even stronger and more responsive to investor needs," Paul G. Haaga, Executive Vice President of Capital Research and Management Company and Chairman of the Investment Company Institute, the national association of the mutual fund industry, said in [remarks](#) to a subcommittee of the House Financial Services Committee.

Mr. Haaga said the mutual fund industry wants to work with members of Congress, the SEC, and GAO to identify the best ways to restore investor confidence and help individuals make well-informed investment decisions.

Haaga's remarks came during a House Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises hearing on H.R. 2420, the "Mutual Funds Integrity and Fee Transparency Act." The legislation, introduced by Congressman Richard Baker (R-LA), contains several significant new provisions concerning disclosure and the structure and duties of mutual fund directors. Many of these provisions are supported by the industry and could be accomplished promptly through SEC regulation and through expeditious voluntary industry best practices.

Pledging the mutual fund industry's full cooperation, Haaga called upon the SEC to "proceed expeditiously" and take action concerning provisions in the legislation relating to disclosure and soft dollars.

Haaga urged the SEC to adopt rules it has already proposed that would require fund shareholder reports to disclose the cost in dollars of a \$10,000 investment in the fund, based on the fund's actual expenses and return for the period of the report. "We believe this proposal is superior to alternatives that have been suggested, as it will enhance investors' understanding of fees, and most importantly, will assist them in comparing the expenses of different funds," Haaga said.

Haaga also requested that the SEC address other areas of disclosure identified in H.R. 2420, including the structure of portfolio manager compensation, portfolio transaction costs, revenue sharing arrangements, and fund brokerage practices.

Turning to soft dollars, Haaga noted that the fund industry supports the legislation's provisions to clarify the roles of fund advisers and fund directors concerning soft dollar and directed brokerage arrangements. "This is a good idea, and the SEC does not need to wait for legislation to take this step," Haaga said. He also said the industry supports the legislation's call for the SEC to conduct a thorough review of soft-dollar practices. "We believe this is one of the most important issues addressed by the bill," Haaga said. "We believe it is now time for a review of the rules governing soft dollars."

Haaga also pledged the mutual fund industry's commitment to taking voluntary steps to enhance investor confidence and the industry's own system of corporate governance. For example, Haaga noted the industry supports H.R. 2420's provision to apply the standards for audit committees established in the [Sarbanes-Oxley Act](#) to mutual funds. Rather than wait for legislation, Haaga said he would recommend to the Institute's Board of Governors that the standards be adopted as an industry best practice.

He said the fund industry agrees with legislators and the SEC that it is inappropriate for certain relatives and individuals with material business or professional relationships with management to serve as independent directors of mutual funds. "I will recommend to the ICI Board of Governors that it adopt a best practice under which these individuals would not serve as mutual fund independent

directors,” Haaga said, noting that the industry already has adopted a similar best practice under which former employees of fund management companies could not serve as independent directors.

Haaga also pointed out that ICI has adopted other corporate governance [best practices](#) relevant to many of the issues addressed in the legislation. “Our understanding is that the vast majority of fund groups follow all of these best practices,” Haaga said. “To ensure that their adoption is as close to universal as possible, I will also recommend to the ICI Board that it take further steps to urge each individual member of ICI to adopt them.”

Haaga said there are some parts of the legislation that the mutual fund industry thinks are inadvisable. Existing fund industry practices, such as having lead directors and regular meetings of independent directors in executive session, make it unnecessary to require mutual funds to have an independent chairman of the board, as the legislation proposes. “Not only is it unnecessary, but having an independent chairman could actually result in a less effective board,” he said.

Haaga also said it would be a mistake for legislation, rather than the SEC, to dictate the specifics of how certain items should be disclosed, and in which document they should appear. “Congress should not inadvertently discourage investors from viewing the prospectus as the most important disclosure statement,” he said.

Haaga recommended that once the SEC adopts its new rules on expense disclosure, Congress should study their effectiveness before mandating additional disclosures, such as requiring disclosure of individualized operating expenses, which he said would be costly and would inhibit comparisons among funds.

“I believe that the SEC and industry actions will accomplish most of the objectives of H.R. 2420 and will send a message to investors that we—Congress, the SEC and GAO, and the mutual fund industry—intend that their interests come first,” Haaga said.