

ICI President: "Shocking Betrayal of Trust"

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"Those Found to Have Violated Criminal Laws Should Be Sent to Prison"

Washington, DC, November 18, 2003 – Investment Company Institute President Matt Fink said today, that he is "...outraged by the shocking betrayal of trust exhibited by some in the mutual fund industry" and that those who have violated criminal laws "...should be sent to prison."

In [testimony](#) before the United States Senate Committee on Banking, Housing and Urban Affairs, Fink said: "I am appalled by the circumstances that caused you to convene this hearing. Like you – and the constituents you serve – I am outraged by the shocking betrayal of trust exhibited by some in the mutual fund industry."

"I have worked at the Institute for over 32 years. On several occasions, I've had the privilege of testifying before this Committee, and have shared my sincere belief that mutual funds have grown and succeeded because of their tradition of integrity. Today, that tradition of integrity – many years in the making and achieved through the efforts of hundreds of thousands of individuals – is widely questioned. Our goal is simple and profound: we want to work with you and other policymakers to rebuild trust, renew confidence and reinforce our previous history of putting the interests of investors ahead of everything else.

"We believe action must be taken in three areas. First, government officials must identify everyone who violated the law. Those who acted willfully against the interest of fund shareholders should be sanctioned severely. Those who violated criminal laws should be sent to prison. The law enforcement message must be loud, tough, clear and memorable. Second, shareholders who were harmed must be made right. It is a particular outrage that some funds permitted a few large shareholders to prey on smaller ones. This repudiates the most fundamental principle underlying mutual funds – that all shareholders must be treated alike. There must be zero tolerance of arrangements that violate this principle. Third, strong and effective regulatory reforms must be put in place to ensure that these and similar abuses never happen again."

ICI has proposed:

- That the SEC require all mutual fund transactions to be received by the fund itself by 4 p.m.
- That the SEC require all long-term mutual funds to impose a 2 percent redemption fee on any sale of shares within five days of their purchase. All fees collected would go to the fund and its long-term shareholders; none would go to fund managers or intermediaries. A redemption fee must be mandated to deter abusive trading effectively. A uniform, across-the-board redemption fee will by necessity overcome operational problems that prevented the implementation of such fees in the past.
- That with respect to short-term trading in fund shares by fund personnel, steps are needed to make it clear that such practices are not just abhorrent but illegal.

"We stand ready to provide any assistance to Congress and the SEC in ensuring that mutual funds can retain the public's trust and confidence."

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The Investment Company Institute is the national association of the American investment company industry. Its membership includes 8,655 open-end investment companies ("mutual funds"), 588 closed-end investment companies, 106 exchange-traded funds and 6 sponsors of unit investment trusts. Its mutual fund members have assets of about \$6.857 trillion, accounting for approximately 95% of total industry assets, and 90.2 million individual shareholders.
