

ICI President Commends SEC For Proposing To Eliminate Directed Brokerage, February 2004

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Looks Forward to Commenting on Rule 12b-1

Washington, DC, February 11, 2004 - Investment Company Institute President Matthew P. Fink today said “the SEC’s directed brokerage proposal is a welcome development and a beneficial reform because it would eliminate a significant potential conflict of interest.” Directed brokerage refers to a practice currently regulated by the NASD where fund companies can consider, subject to strict limitations, the fact that a brokerage firm sells its funds when choosing a broker to execute portfolio trades.

Fink applauded the SEC’s proposal to ban directed brokerage arrangements because it would “eliminate questions about whether fund managers’ trading decisions are affected by considerations other than shareholders’ best interests.” The proposal “is a reform milestone that will benefit fund investors and strengthen the operating integrity of mutual funds,” Fink said, noting that it appears similar to the [regulatory prohibition](#) the Institute called for in December.

Fink also said “the Institute looks forward” to commenting on Rule 12b-1, as the SEC requested. Fink said “Rule 12b-1 plans and the fees associated with them are recognized by most knowledgeable experts as instrumental in helping mutual funds become available to large numbers of middle-income investors. Rule 12b-1 has also given these investors choices about whether to pay for advice or assistance upfront or over time.”

Fink said that “despite their extraordinarily beneficial role for millions of investors, the actual use of 12b-1 fees has evolved considerably since the Commission adopted the rule in 1980, making the SEC’s planned reevaluation prudent and timely.” Fink said the ICI would carefully study the questions put forward by the SEC.

A backgrounder with descriptive and statistical information about [Rule 12b-1 fees](#) is available online.
