

ICI President Urges Move in the Right Direction for Fund Shareholders, May 2001

ICI President Urges "Move in the Right Direction" for Fund Shareholders

Washington, DC, May 17, 2001 - The investment company industry must continue to "move in the right direction for shareholders" in order to uphold the high level of public confidence that is vital to the industry's success, Institute President Matthew P. Fink said today.

"Confidence in mutual funds has never been preordained. We must earn our reputation anew each day," Fink said during an [address](#) at the Institute's annual General Membership Meeting. The Institute is the national association of the investment company industry.

"Our future will be determined by what we do. We must not lie at anchor. Instead, we must continue to move in the right direction for investors by supporting strong pro-investor regulation, by adopting voluntary standards that go beyond law and regulation, and by embracing new responsibilities," Fink said. "Constant diligence and devotion to the best interests of fund shareholders has been the guide to our past success. It must be our beacon in the future."

Fink urged the industry to continue to move in the right direction for shareholders in three areas: the laws that protect fund shareholders, the standards the industry sets for itself, and the responsibilities that come with the industry's prominent role in helping 88 million shareholders reach their long-term investment goals.

"We must never assume that yesterday's laws and regulations are good enough for today's shareholders," Fink said, noting that is why the Institute strongly supports the ongoing effort by the U.S. Securities and Exchange Commission to improve the quality of information disclosed to mutual fund shareholders.

"Moving in the right direction for shareholders means providing clear, concise, and meaningful information that will help them make informed investment decisions," Fink said. "The SEC led the way when it revised fund prospectuses. We are hopeful it will do so again with shareholder reports."

Fink stressed that in working for a strong regulatory system that effectively serves investors, the fund industry must remember that mutual funds do not exist in isolation. "We are part of a broad and growing spectrum of investment management products and services. We have long supported the innovations that make this spectrum of products and services possible," he said. "And we welcome the vigorous competition it produces. But moving in the right direction for investors requires us to act whenever functionally similar products or services threaten investor interests."

Fink said products that mimic mutual funds but avoid critical investor protections are creating serious and unnecessary risks to this foundation. For example, if hedge funds want to enjoy the privilege of publicly offering their shares, they must be subject to corresponding regulatory responsibilities. "If parallel industries are permitted to develop, one regulated, one unregulated, the only direction we are destined to move in is a race to the bottom, as competitive forces pressure all firms to minimize regulatory costs," he said.

Fink said the Institute recently suggested that the SEC review whether relatively new portfolio investment programs are investment companies within the meaning of the Investment Company Act. "The structure of these synthetic fund-like products pose many of the precise risks that the 1940 Act was designed to prevent—self-dealing; excessive fee arrangements; deviation from stated investment objectives; and abuses in disclosure and advertising. SEC rulemaking in this area is critical," he said.

Fink noted that effective regulation that serves investors necessarily requires effective regulators. He praised the SEC's integrity and professionalism, and urged Congress to approved legislation calling for increased compensation for SEC staff.

Mutual funds must also constantly examine issues that go beyond legal requirements, Fink said. "The well-being of our shareholders depends on the voluntary standards that we choose to live by," he said, citing the recommendations of the Institute's Advisory Group on Best Practices for Fund Directors as an example of the industry's willingness to adopt standards that go beyond legal requirements.

Moving in the right direction for shareholders also means ensuring that appropriate investor education programs are in place help shareholders develop an understanding of the benefits of long-term investing. "The rewards of investor education are tremendous," Fink said, highlighting the Institute's investor awareness initiatives, including the "Investing for Success" Partnership between the ICI Education Foundation, the National Urban League and the Coalition of Black Investors—Investment Education Fund.

"We are proud of this innovative program. Its goal is particularly important: to help middle-income African-Americans become more aware of opportunities to invest for education and retirement," Fink said. "Mutual funds have been a great American success story, transforming lives and families, opening doors and possibilities. We must redouble our efforts so that these opportunities and possibilities are known to everyone."

Addressing the new responsibilities that come from the mutual fund industry's prominence in the world of financial services, Fink said, "Our industry's prominence obliges us to address important issues beyond traditional mutual fund regulation and operations. Moving in the right direction for shareholders means that our voice must be heard on national policy debates that affect their interests. Nowhere is this responsibility more evident than in the public policies that effect long-term savings and investment."

The industry must continue to support policies that help individuals better prepare for major life events such as retirement and education, Fink said. For example, the fund industry supports legislation that would allow providers of 401(k) plan investment options to offer advice to employees. Moreover, the industry continues to view the bipartisan pension reforms sponsored by Representatives Portman and Cardin and Senators Grassley and Baucus as the top legislative priority. "This legislation enjoys overwhelming support, and would benefit tens of millions of working Americans, now and for many years to come," Fink said.

Fink expressed support for measures to increase education savings, such as proposals to enhance state-sponsored 529 plans and education IRAs. He called for a reexamination of the taxation of capital gains. "Moving in the right direction for shareholders requires us to work for commonsense improvement in our tax system that will help mutual fund shareholders meet long term savings and investment goals," he said. Another important industry responsibility is to ensure that the ongoing debate about the optimal structure of our trading markets serves fund shareholders. "Mutual funds are the means by which middle America participates in the equity markets," Fink said. "We must do all that we can to enhance transparency and liquidity in our markets, and to make Congress' goal of a fair and efficient national market system a reality."