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ICI President Calls Tradition of Integrity Key to Mutual Funds' Success, May 1999

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Washington DC, May 21, 1999 - The key to the public’s extraordinary acceptance of mutual funds lies in the industry’s 60-year tradition of integrity—a tradition that must be maintained to ensure continued success, said Matthew P. Fink, president of the Investment Company Institute.

In remarks today at the Institute’s annual General Membership Meeting, the largest gathering of mutual fund industry executives, Fink emphasized that success means more than just identifying the latest trends in products and services or pursuing short-term business goals. "For us, it has always and must always mean supporting laws, regulations, and professional standards that put our shareholders first. This is not only the right ethical choice; it’s the smartest thing that we can do to ensure the long-term success of our industry."

Matthew P. Fink at the 1999 General Membership Meeting.

Fink stressed the importance of the basic principles of the Investment Company Act of 1940—the comprehensive federal law that governs mutual funds—and the industry’s tradition of supporting new laws, regulations, and voluntary measures that strengthen shareholder protection.

"This tradition has been critical to our success, and it continues today. We have every reason to be proud of our record," Fink said. "We must never take our commitment for granted. The worst mistake that we could make would be to rest on our laurels. Missteps by just one fund organization could tarnish an industry-wide reputation 60 years in the making. Nothing that we do in the next millennium—no new product or service—will help us to succeed if we fail in this regard."

Fink highlighted six areas where the mutual fund industry must continue to maintain its tradition of integrity:

First, remain unwavering in support for the core fiduciary provisions of the Investment Company Act, and resist siren calls for their dilution or elimination. "Supporting the core protections of our system also requires that we re-examine them from time to time," Fink said. In March, for example, the Institute formed an Advisory Group to consider best practices for fund directors. "Mutual funds have the strongest governance system in the private sector, and independent directors in particular play a critical role in investor protection," he said. "It makes sense to examine current best practices to see if they can be made even better, and we are pleased to be part of Chairman Levitt's initiative for a careful and thorough review of this central element of our regulatory system."

Second, keep a "finger on the pulse" of change and propose new laws, regulations, and voluntary measures to address new issues head-on. Fink noted that in the past year the Institute took an active role in urging the Securities and Exchange Commission not to allow credit card payments for fund shares. The Institute also urged the National Association of Securities Dealers to adopt a rule governing sharing of customer information and submitted recommendations to the SEC that would modernize the Commission's rules governing affiliated transactions without diluting the effectiveness of the Act's bans on self-dealing.

Third, continue to support strong regulation of the industry by a single regulator enforcing one body of law committed to one object—the protection of investors. Fink said the SEC has admirably filled this crucial responsibility for more than six decades. "The Congress continues to recognize the important role of SEC regulation as it considers legislation that would permit the affiliation of mutual fund firms, banks, thrifts, and insurance companies," Fink said. "Wisely, the Congress continues to resist the entreaties of the Office of Thrift Supervision and the Comptroller of the Currency, which insist that they must have full authority to regulate non-banks, including mutual funds and securities firms, that are affiliated with banks and thrifts . . . Their position risks erosion of the uniform investor protections of the federal securities laws, which serve a very different purpose than the safety and soundness concerns of banking regulation."

Fourth, defend against recurring myths and unfounded suggestions of problems that do not exist. Misinformation is to no one's benefit, Fink noted while debunking three myths about mutual funds. These myths include the misconception that fund shareholders engage in massive redemptions during market breaks, forcing funds to sell securities and causing the market to spiral further downward. This question has been studied exhaustively and every study has found that through numerous market breaks over the past 60 years, "fund shareholders have never panicked," Fink said. Another myth, that mutual fund flows drive stock prices, "is a theory in search of facts," he added. The third myth is that mutual fund fees are rising, when, in fact, Fink said, fees for equity, bond and money market funds have fallen sharply. "Red herrings such as these divert our attention from real issues and concerns," he said. "We must never be hesitant to challenge myths and misinformation."

Fifth, ensure that regulatory requirements help investors make informed investment decisions. Fink cited the efforts of Chairman Levitt and the SEC, with the support of the fund industry, to revise the mutual fund prospectus to make it a more readable document. "We are pleased that the SEC now is turning its reform efforts to other disclosure documents, such as shareholder reports and tax disclosure," Fink said. "But these reforms, as critical as they are, are only part of the picture. We must bear in mind that about 80 percent of investors rely to some extent on the advice of third parties in purchasing fund shares, including brokers, banks, financial planners, insurance agents and employers. Our efforts must ensure that these distribution systems work in the interests of our shareholders."

Sixth, remain committed to education. Fink said the industry must continue to educate investors about the risks, as well as the rewards, of mutual fund investing. "Most importantly, Fink said, "we must educate all of the men and women who work in our industry. More than anything else, the actions of the individuals working in our industry each day have the greatest impact of all on our integrity. We must help them understand that it is essential to comply with the spirit, not just the letter, of the law. We must pass on to them the fiduciary culture that we inherited."

Fink said the mutual fund industry is one of the great American success stories of the 20th century. "We have brought the benefits of professional management and diversification, at reasonable cost, to millions of American families. In our entire 75-year history, we have not cost the U.S. taxpayer one cent."

Looking ahead, Fink said, "If we are true to our tradition of integrity, I believe that the mutual fund industry has a most enviable future. The years to come will present many challenges and many trials. But so long as we devote ourselves above all to maintaining the integrity of our industry, I have no doubt that our future will be bright as that foreseen for us sixty years ago."