

June 18, 2003

Opening Statement by Congressman Paul E. Gillmor
House Financial Services Committee
Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises
Hearing on HR 2420, the Mutual Funds Integrity and Fee Transparency Act of 2003

Thank you, Mr. Chairman, for holding this important hearing and for your leadership on this issue. I am happy to be an original cosponsor of the Mutual Funds Integrity and Fee Transparency Act. HR 2420 will strengthen corporate governance and management integrity at mutual fund companies by directing reforms to create the type of climate in the mutual fund industry where honest management is commonplace and the interests of the shareholders are placed before personal economic gain. It will provide investors with more complete and useful information regarding the fees they are assessed while also strengthening director oversight of soft-dollar and certain distribution arrangements, enhancing management integrity.

Over the past two decades, the percentage of households in the United States invested in the stock market has grown from 32.5 to 49.5 percent, according to a recent survey published by the Investment Company Institute (ICI) and the Securities Industry Association (SIA). In Ohio alone, there are 3, 916, 000 shareholders with \$295.4 billion invested. Many of these Americans and families in the Fifth District of Ohio are invested through mutual funds and often they depend on the safety of their funds to enjoy a secure retirement. This committee must remember that the money at stake here, is money that belongs to the shareholders not fund management.

Issues surrounding the disclosure practices within the Mutual Fund Industry have been of great interest to me throughout my career in Congress and specifically as sponsor of the "Mutual Fund Tax Awareness Act of 1999," HR 1089, during the 106th Congress. I was happy to work with the SEC on this issue and eventually see the Final Rule on Disclosure of Mutual Fund After-Tax Returns come into effect of April 16, 2001. Requiring the communication of this information to individual shareholders goes a long way in assisting with fund performance comparisons and enabling better informed investing decisions. However, as the Securities and Exchange Commission (SEC) made clear, in

its response to Chairman Baker's letter expressing concerns from this subcommittee's last hearing on the mutual fund industry, further reforms are necessary.

Today, I am particularly interested to hear the opinions of our witnesses on the "soft dollar" provisions in HR 2420. This legislation calls for greater disclosure of this practice, encouraging brokers to sell mutual fund shares, but I would like to hear more from the industry on the SEC's suggestion of changing the law that permits this activity.

Again, Mr. Chairman, I would like to thank you for your leadership on this issue and I look forward to a thorough debate of this legislation here today. Greater disclosure in the mutual fund industry is one of the most important issues this subcommittee will consider during the 108th Congress.