

**Fund Democracy**  
*The Mutual Fund Shareholder's Advocate*



Consumer Federation of America

 U.S. Public Interest Research Group

**Consumers  
Union**

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## **Consumer Groups Offer Blueprint for Mutual Fund Reform**

### **Call on the Senate to Provide Needed Reforms to Fund Operations, Oversight, Regulation and Sales To Restore Badly Damaged Investor Confidence**

Sweeping reforms are needed to restore badly shaken investor confidence in the mutual fund industry, according to the nation's leading consumer and investor advocacy organizations. Fund Democracy, Consumer Federation of America, Consumer Action, U.S. Public Interest Research Group, and Consumers Union released a broad mutual fund reform agenda Tuesday designed to provide a blueprint against which the groups will measure all legislative and regulatory reform proposals.

The House has taken the lead by quickly passing reform legislation, the groups noted. That bill contains some useful provisions, but more is needed to clean up the industry. Now it is up to the Senate to ensure that investors get a truly comprehensive reform bill. With several members currently said to be drafting legislation, the groups' proposals should provide a blueprint for strong pro-investor reform.

The groups' mutual fund reform blueprint calls for:

- reforms designed to address specific abuses uncovered by the recent investigations, including mandatory imposition of short-term redemption fees, protections against late trading, and full and fair restitution of shareholder losses;

-MORE-

- reforms to improve regulatory oversight of mutual funds, by creating an independent regulatory organization to set and enforce standards for mutual fund boards, supporting and expanding SEC efforts to enhance its regulatory operations, and reviewing SEC reliance on settlements without an admission of wrong-doing;
- reforms to enhance the independence and effectiveness of mutual fund boards, including strengthening the definition of independent director, requiring that the board chairman and three-quarters of board members be independent, requiring independent directors to stand for election, and establishing a fiduciary duty for board members with respect to all fees;
- reforms to improve mutual fund sales practices, including requiring delivery of a fund profile prior to the sale and requiring disclosure of brokers' compensation, including a point-of-sale cost estimate;
- reforms to improve mutual fund fee disclosures, by requiring portfolio transaction costs to be included in the mutual fund expense ratio, reforming 12b-1 fees, requiring fee comparison disclosures, requiring individualized disclosure of actual fund costs, and requiring disclosure comparing different fund classes; and
- miscellaneous additional reforms, such as banning soft dollars, requiring disclosure of the amount and structure of portfolio managers' compensation and fund investments, prohibiting fund managers from allocating brokerage in return for fund sales, and prohibiting funds that invest all their assets in Fannie Mae or Freddie Mac securities from calling themselves U.S. Government funds.

“The mutual fund industry has betrayed our trust. Fraudulent conduct has been uncovered at the highest levels of fund management and shown to be pervasive throughout the industry,” said Mercer Bullard, founder and president of Fund Democracy and a securities law professor at the University of Mississippi. “Legislative and regulatory reform proposals must do more than address the specific abuses uncovered by the recent investigations, they must also recognize and address the systemic nature of recent compliance failures, the problem of excessive and hidden fund fees, the misleading nature of certain fund disclosures, and the failure of the fund governance structure to protect shareholder interests.”

“The recent investigations have provided compelling evidence that funds too often do not live up to their legal obligation to operate in shareholders' best interests, that brokers' suitability requirement is a poor substitute for full disclosure, and that regulators cannot be relied on to act quickly and aggressively to put a stop to abusive practices,” said Barbara Roper, CFA's Director of Investor Protection. “Legislative and regulatory reforms adopted in response to the scandal

-MORE-

Page Three

need to address this broad range of concerns. Only then can investors regain confidence in the integrity of the mutual fund marketplace.”

“Our reform agenda outlines the changes that are needed to bring fairness and openness to the mutual fund industry,” said Consumer Action Executive Director Kenneth McEldowney.

“This reform blueprint has one simple goal,” said Edmund Mierzwinski, Consumer Program Director of U.S. Public Interest Research Group, “to guarantee that the clubby mutual fund industry on Wall Street starts placing the interests of small investors on Main Street first, not last.”

“Consumers Union believes the mutual fund industry – where 95 million Americans have entrusted and invested their money – is in need of serious reforms. We believe the points we have highlighted here will go a long way toward bringing about these needed reforms,” said Sally Greenberg, Senior Counsel for Consumers Union.

The consumer group blueprint for reform is available on the CFA website at [www.consumerfed.org/mutual\\_fund\\_reform\\_blueprint.pdf](http://www.consumerfed.org/mutual_fund_reform_blueprint.pdf)

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Fund Democracy is an advocacy group for mutual fund shareholders that was founded in 2000.

Consumer Federation of America is a non-profit association of approximately 300 national, state, and local pro-consumer organizations founded in 1968 to represent the consumer interest through advocacy and education.

Founded in 1971, Consumer Action works on a wide range of consumer issues through its national network of 6,500 community based organizations.

U.S. PIRG serves as the national association and national lobbying office for state Public Interest Research Groups. PIRGs are non-profit, non-partisan public interest advocacy organizations.

Consumers Union, publisher of *Consumer Reports* magazine, is an independent nonprofit testing, educational and information organization serving only the consumer.

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