



House Committee on Financial Services

Michael G. Oxley (OH), Chairman



News

Opening Statement

Chairman Michael G. Oxley Committee on Financial Services

Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises

Hearing on H.R. 2420, the Mutual Funds Integrity and Fee Transparency Act
June 18, 2003

Thank you Chairman Baker for your leadership in looking out for the interests of America's 95 million mutual fund shareholders. Today we will hear testimony from two panels of distinguished witnesses on a bill that will help every one of those shareholders. H.R. 2420, the Mutual Funds Integrity and Fee Transparency Act, will help investors to gain a clearer understanding of the fees they are charged for investing in mutual funds, and will strengthen the role of the independent directors who are charged with guarding the interests of fund investors.

The hallmark of the federal securities laws is full and fair disclosure of information. Armed with all the relevant facts, individuals are free to select investments based on their financial goals, age, risk tolerance, and other factors. Transparency is the foundation for a robust, competitive free market.

But without accurate and complete information – presented in an understandable format – investors are unable to make informed decisions.

There is some consensus that mutual fund investors do not have all the information necessary for such decisions. For instance, the Securities and Exchange Commission, as well as the General Accounting Office – both here today – have reached this conclusion.

This legislation is an important first step towards improving the way investors consider, and choose among, mutual funds. It will help investors compare funds by giving them a full picture of all of a fund's expenses. It will help investors shop for funds with a more practical understanding of what the funds' expenses really mean to investors – by telling them, in dollars, not percentages, how much a fund costs. It will also help investors to evaluate whether a portfolio manager's compensation structure provides the kind of incentives that align the portfolio manager's interests with the investors'.

The legislation builds upon the significant corporate governance reforms that were embodied in the Sarbanes-Oxley Act of last year by focusing on the particular circumstances of mutual fund companies. It strengthens the role of independent directors. Fund boards of directors, which are supposed to supervise the operations of the investment company, should be led by those who represent the fund's owners – the independent directors.

The legislation also provides for greater oversight and transparency of distribution mechanisms that can create conflicts of interests. This will strengthen investor confidence and promote better practices through competition.

I commend Chairman Baker for his championing of the interests of American investors and thank our distinguished witnesses for their insights here today.

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