

**OPENING STATEMENT OF
RANKING DEMOCRATIC MEMBER PAUL E. KANJORSKI
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE,
AND GOVERNMENT SPONSORED ENTERPRISES
HEARING ON MUTUAL FUNDS:
WHO'S LOOKING OUT FOR INVESTORS?
THURSDAY, NOVEMBER 6, 2003**

Thank you for the opportunity to offer my thoughts before we begin our second hearing this week on wrongdoing in the mutual fund industry.

As you know, Mr. Chairman, the recent troubles at companies like Strong Capital Management, Janus Capital Group, and Putnam Investments, among others, have caused me great concern. This unease led me to call upon you in late October to arrange for hearings so that we could identify the steps the participants in the mutual fund industry and their regulators are taking to protect investors' interests and restore investor confidence in light of these scandals. In my view, we have an obligation to American investors to monitor these developments. I therefore commend you for promptly responding to my request and convening these proceedings.

With approximately 95 million investors and \$7 trillion in assets, the dynamic mutual fund industry constitutes a major part of our securities markets. Heretofore, many experts had extolled the mutual fund industry for working to democratize investing for millions of average Americans, allowing them to easily participate in our capital markets with a diversified portfolio.

During the last two months, however, we have learned about several alleged and/or demonstrated incidents of "market timing" and "late trading" abuses in the mutual fund industry. Because investor protection is a priority for my work on this panel, I am very concerned about the effects of these events on small investors, who likely lost money as a result of these transgressions and probably became further discouraged about participating in our securities markets. I also believe that all participants in the securities industry have a responsibility to behave ethically and follow the rules. As a result, the announcement of each new case of misdeeds in the mutual fund industry has greatly disturbed me.

Many parties are also now taking action to address these problems, including New York Attorney General Eliot Spitzer and Massachusetts Commonwealth Secretary William Galvin. The Chairman of the Securities and Exchange Commission has additionally noted that his staff is "aggressively investigating the allegations and is committed to holding those responsible for violating the federal securities laws accountable and seeking restitution for mutual fund investors that have been harmed by these abuses." In addition, the Investment Company Institute has "unambiguously reaffirmed that shareholders' interests must be placed before all else."

As you also know, Mr. Chairman, I believe that it is very important for us to explore market timing and late trading problems in the mutual fund industry, as we have not previously examined these matters in the 108th Congress. Earlier this year, we considered and approved

H.R. 2420, the Mutual Fund Integrity and Fee Transparency Act. In general, H.R. 2420 seeks to enhance the disclosure of mutual fund fees and costs to investors, improve corporate governance for mutual funds, and heighten the awareness of boards about mutual fund activities.

Although we held two hearings in the Capital Markets Subcommittee to review numerous topics related to the mutual fund industry before marking up H.R. 2420 in the full Committee, we did not specifically explore the issues of market timing and late trading. In light of the current public revelations about these abusive practices, I am consequently pleased that we are examining these important matters now.

Furthermore, Mr. Chairman, I share your concerns that our panel must continue to conduct vigorous oversight to examine whether our regulatory system is working as intended and to determine how we could make it stronger. It is my hope that today's proceedings will help us to better understand the current problems in the mutual fund industry. Our goal in any further legislative efforts in these matters should be to ensure that we advance the interests of average investors by preventing these problems in the future and improving the performance of the mutual fund industry in the long term.

In closing, Mr. Chairman, I look forward to hearing from our distinguished witnesses on these important issues. Mutual funds have successfully worked to help middle-income American families to save for an early retirement, higher education, and a new home. We need to ensure that this success continues.
