IDC Independent Directors Council
Promoting Excellence in Fund Governance

2004 Equity Markets Conference: Opening Remarks

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September 23, 2004
New York, New York

Good morning.

I'm Elizabeth Krentzman, the General Counsel of the Investment Company Institute. I'd like to welcome all of you to the ICI's 2004 Equity Markets Conference. This is the sixth year we have held this conference. We began the conference in order to discuss the regulatory and structural developments in the securities markets affecting mutual funds and other institutional investors. Because these developments have a significant impact on our members, the Institute has been a proactive voice for the buyside on market structure issues before the SEC and the individual market centers.

As in the past, we have numerous issues to discuss today. Our panels will examine, among other things, issues relating to the SEC's proposed Regulation NMS, most significantly the trade-through and market access proposals; compliance issues facing institutional investors; and the brokers' relationship with the buyside.

We're also very fortunate to have once again at this conference an outstanding set of speakers to discuss these issues, including senior officials from the SEC, the exchanges, and buyside and sellside firms. We're especially pleased to have on our program Annette Nazareth, Director of the SEC's Division of Market Regulation, and Robert Greifeld, President and CEO of the Nasdaq Stock Market, both of whom you will hear from shortly, as well as the CEO of the New York Stock Exchange, John Thain, who will be speaking to you at lunch.

Before I turn to some of the market structure issues facing mutual funds, I would like to take a few minutes to discuss some of the other issues funds have had to address over the past year.

Three weeks ago, the mutual fund industry reached the first anniversary of the mutual fund scandal. In addition to the enforcement actions brought by the Commission in response to the scandal, the SEC has developed an unprecedented series of regulatory reforms affecting mutual funds. One example of such a reform is the SEC's new compliance rule for funds.

On October 5, the SEC's new compliance rule will go into effect. This new rule will have a significant long-term impact on the oversight of fund operations and related compliance activities. The rule is far reaching and addresses many areas of a fund's operations, including requiring funds to have a chief compliance officer who reports to the fund's board of directors. Our panel after lunch will discuss the implications of this rule.

In order to sustain the confidence and trust of our investors, it is clear the mutual fund industry must dedicate itself to fulfilling its obligations as fiduciaries. A vigorous and successful compliance program is an essential part of this proposition. The Institute therefore continues to pledge our assistance to members in instituting strong compliance programs and has already undertaken a series of initiatives to further this objective. These include establishing a new standing committee comprised of chief compliance officers in order to provide a forum for CCOs to interact with their peers, share their perspectives on the compliance challenges they face, and expand their knowledge of industry compliance practices.

The ICI also continues to participate in other recent developments in the securities markets affecting mutual funds, such as brokerage-related issues. These issues include the increased focus on soft dollars and directed brokerage – both issues of which you will hear about shortly. In addition, pending is an important SEC proposal to require brokers to provide disclosure at the point-of-sale that would inform investors of potential conflicts a broker may have in recommending a particular fund, such as the existence of revenue sharing arrangements.

These are significant issues to the entire securities industry. The Institute therefore believes that it is in the best interests of the mutual fund industry and the brokerage industry to maintain a strong working relationship to find effective solutions to these issues. After all, brokers are the vehicles through which our members purchase a large portion of the securities for their funds' portfolios. In addition, the majority of fund shares are sold through brokers. We therefore look forward to joining together with the brokerage community, as well as the SEC's Division of Market Regulation, in a collaborative effort on these issues.

To turn to today's conference, because mutual funds are the principal means by which millions of Americans invest in our equity markets, a well-regulated, fair, and efficient securities market also is a vitally important objective to the Institute and its members. The ICI, therefore, continues to take an active role in the development of regulatory initiatives to modify the way the securities markets are structured. Our goal is to ensure that our markets are highly competitive and efficient, and that the regulatory structure that oversees the markets encourages, rather than impedes, the objectives of a true national market system.

Most significantly, the Institute continues to examine the impact on mutual funds of the SEC's proposed Regulation NMS, which is designed to address a variety of challenges investors face when trading in the securities markets and which arguably would implement the most comprehensive changes to the U.S. securities markets in almost thirty years.

In addition, over the past year, the ICI has continued to promote more efficient trading of listed securities on the New York Stock Exchange. We therefore welcomed the decision of the new leadership at the New York Stock Exchange to take the first step towards bringing needed automation to the Exchange through their recent hybrid market proposal. At the same time, however, we urge the New York Stock Exchange to view the hybrid market proposal as just that, an initial step towards improving trading on the Exchange, and to continue to examine ways to provide for the increased automatic execution of limit orders placed on the Exchange. We will be closely monitoring developments at the Exchange on this issue. We also are hopeful that the New York Stock Exchange will consider the Institute's recommendations regarding the hybrid market proposal, which we filed yesterday with the SEC.

While I have been the Institute's General Counsel for only three short months, and continue to gain an understanding of many of the complex details of the market structure issues that this audience wrestles with on a day-to-day basis, one thing that I have quickly learned is the importance of these issues to our members and other investors. The Institute therefore strongly supports efforts to create a more efficient securities market structure for investors.

So how do we create such a market structure? We believe the SEC must focus its efforts on the core principles of a national market system - efficiency, competition, price transparency, and the direct interaction of investor orders. We are hopeful that the SEC will seize upon the current debate over market structure as an opportunity to undertake long overdue reforms, which the Institute has advocated to improve the quality of our markets and which would move us closer to a true national market system. Proposed Regulation NMS is a significant step towards achieving this goal. As part of the discussions about what are clearly important issues, we are committed to continuing to represent the investor to ensure that the U.S. securities markets are structured in a manner that benefits all investors, both institutional and retail.

Over the past year, the SEC has had the unenviable task of having to address all of these market structure issues. We are therefore very fortunate to open up today's conference by hearing from Annette Nazareth, who leads the SEC's reform efforts.

As I am sure most of you know, Annette is the Director of the Division of Market Regulation at the SEC, a position she has held since March of 1999. As Director, Annette has primary responsibility for establishing priorities and guiding the resolution of a number of securities market and broker-dealer issues. These include equity market structure issues, such as internalization and fragmentation concerns, market data issues and inter-market linkages, as well as options market issues, such as options market linkages and market data capacity issues.

Annette previously served as Senior Counsel to Chairman Levitt and Interim Director of the Division of Investment Management. Prior to joining the Commission in September of 1998, Annette held senior positions with Salomon Smith Barney, Lehman Brothers Inc., and Mabon Securities Corp. All of these experiences contributes to her deep understanding of the issues at hand.

Please join me in welcoming Annette Nazareth.
