

March 12, 2003

Opening Statement by Congressman Paul E. Gillmor
House Financial Services Committee
Subcommittee on Capital Markets, Insurance, and Government Sponsored Enterprises
Hearing entitled, "Mutual Fund Industry Practices and their Effect on Individual Investors"

Thank you, Mr. Chairman, for calling this important hearing and for your dedicated leadership along with that of our Full Committee Chairman, Mr. Oxley, on mutual fund industry disclosure practices and specifically the rights of individual shareholders.

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, I'm not convinced that it has gone far enough.

Specifically, today I would like to revisit a recommendation made by the General Accounting Office (GAO), that mutual funds be required to send fund shareholders account statements that include the dollar amount of the fund's fees that each investor has paid. I am concerned that the current Mutual Fund Fee Table provided to investors in fund prospectuses is often ignored and not presented in a meaningful format for the average mutual fund investor. Disclosure of expenses as a percentage of assets allows for better comparison among funds but it does not effectively communicate real costs.

As is stated in the Securities and Exchange Commission's (SEC) "Division of Investment Management: Report on Mutual Fund Fees and Expenses" from December 2000: "With respect to fund fees and expenses, we believe that investors need information, in addition to information about the dollar amount of fees, that helps them to understand the fees that they pay. Moreover, they need to be able to compare the fees of their fund to the fees of other funds and other types of investments. To satisfy these broader needs, we believe

that any additional required fee information, including the dollar amount of fees, should be provided in semi-annual and annual shareholder reports.”

It is the case, as the GAO detailed in its report from June of 2000 to our full Committee Chairman in his previous capacity as Chairman of the Subcommittee on Finance and Hazardous Materials of the House Committee on Commerce, that “funds are not required to provide information on the actual dollar amount of each investor’s share of the operating expenses that were deducted from the fund. This contrasts with most other financial products and services for which specific dollar charges are generally required to be disclosed.”

Additionally, I would like to hear your comments on recommendations to improve disclosure of portfolio transaction costs to consumers. The cost of these expenses can be very significant and even exceed the amount of the fund’s expense ratio; yet, these costs are not clearly presented to consumers. Mutual Funds disclose their commission costs in the Statement of Additional Information, but this document is not provided to shareholders unless they request it, and it is certainly not presented in a manner that can be easily used to compare portfolio transaction costs among funds.

I am considering legislation on these issues and would welcome your comments on improving shareholder understanding of, and accessibility to, this information.

Thank you again, Mr. Chairman, for your leadership in this area and I look forward to a thorough discussion of the issues I have presented.