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Scandals Spawn Fund Shareholder Rights Group

By [Alison Sahoo](#)

In response to the growing fund trading scandal, a Capitol Hill law firm has just formed a new investor rights group. Late last week, **McGuiness & Holch** announced the formation of the **Coalition of Mutual Fund Investors**.

M & H isn't trolling for class action cases, however. It's a lobbying regulatory firm trying to give individual investors a voice on the Hill.

The attention the scandal has generated in the press and on Capitol Hill made the exclusion of a group representing individual investors' interests glaringly obvious, according to partner Niels Holch. The group was formed to ensure shareholders' voices are heard in the debate, he says.

"We've never done litigation. We started this coalition as an experiment. We've been investors for years in mutual funds and have studied this area for a long time as an investor. We feel that what's missing in the hearings is there's no representation for the individual investor."

The group's mission, says Holch, is to promote the interests of individual fund shareholders. To that end, it will use the internet to advance legislative and regulatory reforms and it's already set up a [website](#).

Holch says that CMFI supports the bill proposed this summer by Congressman Richard Baker (R.-La.). But, he says, it doesn't go far enough. CMFI will support expanding the bill to include more disclosure of operating expenses and portfolio transaction costs, full disclosure of all payments for shelf space, full disclosure of shareholder identity and transaction information to mutual funds and improved shareholder access to the policies and procedures detailed in funds' statements of additional information.

The coalition, says Holch, will provide investors with mutual fund information on its website, provide regular e-mail updates and teach investors how to lobby their congressmen for legislative change.

It will be funded, he says, by donations and contributions. Although the group is not a not-for-profit, Holch says that so far it has no money in its account. If the group should generate sufficient donations, that money would pay the out-of-pocket expenses associated with running the group, he says.

While there does not appear to be any monetary reward for sponsoring the group, Holch's firm could benefit from the attention the issue will continue to generate.

Plus, the group will provide a different voice in the proceedings and industry

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executives say there's always more room for shareholder advocates.

"If it's an organization to promote the confidence of the investing public and further the mutual fund industry for the best interest of all shareholders, it will be positive," says Mike Malloy, a partner and head of the investment management group at **Drinker, Biddle & Reath**. "But if it's a small group with another agenda," he says, "that may not be helpful."

A number of groups including the Investment Company Institute and Fund Democracy have been active over the years in the shareholder rights arena.

Holch points out that Fund Democracy hasn't historically focused on the mechanics of lobbying.

Adam Kanzler, a spokesman for **Domini Funds**, notes that the ICI's heart lies more with its fund firm members than their customers.

"The ICI speaks with a loud voice and they do lobby in Washington," he says. "They have an audience with the SEC when they want one. But they represent the industry, not as much the investors. It's not that their positions are always at odds with investors, but more that in the final analysis, they'll always take the industry position."

Kanzler recalls that well from the proxy voting battle. When the SEC proposed a rule requiring funds to disclose how they vote their proxies, the ICI sided with its members against the proposal, he says. That occurred even though the bill was developed to disclose more information to investors.

ICI spokesman Chris Wloszczyna says, however, that the group is committed to protecting investors.

"We're working with regulators and Congress," he says. "We support the industry – that includes the management companies and investors. Those interests are probably more aligned than not."

Wloszczyna notes that in the past, the ICI has supported a raft of investor-friendly reforms including disclosure simplification efforts, financial services reform, privacy rules, codes of ethics, 401K disclosures and 401K catch-up provisions. It also, he says, opposed suggestions to repeal prohibitions against affiliated transactions even though that would have benefited some members.

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