

108TH CONGRESS
2D SESSION

H. R. 4505

To improve the governance and regulation of mutual funds under the securities laws, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

JUNE 3, 2004

Mr. GILLMOR introduced the following bill; which was referred to the Committee on Financial Services

A BILL

To improve the governance and regulation of mutual funds under the securities laws, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS.**

4 (a) **SHORT TITLE.**—This Act may be cited as the
5 “Mutual Fund Reform Act of 2004”.

6 (b) **TABLE OF CONTENTS.**—The table of contents for
7 this Act is as follows:

- Sec. 1. Short title; table of contents.
- Sec. 2. Definitions.
- Sec. 3. Rulemaking.

TITLE I—FUND GOVERNANCE

Sec. 101. Independent directors.

- Sec. 102. Study of director compensation and independence.
- Sec. 103. Fiduciary duties of directors.
- Sec. 104. Fiduciary duty of investment adviser.
- Sec. 105. Termination of fund advisers.
- Sec. 106. Independent accounting and auditing.
- Sec. 107. Prevention of fraud; internal compliance and control procedures.

TITLE II—FUND TRANSPARENCY

- Sec. 201. Cost consolidation and clarity.
- Sec. 202. Advisor compensation and ownership of fund shares.
- Sec. 203. Point of sale and additional disclosure of broker compensation.
- Sec. 204. Breakpoint discounts.
- Sec. 205. Portfolio turnover ratio.
- Sec. 206. Proxy voting policies and record.
- Sec. 207. Customer information from account intermediaries.
- Sec. 208. Advertising.

TITLE III—FUND REGULATION AND OVERSIGHT

- Sec. 301. Prohibition of asset-based distribution expenses.
- Sec. 302. Prohibition on revenue sharing, directed brokerage, and soft dollar arrangements.
- Sec. 303. Market timing.
- Sec. 304. Elimination of stale prices.
- Sec. 305. Prohibition of short term trading; mandatory redemption fees.
- Sec. 306. Prevention of after-hours trading.
- Sec. 307. Ban on joint management of mutual funds and hedge funds.
- Sec. 308. Selective disclosures.

TITLE IV—STUDIES

- Sec. 401. Study of adviser conflict of interest.
- Sec. 402. Study of coordination of enforcement efforts.
- Sec. 403. Study of Commission organizational structure.
- Sec. 404. Trends in arbitration clauses.
- Sec. 405. Hedge fund regulation.
- Sec. 406. Investor education and the Internet.

1 **SEC. 2. DEFINITIONS.**

2 In this Act, the following definitions shall apply:

3 (1) **COMMISSION.**—The term “Commission”
 4 means the Securities and Exchange Commission.

5 (2) **INVESTMENT ADVISER.**—The term “invest-
 6 ment adviser” has the same meaning as in section
 7 2(a)(20) of the Investment Company Act of 1940
 8 (15 U.S.C. 80a-2(a)(20)).

1 (3) INVESTMENT COMPANY.—The term “invest-
2 ment company” has the same meaning as in section
3 3 of the Investment Company Act of 1940 (15
4 U.S.C. 80–3).

5 (4) REGISTERED INVESTMENT COMPANY.—The
6 term “registered investment company” means an in-
7 vestment company that is registered under section 8
8 of the Investment Company Act of 1940 (15 U.S.C.
9 80a–8).

10 **SEC. 3. RULEMAKING.**

11 (a) TIMING.—Unless otherwise specified in this Act
12 or the amendments made by this Act, the Commission
13 shall issue, in final form, all rules and regulations required
14 by this Act and the amendments made by this Act not
15 later than 180 days after the date of enactment of this
16 Act.

17 (b) AUTHORITY TO DEFINE TERMS.—The Commis-
18 sion may, in issuing rules and regulations under this Act
19 or the amendments made by this Act, define any term
20 used in this Act or such amendments that is not otherwise
21 defined for purposes of this Act or such amendment, as
22 the Commission determines necessary and appropriate.

23 (c) EXEMPTION AUTHORITY.—The Commission may,
24 in issuing rules and regulations under this Act or the
25 amendments made by this Act, exempt any investment

1 company or other person from the application of such
2 rules, as the Commission determines is necessary and ap-
3 propriate, in the public interest or for the protection of
4 investors.

5 **TITLE I—FUND GOVERNANCE**

6 **SEC. 101. INDEPENDENT DIRECTORS.**

7 (a) INDEPENDENT FUND BOARDS.—Section 10(a) of
8 the Investment Company Act of 1940 (15 U.S.C. 80a–
9 10(a)) is amended—

10 (1) by striking “shall have” and inserting the
11 following: “shall—

12 “(1) have”;

13 (2) by striking “60 per centum” and inserting
14 “25 percent”;

15 (3) by striking the period at the end and insert-
16 ing a semicolon; and

17 (4) by adding at the end the following:

18 “(2) have as chairman of its board of directors
19 an interested person of such registered company; or

20 “(3) have as a member of its board of directors
21 any person that is not an interested person of such
22 registered investment company—

23 “(A) who has served without being ap-
24 proved or elected by the shareholders of such

1 registered investment company at least once
2 every 5 years; and

3 “(B) unless such director has been found,
4 on an annual basis, by a majority of the direc-
5 tors who are not interested persons, after rea-
6 sonable inquiry by such directors, not to have
7 any material business or familial relationship
8 with the registered investment company, a sig-
9 nificant service provider to the company, or any
10 entity controlling, controlled by, or under com-
11 mon control with such service provider, that is
12 likely to impair the independence of the direc-
13 tor.”.

14 (b) ACTION BY INDEPENDENT DIRECTORS.—Section
15 10 of the Investment Company Act of 1940 (15 U.S.C.
16 80a–10) is amended by adding at the end the following:

17 “(i) INDEPENDENT COMMITTEE.—

18 “(1) IN GENERAL.—The members of the board
19 of directors of a registered investment company who
20 are not interested persons of such registered invest-
21 ment company shall establish a committee comprised
22 solely of such members, which committee shall be re-
23 sponsible for—

24 “(A) selecting persons to be nominated for
25 election to the board of directors;

1 “(B) adopting qualification standards for
2 the nomination of directors; and

3 “(C) determining the compensation to be
4 paid to directors.

5 “(2) DISCLOSURE.—The standards developed
6 under paragraph (1)(B) shall be disclosed in the reg-
7 istration statement of the registered investment com-
8 pany.”.

9 (c) DEFINITION OF INTERESTED PERSON.—Section
10 2(a)(19) of the Investment Company Act of 1940 (15
11 U.S.C. 80a–2) is amended—

12 (1) in subparagraph (A)—

13 (A) in clause (iv), by striking “two” and
14 inserting “5”; and

15 (B) by striking clause (vii) and inserting
16 the following:

17 “(vii) any natural person who has
18 served as an officer or director, or as an
19 employee within the preceding 10 fiscal
20 years, of an investment adviser or principal
21 underwriter to such registered investment
22 company, or of any entity controlling, con-
23 trolled by, or under common control with
24 such investment adviser or principal under-
25 writer;

1 “(viii) any natural person who has
2 served as an officer or director, or as an
3 employee within the preceding 10 fiscal
4 years, of any entity that has within the
5 preceding 5 fiscal years acted as a signifi-
6 cant service provider to such registered in-
7 vestment company, or of any entity con-
8 trolling, controlled by, or under the com-
9 mon control with such service provider;

10 “(ix) any natural person who is a
11 member of a class of persons that the
12 Commission, by rule or regulation, deter-
13 mines is unlikely to exercise an appropriate
14 degree of independence as a result of—

15 “(I) a material business relation-
16 ship with the investment company or
17 an affiliated person of such invest-
18 ment company;

19 “(II) a close familial relationship
20 with any natural person who is an af-
21 filiated person of such investment
22 company; or

23 “(III) any other reason deter-
24 mined by the Commission.”;

25 (2) in subparagraph (B)—

1 (A) in clause (iv), by striking “two” and
2 inserting “5”; and

3 (B) by striking clause (vii) and inserting
4 the following:

5 “(vii) any natural person who is a
6 member of a class of persons that the
7 Commission, by rule or regulation, deter-
8 mines is unlikely to exercise an appropriate
9 degree of independence as a result of—

10 “(I) a material business relation-
11 ship with such investment adviser or
12 principal underwriter or affiliated per-
13 son of such investment adviser or
14 principal underwriter;

15 “(II) a close familial relationship
16 with any natural person who is an af-
17 filiated person of such investment ad-
18 viser or principal underwriter; or

19 “(III) any other reason as deter-
20 mined by the Commission.”.

21 (d) DEFINITION OF SIGNIFICANT SERVICE PRO-
22 VIDER.—Section 2(a) of the Investment Company Act of
23 1940 is amended by adding at the end the following:

24 “(53) SIGNIFICANT SERVICE PROVIDER.—

1 “(A) IN GENERAL.—Not later than 270
2 days after the date of enactment of the Mutual
3 Fund Reform Act of 2004, the Commission
4 shall issue final rules defining the term ‘signifi-
5 cant service provider’.

6 “(B) REQUIREMENTS.—The definition de-
7 veloped under paragraph (1) shall include, at a
8 minimum, the investment adviser and principal
9 underwriter of a registered investment company
10 for purposes of paragraph (19).”.

11 **SEC. 102. STUDY OF DIRECTOR COMPENSATION AND INDE-**
12 **PENDENCE.**

13 (a) IN GENERAL.—The Commission shall conduct a
14 study of—

15 (1) whether any limits should be placed upon
16 the amount of compensation paid by a registered in-
17 vestment company or any affiliate of such company
18 to a director thereof; and

19 (2) whether a director of a registered invest-
20 ment company who is otherwise not an interested
21 person of a registered investment company, as de-
22 fined in section 2(a)(19) of the Investment Company
23 Act of 1940, as amended by this Act, but serves as
24 a director of multiple registered investment compa-
25 nies, or receives substantial compensation from the

1 investment adviser of any such company, should be
2 considered an “interested person” for purposes of
3 section 2 of the Investment Company Act of 1940.

4 (b) REPORT.—Not later than 1 year after the date
5 of enactment of this Act, the Commission shall submit a
6 report regarding the study conducted under subsection (a)
7 to—

8 (1) the Committee on Banking, Housing, and
9 Urban Affairs of the Senate; and

10 (2) the Committee on Financial Services of the
11 House of Representatives.

12 **SEC. 103. FIDUCIARY DUTIES OF DIRECTORS.**

13 Section 10 of the Investment Company Act of 1940
14 (15 U.S.C. 80a–10), as amended by this Act, is amended
15 by adding at the end the following:

16 “(j) FIDUCIARY DUTY OF DIRECTORS.—

17 “(1) IN GENERAL.—The members of the board
18 of directors of a registered investment company shall
19 have a fiduciary duty to act with loyalty and care,
20 in the best interests of the shareholders.

21 “(2) RULEMAKING.—The Commission shall
22 promulgate rules to clarify the scope of the fiduciary
23 duty under paragraph (1), which rules shall, at a
24 minimum, require the directors of a registered in-
25 vestment company to—

1 “(A) determine the extent to which inde-
2 pendent and reliable sources of information are
3 sufficient to discharge director responsibilities;

4 “(B) negotiate management and advisory
5 fees with due regard for the actual cost of such
6 services, including economies of scale;

7 “(C) evaluate the totality of fees with ref-
8 erence to the interests of shareholders;

9 “(D) evaluate the quality of the manage-
10 ment of the company and potentially superior
11 alternatives;

12 “(E) evaluate the quality, comprehensive-
13 ness, and clarity of disclosures to shareholders
14 regarding costs;

15 “(F) evaluate any distribution or mar-
16 keting plan of the company, including its costs
17 and benefits;

18 “(G) evaluate the size of the portfolio of
19 the company and its suitability to the interests
20 of shareholders;

21 “(H) implement and monitor policies to
22 ensure compliance with applicable securities
23 laws; and

24 “(I) implement and monitor policies with
25 respect to predatory trading practices.”.

1 **SEC. 104. FIDUCIARY DUTY OF INVESTMENT ADVISER.**

2 Section 36 of the Investment Company Act of 1940
3 (15 U.S.C. 80a-35(b)) is amended—

4 (1) by redesignating subsection (c) as sub-
5 section (d); and

6 (2) by inserting after subsection (b) the fol-
7 lowing:

8 “(c) DUTIES WITH RESPECT TO COMPENSATION AND
9 PROVISION OF INFORMATION.—For purposes of sub-
10 sections (a) and (b), the fiduciary duty of an investment
11 adviser—

12 “(1) with respect to any compensation received,
13 may require reasonable reference to the actual costs
14 of the adviser and economies of scale; and

15 “(2) shall include a duty to supply such mate-
16 rial information as is necessary for the independent
17 directors of a registered investment company with
18 whom the adviser is employed to review and govern
19 such company.”.

20 **SEC. 105. TERMINATION OF FUND ADVISER.**

21 The Commission shall promulgate such rules as it de-
22 termines necessary in the public interest or for the protec-
23 tion of investors to facilitate the process through which
24 the independent directors of a registered investment com-
25 pany may terminate the services of the investment adviser
26 of such company in the good faith exercise of their fidu-

1 ciary duties, without undue exposure to financial or litiga-
2 tion risk.

3 **SEC. 106. INDEPENDENT ACCOUNTING AND AUDITING.**

4 (a) AMENDMENTS.—Section 32 of the Investment
5 Company Act of 1940 (15 U.S.C. 80a–31) is amended—

6 (1) in subsection (a)—

7 (A) by striking paragraphs (1) and (2) and
8 inserting the following:

9 “(1) such accountant shall have been selected
10 at a meeting held within 30 days before or after the
11 beginning of the fiscal year or before the annual
12 meeting of stockholders in that year by the vote,
13 cast in person, of a majority of the members of the
14 audit committee of such registered investment com-
15 pany;

16 “(2) such selection shall have been submitted
17 for ratification or rejection at the next succeeding
18 annual meeting of stockholders if such meeting be
19 held, except that any vacancy occurring between an-
20 nual meetings, due to the death or resignation of the
21 accountant, may be filled by the vote of a majority
22 of the members of the audit committee of such reg-
23 istered company, cast in person at a meeting called
24 for the purpose of voting on such action;” and

1 (B) by adding at the end the following:

2 “The Commission, by rule, regulation, or order,
3 may exempt a registered management company
4 or registered face-amount certificate company
5 otherwise subject to this subsection from the re-
6 quirement in paragraph (1) that the votes by
7 the members of the audit committee be cast at
8 a meeting in person, when such a requirement
9 is impracticable, subject to such conditions as
10 the Commission may require.”; and

11 (2) by adding at the end the following:

12 “(d) AUDIT COMMITTEE REQUIREMENTS.—

13 “(1) REQUIREMENTS AS PREREQUISITE TO FIL-
14 ING FINANCIAL STATEMENTS.—Any registered man-
15 agement company or registered face-amount certifi-
16 cate company that files with the Commission any fi-
17 nancial statement signed or certified by an inde-
18 pendent public accountant shall comply with the re-
19 quirements of paragraphs (2) through (6) of this
20 subsection and any rule or regulation of the Com-
21 mission issued thereunder.

22 “(2) RESPONSIBILITY RELATING TO INDE-
23 PENDENT PUBLIC ACCOUNTANTS.—The audit com-
24 mittee of the registered investment company, in its
25 capacity as a committee of the board of directors,

1 shall be directly responsible for the appointment,
2 compensation, and oversight of the work of any inde-
3 pendent public accountant employed by the reg-
4 istered investment company (including resolution of
5 disagreements between management and the auditor
6 regarding financial reporting) for the purpose of pre-
7 paring or issuing the audit report or related work,
8 and each such independent public accountant shall
9 report directly to the audit committee.

10 “(3) INDEPENDENCE.—

11 “(A) IN GENERAL.—Each member of the
12 audit committee of the registered investment
13 company shall be a member of the board of di-
14 rectors of the company, and shall otherwise be
15 independent.

16 “(B) CRITERIA.—In order to be considered
17 to be independent for purposes of this para-
18 graph, a member of an audit committee of a
19 registered investment company may not, other
20 than in his or her capacity as a member of the
21 audit committee, the board of directors, or any
22 other board committee—

23 “(i) accept any consulting, advisory,
24 or other compensatory fee from the reg-
25 istered investment company or the invest-

1 ment adviser or principal underwriter of
2 the registered investment company; or

3 “(ii) be an interested person of the
4 registered investment company.

5 “(4) COMPLAINTS.—The audit committee of the
6 registered investment company shall establish proce-
7 dures for—

8 “(A) the receipt, retention, and treatment
9 of complaints received by the registered invest-
10 ment company regarding accounting, internal
11 accounting controls, or auditing matters; and

12 “(B) the confidential, anonymous submis-
13 sion by employees of the registered investment
14 company and its investment adviser or principal
15 underwriter of concerns regarding questionable
16 accounting or auditing matters.

17 “(5) AUTHORITY TO ENGAGE ADVISERS.—The
18 audit committee of the registered investment com-
19 pany shall have the authority to engage independent
20 counsel and other advisers, as it determines nec-
21 essary to carry out its duties.

22 “(6) FUNDING.—The registered investment
23 company shall provide appropriate funding, as deter-
24 mined by the audit committee, in its capacity as a

1 committee of the board of directors, for payment of
2 compensation—

3 “(A) to the independent public accountant
4 employed by the registered investment company
5 for the purpose of rendering or issuing the
6 audit report; and

7 “(B) to any advisers employed by the audit
8 committee under paragraph (5).

9 “(7) AUDIT COMMITTEE.—For purposes of this
10 subsection, the term ‘audit committee’ means—

11 “(A) a committee (or equivalent body) es-
12 tablished by and amongst the board of directors
13 of a registered investment company for the pur-
14 pose of overseeing the accounting and financial
15 reporting processes of the company and audits
16 of the financial statements of the company; and

17 “(B) if no such committee exists with re-
18 spect to a registered investment company, the
19 entire board of directors of the company.”.

20 (b) CONFORMING AMENDMENT.—Section 10A(m) of
21 the Securities Exchange Act of 1934 (15 U.S.C. 78j-
22 1(m)) is amended by adding at the end the following:

23 “(7) EXEMPTION FOR INVESTMENT COMPA-
24 NIES.—Effective one year after the date of enact-
25 ment of the Mutual Fund Reform Act of 2004, for

1 purposes of this subsection, the term ‘issuer’ shall
2 not include any investment company that is reg-
3 istered under section 8 of the Investment Company
4 Act of 1940.”.

5 (c) IMPLEMENTATION.—The Commission shall issue
6 final regulations to carry out section 32(d) of the Invest-
7 ment Company Act of 1940, as added by subsection (a)
8 of this section.

9 **SEC. 107. PREVENTION OF FRAUD; INTERNAL COMPLIANCE**
10 **AND CONTROL PROCEDURES.**

11 (a) DETECTION AND PREVENTION OF FRAUD.—Sec-
12 tion 17(j) of the Investment Company Act of 1940 (15
13 U.S.C. 80a–17(j)) is amended to read as follows:

14 “(j) DETECTION AND PREVENTION OF FRAUD.—

15 “(1) COMMISSION RULES TO PROHIBIT FRAUD,
16 DECEPTION, AND MANIPULATION.—It shall be un-
17 lawful for any affiliated person of or principal under-
18 writer for a registered investment company or any
19 affiliated person of an investment adviser of or prin-
20 cipal underwriter for a registered investment com-
21 pany, to engage in any act, practice, or course of
22 business in connection with the purchase or sale, di-
23 rectly or indirectly, by such person of any security
24 held or to be acquired by such registered investment
25 company, or any security issued by such registered

1 investment company or by an affiliated registered in-
2 vestment company, in contravention of such rules as
3 the Commission may adopt to define, and prescribe
4 means reasonably necessary to prevent, such acts,
5 practices, or courses of business as are fraudulent,
6 deceptive or manipulative.

7 “(2) CODES OF ETHICS.—The rules adopted
8 under paragraph (1) shall include requirements for
9 the adoption of codes of ethics by a registered in-
10 vestment company and investment advisers of, and
11 principal underwriters for, such investment compa-
12 nies establishing such standards as are reasonably
13 necessary to prevent such acts, practices, or courses
14 of business. Such rules and regulations shall require
15 each such registered investment company to disclose
16 such codes of ethics (and any changes therein) in
17 the periodic report to shareholders of such company,
18 and to disclose such code of ethics and any waivers
19 and material violations thereof on a readily acces-
20 sible electronic public information facility of such
21 company and in such additional form and manner as
22 the Commission shall require by rule or regulation.

23 “(3) ADDITIONAL COMPLIANCE PROCEDURES.—
24 The rules adopted under paragraph (1) shall—

1 “(A) require each registered investment
2 company and investment adviser to adopt and
3 implement general policies and procedures rea-
4 sonably designed to prevent violations of this
5 title, the Securities Act of 1933 (15 U.S.C. 78a
6 et seq.), the Securities Exchange Act of 1934
7 (15 U.S.C. 78a et seq.), the Sarbanes-Oxley Act
8 of 2002 (15 U.S.C. 7201 et seq.) and amend-
9 ments made by that Act, the Trust Indenture
10 Act of 1939 (15 U.S.C. 77aaa et seq.), the In-
11 vestment Advisers Act of 1940 (15 U.S.C. 80b
12 et seq.), the Securities Investor Protection Act
13 of 1970 (15 U.S.C. 78aaa et seq.), subchapter
14 II of chapter 53 of title 31, United States Code,
15 chapter 2 of title I of Public Law 91–508 (12
16 U.S.C. 1951 et seq.), or section 21 of the Fed-
17 eral Deposit Insurance Act (12 U.S.C. 1829b);

18 “(B) require each registered investment
19 company and registered investment adviser to
20 review such policies and procedures annually for
21 their adequacy and the effectiveness of their im-
22 plementation; and

23 “(C) require each registered investment
24 company to appoint a chief compliance officer

1 to be responsible for overseeing such policies
2 and procedures—

3 “(i) whose compensation shall be ap-
4 proved by the members of the board of di-
5 rectors of the company who are not inter-
6 ested persons of the company;

7 “(ii) who shall report directly to the
8 members of the board of directors of the
9 company who are not interested persons of
10 such company, privately as such members
11 request, but not less frequently than annu-
12 ally; and

13 “(iii) whose report to such members
14 shall include any violations or waivers of,
15 and any other significant issues arising
16 under, such policies and procedures.

17 “(4) CERTIFICATIONS.—The rules adopted
18 under paragraph (1) shall require each senior execu-
19 tive officer, or such officers designated by the Com-
20 mission, of an investment adviser of a registered in-
21 vestment company to certify in each periodic report
22 to shareholders, or other appropriate disclosure doc-
23 ument, that—

24 “(A) procedures are in place for verifying
25 that the determination of current net asset

1 value of any redeemable security issued by the
2 company used in computing periodically the
3 current price for the purpose of purchase, re-
4 demption, and sale complies with the require-
5 ments of this title and the rules and regulations
6 issued under this title, and the company is in
7 compliance with such procedures;

8 “(B) procedures are in place to ensure
9 that, if the shares of the company are offered
10 as different classes of shares, such classes are
11 designed in the interests of shareholders, and
12 could reasonably be an appropriate investment
13 option for a shareholder;

14 “(C) procedures are in place to ensure that
15 information about the portfolio securities of the
16 company is not disclosed in violation of the se-
17 curities laws or the code of ethics of the com-
18 pany;

19 “(D) the members of the board of directors
20 who are not interested persons of the company
21 have reviewed and approved the compensation
22 of the portfolio manager of the company in con-
23 nection with their consideration of the invest-
24 ment advisory contract under section 15(c); and

1 “(E) the company has established and en-
2 forces a code of ethics, as required by para-
3 graph (2).”.

4 (b) WHISTLEBLOWER PROTECTION.—Section
5 1514A(a) of title 18, United States Code, is amended by
6 striking the matter preceding paragraph (1) and inserting
7 the following:

8 “(a) WHISTLEBLOWER PROTECTION FOR EMPLOY-
9 EES OF PUBLICLY TRADED COMPANIES AND REGISTERED
10 INVESTMENT COMPANIES.—No company with a class of
11 securities registered under section 12 of the Securities Ex-
12 change Act of 1934 (15 U.S.C. 78l), or that is required
13 to file reports under section 15(d) of the Securities and
14 Exchange Act of 1934 (15 U.S.C. 78o(d)), or that is an
15 investment adviser, principal underwriter, or significant
16 service provider (as such terms are defined under section
17 2(a) of the Investment Company Act of 1940 (15 U.S.C.
18 80a-2(a)) of an investment company which is registered
19 under section 8 of the Investment Company Act of 1940,
20 or any officer, employee, contractor, subcontractor, or
21 agent of such company, may discharge, demote, suspend,
22 threaten, harass, or in any other manner discriminate
23 against an employee in the terms and conditions of em-
24 ployment because of any lawful act done by the em-
25 ployee—”.

1 **TITLE II—FUND TRANSPARENCY**

2 **SEC. 201. COST CONSOLIDATION AND CLARITY.**

3 (a) **EXPENSE RATIO COMPUTATION.**—

4 (1) **IN GENERAL.**—The Commission shall, by
5 rule, develop a standardized method of calculating
6 the expense ratio of a registered investment com-
7 pany that accounts for as many operating costs to
8 shareholders of such companies as is practicable.

9 (2) **SEPARATE DISCLOSURES.**—In developing
10 the method of calculation required under paragraph
11 (1), if the Commission determines that the inclusion
12 of certain costs in such calculation will lead to a sig-
13 nificant risk of confusing or misleading shareholders,
14 the Commission shall develop separate standardized
15 methods for the calculation and disclosure of such
16 costs.

17 (b) **TRANSACTION COST RATIO.**—The Commission
18 shall, by rule, develop a standardized method of computing
19 the transaction cost ratio of a registered investment com-
20 pany that practicably and fairly accounts for actual trans-
21 action costs to shareholders, including, at a minimum, bro-
22 kerage commissions and bid-ask spread costs. Such com-
23 putation, if necessary for ease of administration, may be
24 based upon a fair method of estimation or a standardized
25 derivation from easily ascertainable information.

1 (c) DISCLOSURE OF EXPENSE RATIO AND TRANS-
2 ACTION COST RATIO.—The Commission shall, by rule, re-
3 quire the prominent disclosure of the expense ratio and
4 the transaction cost ratio of a registered company, both
5 separately and as a total investment cost ratio, in—

6 (1) each annual report of the registered invest-
7 ment company;

8 (2) any prospectus of the registered investment
9 company, as part of a fee table; and

10 (3) such other filings with the Commission as
11 the Commission determines appropriate.

12 (d) ACTUAL COST DISCLOSURE.—The Commission
13 shall, by rule, require, on at least an annual basis, the
14 prominent disclosure in the shareholder account statement
15 of a registered investment company of the actual dollar
16 amount of the projected annual costs of each shareholder
17 of the company, based upon the asset value of the share-
18 holder at the time of the disclosure.

19 (e) DEFINITION OF FEES AND EXPENSES.—

20 (1) IN GENERAL.—The Commission shall, by
21 rule, define all specific allowable types or categories
22 of fees and expenses that may be borne by the
23 shareholders of a registered investment company.

24 (2) NEW FEES AND EXPENSES.—No new fee or
25 expense, other than any defined under paragraph

1 (1), shall be borne by the shareholders of a reg-
2 istered investment company, unless the Commission
3 finds that such new fee or expense fairly reflects the
4 services provided to, or is in the best interests of the
5 shareholders of—

6 (A) a particular registered investment com-
7 pany;

8 (B) specific types or categories of reg-
9 istered investment companies; or

10 (C) registered investment companies in
11 general.

12 (f) COST STRUCTURES.—The Commission shall pro-
13 mulgate such rules or regulations as are necessary—

14 (1) to promote the standardization and sim-
15 plification of the disclosure of the cost structures of
16 registered investment companies; and

17 (2) to ensure that the shareholders of such reg-
18 istered investment companies receive all material in-
19 formation regarding such costs—

20 (A) in a nonmisleading manner; and

21 (B) in such form and prominence as to fa-
22 cilitate, to the extent practicable, ease of com-
23 prehension and comparison of such costs.

24 (g) DESCRIPTIONS OF FEES, EXPENSES, AND
25 COSTS.—The Commission shall, by rule, require—

1 (1) the disclosure, in any annual or periodic re-
2 port filed with the Commission or any prospectus de-
3 livered to the shareholders of a registered investment
4 company, of all types of fees, expenses, or costs
5 borne by shareholders;

6 (2) a clear definition of each such fee, expense,
7 or cost; and

8 (3) information as to where shareholders may
9 find out more information concerning such fees, ex-
10 penses, or costs.

11 **SEC. 202. ADVISOR COMPENSATION AND OWNERSHIP OF**
12 **FUND SHARES.**

13 (a) COMPENSATION OF INVESTMENT ADVISER.—The
14 Commission shall, by rule, require—

15 (1) the disclosure to the shareholders of a reg-
16 istered investment company of—

17 (A) the amount and structure of, or the
18 method used to determine, the compensation
19 paid by the registered investment company to
20 the portfolio manager or portfolio management
21 team of the investment adviser; and

22 (B) the ownership interest in such com-
23 pany of the portfolio manager or portfolio man-
24 agement team; and

1 (2) the disclosure to the board of directors of
 2 the registered investment company of all trans-
 3 actions in the securities of the company by the port-
 4 folio manager or management team of the invest-
 5 ment adviser of such company.

6 (b) FORM OF DISCLOSURE.—The disclosures re-
 7 quired under subparagraphs (A) and (B) of subsection
 8 (a)(1) shall be made by a registered investment company
 9 in—

10 (1) the registration statement of the company;

11 and

12 (2) any other filings with the Commission that
 13 the Commission determines appropriate.

14 **SEC. 203. POINT OF SALE AND ADDITIONAL DISCLOSURE**
 15 **OF BROKER COMPENSATION.**

16 Section 15(b) of the Securities Exchange Act of 1934
 17 (15 U.S.C. 78o(b)) is amended by adding at the end the
 18 following:

19 “(11) BROKER DISCLOSURES IN MUTUAL FUND
 20 TRANSACTIONS.—

21 “(A) IN GENERAL.—Each broker shall dis-
 22 close in writing to each person that purchases
 23 the shares of an investment company registered
 24 under section 8 of the Investment Company Act
 25 of 1940 (15 U.S.C. 80a-8)—

1 “(i) the source and amount of any
2 compensation received or to be received by
3 the broker in connection with such trans-
4 action; and

5 “(ii) such other information as the
6 Commission determines appropriate.

7 “(B) TIMING OF DISCLOSURE.—The dis-
8 closures required under subparagraph (A) shall
9 be made at or before the time of the purchase
10 transaction.

11 “(C) LIMITATION.—The disclosures re-
12 quired under subparagraph (A) may not be
13 made exclusively in—

14 “(i) a registration statement or pro-
15 spectus of the registered investment com-
16 pany; or

17 “(ii) any other filing of a registered
18 investment company with the Commis-
19 sion.”.

20 **SEC. 204. BREAKPOINT DISCOUNTS.**

21 The Commission, by rule, shall require the disclosure
22 by any registered investment company, in any quarterly
23 or other periodic report filed with the Commission, infor-
24 mation concerning discounts on front-end sales loads for

1 which shareholders may be eligible, including the min-
2 imum purchase amounts required for such discounts.

3 **SEC. 205. PORTFOLIO TURNOVER RATIO.**

4 The Commission, by rule, shall require the disclosure,
5 by any registered investment company, in any quarterly
6 or periodic report filed with the Commission, and in any
7 prospectus delivered to the shareholders of such company,
8 of the portfolio turnover ratio of the company, and an ex-
9 planation of its meaning and implications for cost and per-
10 formance. Such rules shall require the disclosures to be
11 prominently displayed within the appropriate document.

12 **SEC. 206. PROXY VOTING POLICIES AND RECORD.**

13 Section 30 of the Investment Company Act of 1940
14 (15 U.S.C. 80a–29) is amended by adding at the end the
15 following:

16 “(k) PROXY VOTING DISCLOSURE.—

17 “(1) IN GENERAL.—Each registered investment
18 company, other than a small business investment
19 company, shall file with the Commission, not later
20 than August 31 of each year, an annual report, on
21 a form prescribed by the Commission by rule, con-
22 taining the proxy voting record of the registrant and
23 policies of the company with respect to the voting of
24 such proxies for the most recent 12-month period
25 ending on June 30.

1 “(2) NOTICE IN FINANCIAL STATEMENTS.—The
2 financial statements of each registered investment
3 company shall state that information regarding how
4 the company voted proxies and proxy voting policies
5 relating to portfolio securities during the most re-
6 cent 12-month period ending on June 30 is avail-
7 able—

8 “(A) without charge, upon request, by call-
9 ing a specified toll-free (or collect) telephone
10 number; or on or through the company’s
11 website at a specified Internet address, or both;
12 and

13 “(B) on the website of the Commission.”.

14 **SEC. 207. CUSTOMER INFORMATION FROM ACCOUNT**
15 **INTERMEDIARIES.**

16 (a) IN GENERAL.—The Commission shall, by rule, re-
17 quire that each account intermediary of a registered in-
18 vestment company provide to such company, with respect
19 to each account serviced by the intermediary, such infor-
20 mation as is necessary for the company to enforce its in-
21 vestment, trading, and fee policies.

22 (b) REQUIREMENTS.—The information provided by a
23 registered investment company under subsection (a) shall
24 include, at a minimum—

1 (1) the name under which the account is opened
2 with the intermediary;

3 (2) the taxpayer identification number of such
4 person;

5 (3) the mailing address of such person; and

6 (4) individual transaction data for all pur-
7 chases, redemptions, transfers, and exchanges by or
8 on behalf of such person.

9 (c) **PRIVACY OF INFORMATION.**—The information
10 provided under subsection (a), and the use thereof, shall
11 be subject to all Federal and State laws with regard to
12 privacy and proprietary information.

13 **SEC. 208. ADVERTISING.**

14 (a) **PERFORMANCE ADVERTISING.**—The Commission
15 shall promulgate such rules as the Commission determines
16 necessary with respect to the advertising of a registered
17 investment company regarding—

18 (1) unrepresentative short-term performance;

19 (2) performance based upon an undisclosed or
20 improbable event; and

21 (3) performance based upon incomplete or mis-
22 leading data.

23 (b) **DOLLAR AND TIME-WEIGHTED RETURNS.**—

24 (1) **IN GENERAL.**—Subject to paragraph (2),
25 the Commission shall, by rule, require each reg-

1 istered investment company to disclose, in its annual
2 report and any prospectus delivered to shareholders,
3 dollar-weighted returns and time-weighted returns
4 for each of—

5 (A) the preceding fiscal year;

6 (B) the preceding 5 fiscal years;

7 (C) the preceding 10 fiscal years; and

8 (D) the life of the company.

9 (2) EXCEPTION.—The Commission may omit or
10 require additional disclosures required under para-
11 graph (1) for such time periods as the Commission
12 determines necessary.

13 (3) COMMISSION USE OF BENCHMARKS.—The
14 Commission may require, in the interest of facili-
15 tating non-misleading disclosures, that any perform-
16 ance-related advertising by a registered investment
17 company be accompanied by such benchmarks as the
18 Commission may deem appropriate.

19 (c) SUBSIDIZED YIELDS.—The Commission shall, by
20 rule, require that any registered investment company that
21 discloses in any publication a subsidized yield to disclose
22 in the same publication the amount and duration of such
23 subsidy.

1 **TITLE III—FUND REGULATION**
2 **AND OVERSIGHT**

3 **SEC. 301. PROHIBITION OF ASSET-BASED DISTRIBUTION**
4 **EXPENSES.**

5 (a) REPEAL OF RULE 12b-1.—

6 (1) IN GENERAL.—Beginning 180 days after
7 the date of enactment of this Act (or such earlier
8 time as the Commission may elect), as in effect on
9 the date of enactment of this Act, section 270.12b-
10 1 of chapter II of title 17 of the Code of Federal
11 Regulations, promulgated under section 12 of the
12 Investment Company Act of 1940 (15 U.S.C. 80a-
13 12), is repealed, and shall have no force or effect.

14 (2) PRESERVATION OF ACTIONS.—Paragraph
15 (1) shall have no effect on any case pending or pen-
16 alty imposed under section 270.12b-1 of the Code of
17 Federal Regulations prior to the date of repeal
18 under paragraph (1).

19 (b) PAYMENT OF DISTRIBUTION EXPENSES FROM
20 MANAGEMENT FEE.—Section 12 of the Investment Com-
21 pany Act of 1940 (15 U.S.C. 80a-12) is amended by add-
22 ing at the end the following:

23 “(h) PAYMENT OF DISTRIBUTION EXPENSES.—Not-
24 withstanding any provision of subsection (b), or any rule
25 or regulation promulgated thereunder, distribution ex-

1 penses incurred by an investment adviser may be paid out
2 of the management fee received by the investment ad-
3 viser.”.

4 (c) SUMS EXPENDED PROMOTING SALE OF SECURI-
5 TIES.—The Commission shall, by rule—

6 (1) require that any sums expended by the in-
7 vestment adviser of a registered investment company
8 to promote or facilitate the sale of the securities of
9 such company be disclosed to the board of directors
10 of the company;

11 (2) require that such sums be accounted for
12 and identified in the expense ratio of any such com-
13 pany; and

14 (3) authorize the board of directors of any such
15 company to prohibit its investment adviser from
16 using any compensation received from the company
17 for distribution expenses that the board determines
18 not to be in the best interest of the shareholders of
19 the company.

20 (d) PROHIBITION OF ASSET-BASED FEES.—Section
21 12 of the Investment Company Act of 1940 (15 U.S.C.
22 80a–12), as amended by subsection (a), is amended by
23 adding at the end the following:

24 “(i) ASSET-BASED FEES.—

1 “(1) IN GENERAL.—It shall be unlawful for any
2 registered investment company to pay asset-based
3 fees to any broker or dealer in connection with the
4 offer or sale of the securities of such investment
5 company.

6 “(2) DEFINITION OF ASSET-BASED FEES.—The
7 Commission shall, by rule, define the term ‘asset-
8 based fees’ for purposes of this subsection.”.

9 **SEC. 302. PROHIBITION ON REVENUE SHARING, DIRECTED**
10 **BROKERAGE, AND SOFT DOLLAR ARRANGE-**
11 **MENTS.**

12 (a) IN GENERAL.—The Investment Company Act of
13 1940 (15 U.S.C. 80a–1 et seq.) is amended by inserting
14 after section 12 the following:

15 **“SEC. 12A. PROHIBITION ON REVENUE SHARING, DIRECTED**
16 **BROKERAGE, AND SOFT DOLLAR ARRANGE-**
17 **MENTS.**

18 “(a) REVENUE SHARING ARRANGEMENTS.—It shall
19 be unlawful for any investment adviser to enter into a rev-
20 enue sharing arrangement with any broker or dealer with
21 respect to the securities of a registered investment com-
22 pany.

23 “(b) DIRECTED BROKERAGE ARRANGEMENTS.—It
24 shall be unlawful for any registered investment company,

1 or any affiliate of such company, to enter into a directed
2 brokerage arrangement with a broker or dealer.

3 “(c) SOFT-DOLLAR ARRANGEMENTS.—It shall be un-
4 lawful for any registered investment company or reg-
5 istered investment adviser to enter into a soft-dollar ar-
6 rangement with any broker or dealer.

7 “(d) REGULATIONS RESPECTING SECTION 28(e) OF
8 THE SECURITIES EXCHANGE ACT OF 1934.—The Com-
9 mission shall, by rule, narrow the soft-dollar safe harbor
10 under section 28(e) of the Securities Exchange Act of
11 1934 (15 U.S.C. 78bb(e)(1)) to promote such parity as
12 the Commission determines appropriate, and in the best
13 interests of shareholders of a registered investment com-
14 pany, between registered investment companies governed
15 by section 12A, and companies not covered by section 12A.

16 “(e) DEFINITIONS.—

17 “(1) IN GENERAL.—In this section—

18 “(A) the term ‘directed brokerage arrange-
19 ment’ means the direction of discretionary bro-
20 kerage by an investment company or an affil-
21 iate of that company, to a broker or dealer in
22 exchange for services other than trade execu-
23 tions;

24 “(B) the term ‘revenue sharing arrange-
25 ment’ means any direct or indirect payment

1 made by an investment adviser (or any affiliate
2 of an investment adviser) to a broker or dealer
3 for the purpose of promoting the sales of secu-
4 rities of a registered investment company, other
5 than any payment made directly by a share-
6 holder as a commission for the purchase of such
7 securities;

8 “(C) the term ‘soft-dollar arrangement’
9 means payments to a broker or dealer for best
10 trade executions in exchange for, or which gen-
11 erate credits for, services or products other
12 than trade executions; and

13 “(D) the term ‘trade executions’ has the
14 meaning given that term by the Commission, by
15 rule;

16 “(2) REGULATIONS.—The Commission may, by
17 rule, refine the definitions under paragraph (1), de-
18 fine such other terms as the Commission determines
19 necessary, and otherwise tailor the proscriptions set
20 forth under this section to achieve the purposes of—

21 “(A) protecting the best interests of share-
22 holders of a registered investment company;

23 “(B) minimizing or eliminating conflicts
24 with the best interests of shareholders of a reg-
25 istered investment company;

1 “(C) enhancing market negotiation for and
2 price competition in trade execution services,
3 and products and services previously obtained
4 under arrangements prohibited by this section;

5 “(D) ensuring the transparency of trans-
6 actions for trade executions, and products and
7 services previously obtained under arrange-
8 ments prohibited by this section, and disclosure
9 to shareholders of costs associated with trade
10 executions, and products and services previously
11 obtained under arrangements prohibited by this
12 section, that is simplified, clear, and com-
13 prehensible; and

14 “(E) providing reasonable safe harbors for
15 conduct otherwise consistent with such pur-
16 poses.”.

17 (b) TECHNICAL AND CONFORMING AMENDMENT.—
18 Section 28(e)(1) of the Securities Exchange Act of 1934
19 (15 U.S.C. 78bb(e)(1)) is amended by striking “This sec-
20 tion is exclusive” and inserting “Except as provided under
21 section 12A of the Investment Company Act of 1940, this
22 section is exclusive”.

23 **SEC. 303. MARKET TIMING.**

24 (a) IN GENERAL.—The Commission shall, by rule, re-
25 quire—

1 (1) the disclosure in any registration statement
2 filed with the Commission by a registered investment
3 company of the market timing policies of that com-
4 pany and the procedures adopted to enforce such
5 policies; and

6 (2) that any registered investment company
7 that declines to adopt restrictions on market timing
8 disclose such fact in the registration statement of
9 the company, and in any advertising or other pub-
10 licly available documents, as the Commission deter-
11 mines necessary.

12 (b) **FUNDAMENTAL INVESTMENT POLICY.**—The poli-
13 cies required to be disclosed under paragraph (1) shall be
14 deemed “fundamental investment policies” for purposes of
15 sections 8(b)(3) and 13(a)(3) of the Investment Company
16 Act of 1940 (15 U.S.C. 80a–8(b)(3) and 80a–13(a)(3)).

17 **SEC. 304. ELIMINATION OF STALE PRICES.**

18 (a) **IN GENERAL.**—Not later than 90 days after the
19 date of enactment of this Act, the Commission shall pre-
20 scribe, by rule or regulation, standards concerning the ob-
21 ligation of registered investment companies under the In-
22 vestment Company Act of 1940, to apply and use fair
23 value methods of determination of net asset value when
24 market quotations are unavailable or do not accurately re-
25 flect the fair market value of the portfolio securities of

1 such a company, in order to prevent dilution of the inter-
2 ests of long-term shareholders or as necessary in the pub-
3 lic interest or for the protection of shareholders.

4 (b) CONTENT.—The rule or regulation prescribed
5 under subsection (a) shall identify, in addition to signifi-
6 cant events, the conditions or circumstances from which
7 such an obligation will arise, such as the need to value
8 securities traded on foreign exchanges, and the methods
9 by which fair value methods shall be applied in such
10 events, conditions, and circumstances.

11 **SEC. 305. PROHIBITION OF SHORT TERM TRADING; MANDA-**
12 **TORY REDEMPTION FEES.**

13 (a) SHORT-TERM TRADING PROHIBITED.—Section
14 17 of the Investment Company Act of 1940 (15 U.S.C.
15 80a–17) is amended by adding at the end the following:

16 “(k) SHORT-TERM TRADING PROHIBITED.—

17 “(1) PROHIBITION.—It shall be unlawful for
18 any officer, director, partner, or employee of a reg-
19 istered investment company, any affiliated person,
20 investment adviser, or principal underwriter of such
21 company, or any officer, director, partner, or em-
22 ployee of such an affiliated person, investment ad-
23 viser, or principal underwriter, to engage in any
24 short-term transaction, in any securities issued by
25 such company, or any affiliate of such company.

1 “(2) LIMITATION.—This subsection does not
2 prohibit any transaction in a money market fund, or
3 in funds, the investment policy of which expressly
4 permits short-term transactions, or such other cat-
5 egory of registered investment company as the Com-
6 mission shall specify, by rule.

7 “(3) DEFINITION.—For purposes of this sub-
8 section, the term ‘short-term transaction’ has the
9 meaning given that term by the Commission, by
10 rule.”.

11 (b) MANDATORY REDEMPTION FEES.—The Commis-
12 sion shall, by rule, require any registered investment com-
13 pany that does not allow for market timing practices to
14 charge a redemption fee upon the short-term redemption
15 of any securities of such company. In determining the ap-
16 plication of mandatory redemption fees, shares shall be
17 considered in the reverse order of their purchase.

18 (c) INCREASED REDEMPTION FEES PERMITTED FOR
19 SHORT-TERM TRADING.—Not later than 90 days after the
20 date of enactment of this Act, the Commission shall per-
21 mit a registered investment company to charge redemption
22 fees in excess of 2 percent upon the redemption of any
23 securities of such company that are redeemed within such
24 period after their purchase as the Commission specifies

1 in such rule to deter short term trading that is unfair to
2 the shareholders of such company.

3 (d) DEADLINE FOR RULES.—The Commission shall
4 prescribe rules to implement section 17(k) of the Invest-
5 ment Company Act of 1940, as added by subsection (a)
6 of this section, not later than 90 days after the date of
7 enactment of this Act.

8 **SEC. 306. PREVENTION OF AFTER-HOURS TRADING.**

9 (a) ADDITIONAL RULES REQUIRED.—The Commis-
10 sion shall issue rules to prevent transactions in the securi-
11 ties of any registered investment company in violation of
12 section 22 of the Investment Company Act of 1940 (15
13 U.S.C. 80a–22), including after-hours trades that are exe-
14 cuted at a price based on a net asset value that was deter-
15 mined as of a time prior to the actual execution of the
16 transaction.

17 (b) TRADES COLLECTED BY INTERMEDIARIES.—The
18 Commission shall determine the circumstances under
19 which to permit, subject to rules of the Commission and
20 an annual independent audit of such trades, the execution
21 of after-hours trades that are provided to a registered in-
22 vestment company by a broker, dealer, retirement plan ad-
23 ministrator, insurance company, or other intermediary,
24 after the time as of which the net asset value was deter-
25 mined.

1 **SEC. 307. BAN ON JOINT MANAGEMENT OF MUTUAL FUNDS**
2 **AND HEDGE FUNDS.**

3 (a) AMENDMENT.—Section 15 of the Investment
4 Company Act of 1940 (15 U.S.C. 80a–15) is amended by
5 adding at the end the following:

6 “(h) BAN ON JOINT MANAGEMENT OF MUTUAL
7 FUNDS AND HEDGE FUNDS.—

8 “(1) PROHIBITION OF JOINT MANAGEMENT.—It
9 shall be unlawful for any individual to serve or act
10 as the portfolio manager or investment adviser of a
11 registered open-end investment company if such in-
12 dividual also serves or acts as the portfolio manager
13 or investment adviser of an investment company
14 that is not registered or of such other categories of
15 companies as the Commission shall prescribe by rule
16 in order to prohibit conflicts of interest, such as con-
17 flicts in the selection of the portfolio securities.

18 “(2) EXCEPTIONS.—Notwithstanding para-
19 graph (1), the Commission may, by rule, regulation,
20 or order, permit joint management by a portfolio
21 manager in exceptional circumstances when nec-
22 essary to protect the interest of shareholders, pro-
23 vided that such rule, regulation, or order requires—

24 “(A) enhanced disclosure by the registered
25 open-end investment company to shareholders

1 of any conflicts of interest raised by such joint
2 management; and

3 “(B) fair and equitable policies and proce-
4 dures for the allocation of securities to the port-
5 folios of the jointly managed companies, and
6 certification by the members of the board of di-
7 rectors who are not interested persons of such
8 registered open-end investment company, in the
9 periodic report to shareholders, or other appro-
10 priate disclosure document, that such policies
11 and procedures of such company are fair and
12 equitable.

13 “(3) DEFINITION.—For purposes of this sub-
14 section, the term ‘portfolio manager’ means the indi-
15 vidual or individuals who are designated as respon-
16 sible for decision-making in connection with the se-
17 curities purchased and sold on behalf of a registered
18 open-end investment company, but shall not include
19 individuals who participate only in making research
20 recommendations or executing transactions on behalf
21 of such company.”.

22 (b) DEADLINE FOR RULES.—The Commission shall
23 prescribe rules to implement section 15(h) of the Invest-
24 ment Company Act of 1940, as added by subsection (a)

1 of this section, not later than 90 days after the date of
2 enactment of this Act.

3 **SEC. 308. SELECTIVE DISCLOSURES.**

4 (a) IN GENERAL.—The Commission shall promulgate
5 such rules as the Commission determines necessary to pre-
6 vent the selective disclosure by a registered investment
7 company of material information relating to the portfolio
8 of securities held by such company.

9 (b) REQUIREMENTS.—The rules promulgated under
10 subsection (a) shall treat selective disclosures of material
11 information by a registered investment company in sub-
12 stantially the same manner as selective disclosures by
13 issuers of securities registered under section 12 of the Se-
14 curities Exchange Act of 1934 under the rules of the Com-
15 mission.

16 **TITLE IV—STUDIES**

17 **SEC. 401. STUDY OF ADVISER CONFLICT OF INTEREST.**

18 (a) IN GENERAL.—The Commission shall conduct a
19 study of—

20 (1) the consequences of the inherent conflicts of
21 interest confronting investment advisers employed by
22 registered investment companies;

23 (2) the extent to which legislative or regulatory
24 measures could minimize such conflicts of interest;
25 and

1 (3) the extent to which legislative or regulatory
2 measures could incentivize internal management of a
3 registered investment company.

4 (b) REPORT.—Not later than 1 year after the date
5 of enactment of this Act, the Commission shall submit a
6 report on the results of the study required under sub-
7 section (a) to—

8 (1) the Committee on Banking, Housing, and
9 Urban Affairs of the Senate; and

10 (2) the Committee on Financial Services of the
11 House of Representatives.

12 **SEC. 402. STUDY OF COORDINATION OF ENFORCEMENT EF-**
13 **FORTS.**

14 (a) IN GENERAL.—The Comptroller General of the
15 United States, with the cooperation of the Commission,
16 shall conduct a study of the coordination of enforcement
17 efforts between—

18 (1) the headquarters of the Commission;

19 (2) the regional offices of the Commission; and

20 (3) State regulatory and law enforcement agen-
21 cies.

22 (b) REPORT.—Not later than 1 year after the date
23 of enactment of this Act, the Commission shall submit a
24 report on the results of the study required under sub-
25 section (a) to—

1 (1) the Committee on Banking, Housing, and
2 Urban Affairs of the Senate; and

3 (2) the Committee on Financial Services of the
4 House of Representatives.

5 **SEC. 403. STUDY OF COMMISSION ORGANIZATIONAL**
6 **STRUCTURE.**

7 (a) IN GENERAL.—The Comptroller General of the
8 United States, with the cooperation of the Commission,
9 shall conduct a study of—

10 (1) the current organizational structure of the
11 Commission with respect to the regulation of invest-
12 ment companies;

13 (2) whether the organizational structure and re-
14 sources of the Commission sufficiently credit the im-
15 portance of oversight of investment companies to the
16 95 million investors in such companies within the
17 United States;

18 (3) whether certain organizational features of
19 that structure, such as the separation of regulatory
20 and enforcement functions, are sufficient to promote
21 the optimal understanding of the current practices
22 of investment companies; and

23 (4) whether a separate regulatory entity would
24 improve or impair effective oversight.

1 (b) REPORT.—Not later than 1 year after the date
2 of enactment of this Act, the Comptroller General shall
3 submit a report on the results of the study required under
4 subsection (a) to—

5 (1) the Committee on Banking, Housing, and
6 Urban Affairs of the Senate; and

7 (2) the Committee on Financial Services of the
8 House of Representatives.

9 **SEC. 404. TRENDS IN ARBITRATION CLAUSES.**

10 (a) IN GENERAL.—The Commission shall conduct a
11 study on the trends in arbitration clauses between brokers,
12 dealers, and investors since December 31, 1995, and alter-
13 native means to avert the filing of claims in Federal or
14 State courts.

15 (b) REPORT.—Not later than 1 year after the date
16 of enactment of this Act, the Commission shall submit a
17 report on the results of the study required under sub-
18 section (a) to—

19 (1) the Committee on Banking, Housing, and
20 Urban Affairs of the Senate; and

21 (2) the Committee on Financial Services of the
22 House of Representatives.

23 **SEC. 405. HEDGE FUND REGULATION.**

24 (a) IN GENERAL.—The Commission shall conduct a
25 study of whether additional regulation of alternative in-

1 vestment vehicles, such as hedge funds, is appropriate to
2 deter the recurrence of trading abuses, manipulation of
3 registered investment companies by unregistered invest-
4 ment companies, or other distortions that may harm inves-
5 tors in registered investment companies.

6 (b) REPORT.—Not later than 1 year after the date
7 of enactment of this Act, the Commission shall submit a
8 report on the results of the study required under sub-
9 section (a) to—

10 (1) the Committee on Banking, Housing, and
11 Urban Affairs of the Senate; and

12 (2) the Committee on Financial Services of the
13 House of Representatives.

14 **SEC. 406. INVESTOR EDUCATION AND THE INTERNET.**

15 (a) IN GENERAL.—The Commission shall conduct a
16 study of—

17 (1) the means of enhancing the role of the
18 Internet in educating investors and providing timely
19 information regarding laws, regulations, enforcement
20 proceedings, and individual registered investment
21 companies;

22 (2) the feasibility of mandating that each reg-
23 istered investment company maintain a website on
24 which shall be posted filings of the registered invest-
25 ment company with the Commission and any other

1 material information related to the registered invest-
2 ment company; and

3 (3) the means of ensuring that the EDGAR
4 database maintained by the Commission is user-
5 friendly and contains a search engine that facilitates
6 the expeditious location of material information.

7 (b) REPORT.—Not later than 1 year after the date
8 of enactment of this Act, the Commission shall submit a
9 report on the results of the study required under sub-
10 section (a) to—

11 (1) the Committee on Banking, Housing, and
12 Urban Affairs of the Senate; and

13 (2) the Committee on Financial Services of the
14 House of Representatives.

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