feared.'' He expressed disappointment, however, that diplomacy has been unable to prevent the likely resumption of the tragic conflict in Bosnia. ''I bring you no optimism on Bosnia.'' Following Holbrooke, two expert witnesses—John Lampe of the Woodrow Wilson Center for International Scholars, and Steve Walker of the Action Council for Peace in the Balkans—presented views on various policy options. While they disagreed on what to do, they both expressed dismay that a full and fair settlement remains so elusive.

INTRODUCTION OF THE INVESTMENT COMPANY ACT AMENDMENTS OF 1995

HON. JACK FIELDS

OF TEXAS

IN THE HOUSE OF REPRESENTATIVES

Friday, April 7, 1995

Mr. FIELDS of Texas. Mr. Speaker, today I introduce legislation amending the Investment Company Act of 1940. Entitled the Investment Company Act Amendments of 1995, this legislation will promote more efficient management of mutual funds. It will result in reduction of operating costs that will save investors money, and allow a greater percentage of the assets of the fund to work on their behalf. This legislation will also provide for more effective and less burdensome regulation of mutual funds by the Securities and Exchange Commission, and it will increase and improve investor protection.

Enacted in 1940 and amended in 1970, the Investment Company Act built the foundation for a system that regulators and regulated entities alike agree has protected investors. For the most part it has not interfered with the development of new products and the creation of investment opportunities. There is a need, however, to reexamine the operation of the act, as our financial markets have expanded in size, complexity, and investment opportunities.

The goal of this legislation is to revise the provisions of the law that no longer reflect the demands of modern markets. We must be vigilant in our efforts to relieve mutual funds of the remaining unnecessary and duplicative regulatory burdens that remain in the current law. The operating costs of mutual funds represent the expenditure of moneys that reduce the pool of assets owned by the shareholders, and a reduction in the capital that is at work earning a return for them. Government imposed regulations that do not increase investor protection fail the cost/benefit analysis to which all regulations should be subjected. They mandate the waste of potentially productive resources. They represent, in effect, an undesirable tax on capital, the most pernicious form of tax. Unnecessary regulations do nothing except reduce the wealth of American citizens.

To this end, the Securities and Exchange Commission conducted its own review of the operation of the Investment Company Act. On the occasion of the 50th anniversary of the adoption of the statute, the SEC produced a comprehensive and valuable report. Entitled ''Protecting Investors: A Half Century of Investment Company Regulation,'' the legislation introduced today is based, in part, on a number of its recommendations.

For example, the SEC report recommended amending the act to expand exemptions for private investment companies, pools of money from sophisticated investors, from its registration requirements. This legislation will do that, but in a way that will insure that only pools of the most sophisticated investors, people who are not in need of the protection of registration under the act, are exempted. Regulation imposes costs, and sophisticated investors not in need of or desiring the protection of the act should be free to voluntarily accept greater risk return for the opportunity of greater reward. Exemptions from registration and regulation, however, will not be made available for those products that will be sold, perhaps, to less sophisticated investors. There is no intention in this legislation to allow a generation of unregistered investment companies to be offered to the general public.

This bill also proposes to implement the SEC recommendations for improving and modernizing mutual fund governance. This will include requiring a majority of the boards of directors of mutual funds to be composed of independent directors, and increasing the authority and responsibility of independent directors in running the fund.

The legislation will also make mutual fund regulation more efficient by eliminating requirements that are expensive to comply with and which do not increase investor protection. This includes eliminating the requirements of the existing law for shareholder ratification of certain routine corporate actions, including approval of the selection of auditors.

Provisions of this legislation will stimulate a reexamination of the rules governing investment company advertising. As introduced, it will break existing regulatory restraints on promotion and sales literature of investment companies. Current law requires the contents of fund advertising to be keyed exclusively to information which is either specifically or ''the substance of which'' is in the prospectus. This requirement is so inflexible it stifles the development of effective investor communications by those who market mutual funds. Although advertising puffery will never be tolerated in the sale of these important investments, and the antifraud provisions of the Act will remain in force and unchanged to govern statements made in connection with the sale of these investments, a new era of generally improved communications to mutual fund investors will begin with the enactment of this legisation.

Finally, in 1970 Congress adopted restrictions on the investment in mutual funds by other funds. This arose from concerns about the possibility of investors paying duplicative expenses and layers of fees. Restrictions on ''fund of fund'' investments may not be necessary in the modern markets of the 21st century which include negotiated commissions, technological oversight of the markets, increased competition, and improved Government regulation of mutual funds.

Reexamination of fund of funds restrictions is necessary because professional money management should be available to all investors, including those who themselves invest on behalf of mutual fund investors; that is, professional money managers. Fund managers may wish to benefit, on behalf of the investors in their mutual fund, from the expertise of other professionals in investments with which they themselves may not be familiar. With the opening of new markets around the world, and the constant development of new and often complex instruments for investment and hedging, it is unrealistic to believe that every fund manager can be knowledgeable in every product offered in every market. Fund managers should have available to them the opportunity to commit moneys to investments which are managed by individuals with particular expertise in certain instruments or markets. Mutual funds allow this to be done in a manner which provides for the diversification of risk. The decision of whether a mutual fund is a worthwhile investment should be left to the investor, whether individual or professional, and not be artificially restrained by statutory provisions the reasons for which may no longer be valid.

The legislation introduced today is a work in progress, intended to stimulate discussion of these proposals for modernization. Our subcommittee will actively seek input from investors, regulators, and the financial service industry for additional reforms as this bill moves through the legislative process. Inevitably there will be refinements of the specific proposals of the bill as introduced.

I encourage my colleagues, on behalf of their constituents, Government regulators, and the affected industries to offer their suggestions for improving the efficiency of the mutual fund market by removing unnecessary regulatory burdens. Efficient markets create additional opportunities for investors to earn returns on their savings. This is how the American people, a nation of investors, provide for their general welfare, the education and needs of their children, and the security of their retirements. The legislation I introduce today will help them accomplish their goals.

CONGRATULATIONS SHELBYVILLE HIGH SCHOOL RAMS

HON. GLENN POSHARD

OF ILLINOIS

IN THE HOUSE OF REPRESENTATIVES

Friday, April 7, 1995

Mr. POSHARD. Mr. Speaker, I rise today to congratulate the Shelbyville High School Rams on their ''Elite Eight'' season. Shelbyville has historically been the place to be in central Illinois during basketball season. This year was no different, and when the Rams made it to Champaign for the big dance no one was surprised.

Led by freshman Head Coach Sean Taylor, and his assistant coaches, Bob Herdes and Jarret Brown, the Rams were able to compile a new all-time season high record of 28 and 4, win their first regional title in 6 years, and only their second sectional and super-sectional titles in the school's history.

You might think that this is the season of a veteran basketball team, but each of the Rams' starting five were underclassman. The future of Shelbyville basketball looks brighter than ever and I commend this fine group of young people on their accomplishments.

The roster of Shelbyville cagers is one of the best to ever hit the hardwood and includes: Kevin Herdes, Roger Jones, Rich Beyers, Mike Steers, Todd Wilderman, Joshua Forsythe, Alex Miller, James Brix, Tim Hardy, Harlan Kennell, Aaron Rohdemann, Ryan Shambo, Ben Short, Aaron Clark, Derk Williams, Jefrey White, Dirk Herdes, and Tom