

- ***An SEC Update by Chairman Donaldson***
- ***SEC Final Rulings***

AMF CHIEF OPERATING OFFICERS INITIATIVE

Weekly Report on Proposed Reforms Affecting Asset Managers

May 14, 2004

SEC CHAIRMAN ADDRESSES MAJOR ISSUES AT NASD EVENT

On Wednesday, May 12, 2004, the staff of The Asset Managers Forum joined with a contingent of legal and compliance professionals in Baltimore to hear SEC Chairman William Donaldson's remarks relating to the current and on-going work of the Commission. Chairman Donaldson reviewed some of the reforms that the SEC is considering and provided an overview of various internal structural changes within the regulatory body.

Chairman Donaldson made the following major points:

- Broker-dealers and investment managers should strive to identify problems relating to risk management and conflicts of interest before they arise. The SEC's Divisions will be engaged in risk assessment relative to the securities industry on a cross-Divisional basis.
- The hedge fund industry is an \$800 billion market. The SEC may seek registration of hedge funds to have access to additional information about the players in this market. This is less a matter of regulating hedge funds; mostly, the information is needed to understand the hedge fund business in the event it affects other securities markets.
- Regarding ethics and integrity, the Chairman said that identifying potential conflicts of interest and understanding one's fiduciary obligations should be part of the culture of securities firms and investment managers. He indicated that it is costly to implement controls to achieve this culture, but that this kind of effort would obviously result in long term dividends. Chairman Donaldson indicated that this culture must go well beyond mere corporate mission statements; rather, it must be reflected in a renewed commitment to compliance by firms in the industry.
- When asked about the status of mutual fund reforms vis-à-vis Federal legislative proposals in the same area, the Chairman indicated that he thought the Commission's rulemaking efforts would continue to move forward. The AMF, incidentally, intends to file a comment letter in the near future concerning disclosure by portfolio managers and the question of side by side management of hedge funds and mutual funds.

To read Chairman Donaldson's remarks, click on the following link:

<http://www.sec.gov/news/speech/spch051204whd.htm>

360 Madison Avenue
New York, NY 10017-7111
Telephone 646.637.9200
Fax 646.637.9126
www.theassetmanager.com

Washington Office:
1399 New York Avenue, NW
Washington, DC 20005-4711
Telephone 202.434.8400
Fax 202.434.8456

SEC PROMULGAGES FINAL RULINGS RELATING TO DISCLOSURE REQUIREMENTS

- Effective May 28, 2004, the Commission is adopting rule amendments relating to market timing and selective disclosure of portfolio holdings. Specifically, the SEC is requiring open-end management investment companies to disclose the risks to shareholders of frequent purchases and redemptions of investment company shares. To view the complete SEC rule, click on the following link: <http://www.sec.gov/rules/final/33-8408.htm>.
- Also, as a regulatory reminder, effective, May 10, 2004, the SEC now requires investment management firms to improve disclosure within shareholder and quarterly reports regarding fund costs, portfolio investments and past performance. These new rules directly affect the disclosure requirements of mutual funds. To view the complete SEC rule, click on the following link: <http://www.sec.gov/rules/final/33-8393.htm>.

NOTE: This Weekly Report on Proposed Reforms Affecting Asset Managers is a service of the Technology, Operations and Asset Manager Relations Department of The Bond Market Association. We encourage your input as this communication is designed to promote dialogue among members of the Forum and the Association. Please feel free to contact Joseph Sack, Staff Advisor to the COO Group of The Asset Managers Forum at (646) 637-9265 (jsack@bondmarkets.com) or Elisa Nuottajarvi at (646) 637-9266 (enuottajarvi@bondmarkets.com) or Douglas Taggart at (646) 637-9273 (dtaggart@bondmarkets.com) of the staff of The Bond Market Association