

HR 2420

Mutual Funds Integrity and Fee Transparency Act of 2003

Congress: 108 (2003–2005, Ended)

Chamber: House

Policy Area: Finance and Financial Sector

Introduced: Jun 11, 2003

Current Status: Received in the Senate and Read twice and referred to the Committee on Banking, Housing, and Urban Affairs

Latest Action: Received in the Senate and Read twice and referred to the Committee on Banking, Housing, and Urban Affairs. (Nov 20, 2003)

Official Text: <https://www.congress.gov/bill/108th-congress/house-bill/2420>

Sponsor

Name: Rep. Baker, Richard H. [R-LA-6]

Party: Republican • **State:** LA • **Chamber:** House

Cosponsors (23 total)

Cosponsor	Party / State	Role	Date Joined
Rep. Brown-Waite, Ginny [R-FL-5]	R · FL		Jun 11, 2003
Rep. Gillmor, Paul E. [R-OH-5]	R · OH		Jun 11, 2003
Rep. Ose, Doug [R-CA-3]	R · CA		Jun 11, 2003
Rep. Shays, Christopher [R-CT-4]	R · CT		Jun 11, 2003
Rep. Tiberi, Patrick J. [R-OH-12]	R · OH		Jun 11, 2003
Rep. Biggert, Judy [R-IL-13]	R · IL		Nov 4, 2003
Rep. Capito, Shelley Moore [R-WV-2]	R · WV		Nov 4, 2003
Rep. Castle, Michael N. [R-DE-At Large]	R · DE		Nov 4, 2003
Rep. Emanuel, Rahm [D-IL-5]	D · IL		Nov 4, 2003
Rep. Ford, Harold E., Jr. [D-TN-9]	D · TN		Nov 4, 2003
Rep. Frank, Barney [D-MA-4]	D · MA		Nov 4, 2003
Rep. Garrett, Scott [R-NJ-5]	R · NJ		Nov 4, 2003
Rep. Gonzalez, Charles A. [D-TX-20]	D · TX		Nov 4, 2003
Rep. Hensarling, Jeb [R-TX-5]	R · TX		Nov 4, 2003
Rep. Hinojosa, Ruben [D-TX-15]	D · TX		Nov 4, 2003
Rep. Hooley, Darlene [D-OR-5]	D · OR		Nov 4, 2003
Rep. Jones, Walter B., Jr. [R-NC-3]	R · NC		Nov 4, 2003
Rep. Maloney, Carolyn B. [D-NY-14]	D · NY		Nov 4, 2003
Rep. Matheson, Jim [D-UT-2]	D · UT		Nov 4, 2003
Rep. Moore, Dennis [D-KS-3]	D · KS		Nov 4, 2003
Rep. Oxley, Michael G. [R-OH-4]	R · OH		Nov 4, 2003
Rep. Scott, David [D-GA-13]	D · GA		Nov 4, 2003
Rep. Waters, Maxine [D-CA-35]	D · CA		Nov 4, 2003

Committee Activity

Committee	Chamber	Activity	Date
Banking, Housing, and Urban Affairs Committee	Senate	Referred To	Nov 20, 2003
Financial Services Committee	House	Discharged from	Jul 23, 2003

Subjects & Policy Tags

Policy Area:

Finance and Financial Sector

Related Bills

No related bills are listed.

Mutual Funds Integrity and Fee Transparency Act of 2003 - **Title I: Integrity and Fee Transparency** - (Sec.101) Directs the Securities and Exchange Commission (SEC) to require an open-end management investment company (mutual fund) to disclose costs in its periodic reports to shareholders, including: (1) the estimated amount, in dollars for each \$1,000 of investment in the company, of the operating expenses of the company that are borne by shareholders; (2) the structure of, or the method used to determine, the compensation of individuals employed by the investment adviser to manage the company portfolio, and their ownership interest in the securities of the company; (3) the portfolio turnover rate of the company, so as to facilitate comparison among investment companies, and a description of the implications of a high turnover rate for portfolio transaction costs and performance; (4) information concerning the company's policies and practices regarding payment of commissions for effecting securities transactions to a member of an exchange, broker, or dealer who furnishes investment advice, including analyses and reports, and facilitates sale and distribution of the company's shares; (5) information concerning payments by any person other than the company that are intended to facilitate the sale and distribution of the company's shares; and (6) information concerning discounts on front-end sales loads for which investors may be eligible, including the minimum purchase amounts required for such discounts.

States that a disclosure made exclusively in a prospectus or statement of additional information shall not be deemed to be made in an appropriate disclosure document, unless it is a disclosure required under (2) or (4) above.

Requires the SEC to report to certain congressional committees on a "concept release" examining portfolio transaction costs incurred by investment companies, including commission, spread, opportunity, and market impact costs, with respect to trading portfolio securities, and how such costs may be disclosed in a manner that enables mutual fund investors to compare costs among funds.

Instructs the SEC to promulgate a rule requiring an open-end management investment company to inform shareholders in its quarterly statement or other periodic report that fees paid on their investments have been deducted from the amounts shown on the statements, and where they may find additional information regarding fee amounts.

(Sec. 102) Amends the Investment Company Act of 1940 to require each investment adviser to a registered investment company to report at least annually to such company's board of directors regarding: (1) revenue sharing arrangements (payments by the adviser (or an affiliated person) that were directly or indirectly made for the purpose of promoting the sale of the investment company's shares); (2) directed brokerage arrangements (services to the company provided or paid for by a broker or dealer (or an affiliated person) (other than brokerage and research services) in exchange for the direction of brokerage to the broker or dealer); and (3) soft dollar arrangements (research services obtained by the adviser (or an affiliated person) from a broker or dealer the receipt of which may reasonably be attributed to securities transactions effected on behalf of the company or any other company that is a member of the same group of investment companies).

Requires inclusion of such reports in the annual report to shareholders.

Imposes a fiduciary duty upon the board of directors of a registered investment company to: (1) review the investment adviser's direction of the company's brokerage transactions, and determine that such direction serves the best interests of company shareholders; and (2) review any revenue sharing arrangements to ensure compliance with such Act, and determine that such arrangements serve the best interests of company shareholders.

Directs the SEC by rule to require that: (1) if any research services are provided by a member of an exchange, broker, or

dealer who effects securities transactions in an account, and are prepared or provided by a party unaffiliated with such member, broker, or dealer, any person exercising investment discretion with respect to such account shall maintain a copy of the written contract between the person preparing such research and the member of an exchange, broker, or dealer; and (2) such contract shall describe the nature and value of the services provided.

(Sec. 103) Reduces from 60 percent to one-third the number of "interested persons" who may serve as board members of a registered company.

Redefines "interested person" as any natural person who is a member of a class of persons who the Commission, by rule or regulation, determines are unlikely to exercise an appropriate degree of independence as a result of: (1) a material business or professional relationship with the company or any affiliated person of the company; or (2) a close familial relationship with any natural person who is an affiliated person of the company.

(Sec. 104) Revises accountant selection criteria to: (1) require accountant selection by the audit committee of a registered company; (2) confer direct responsibility upon the audit committee for appointment, compensation, and oversight of the independent public accountant employed to prepare or issue the audit report; (3) require such independent public accountant to report directly to the audit committee; and (4) require each audit committee member to be a member of the board of directors, and to otherwise be independent.

Prohibits an independent audit committee member from: (1) accepting any consulting, advisory, or other compensatory fee from the registered company or the investment adviser or principal underwriter of the registered company; or (2) being an interested person of the registered company.

(Sec. 105) Revises guidelines governing securities redemptions to permit suspensions or postponement of payment for any period during which the principal market for the securities in which the company invests (currently, the New York Stock Exchange) is closed. Requires the SEC by rule and regulation to provide for the determination by each company, subject to limitations necessary and appropriate for the protection of investors, of the principal market for the securities in which the company invests.

Instructs the SEC to: (1) clarify the definition of "no-load" as it is used by investment companies that impose any fee pursuant to rule 12b-1 of the SEC rules; and (2) require investment company disclosure to prevent investors from being misled by the use of such terminology by either the company, its adviser, or principal underwriter.

(Sec. 107) Requires a registered investment company to inform its directors if an SEC inspection report identifies significant deficiencies in either its operations, its investment adviser, or its principal underwriter.

(Sec. 108) Authorizes the SEC, by rule, regulation, or order, to exempt a registered investment company from the requirement that the votes of its directors be cast at a meeting in person when it is impracticable, subject to any conditions the SEC may require.

(Sec. 109) Requires every registered management investment company (other than a small business investment company) to: (1) file with the SEC an annual report containing its proxy voting record for the most recent 12-month period; and (2) disclose in its financial statements that information on how it voted proxies relating to portfolio securities during the most recent 12-month period is available free upon request on its website or by call at a specified toll-free (or collect) telephone number, as well as on the SEC website.

(Sec. 110) Directs the SEC to prohibit the sale of the securities of an investment company or of municipal fund securities

by a broker or dealer or by a municipal securities broker or dealer without the disclosure of: (1) the amount and source of sales fees, payments by persons other than the investment company that are intended to facilitate the sale and distribution of the securities, and commissions for effecting portfolio securities transactions, or other payments, paid to such broker or dealer, or municipal securities broker or dealer, or associated person in connection with such sale; (2) any commission or other fees or charges the investor has paid or will or might be subject to; (3) conflicts of interest that any associated person of the investor's broker or dealer or municipal securities broker or dealer may face due to the receipt of differential compensation in connection with such sale; and (4) information about the estimated amount of any asset-based distribution expenses incurred, or to be incurred, by the investment company in connection with the investor's purchase of the securities.

Defines differential compensation as any increased or additional remuneration, in whatever form, an associated person receives: (1) for sales of the securities of an investment company or municipal fund security affiliated with, or otherwise specifically designated by, such broker or dealer or municipal securities broker or dealer, as compared with the remuneration for sales of securities of an investment company or municipal fund security offered by such broker or dealer or municipal securities broker or dealer that are not so affiliated or designated; or (2) for the sale of any class of securities of an investment company or municipal fund security as compared with the remuneration for the sale of a class of securities of such investment company or municipal fund security (offered by such broker or dealer or municipal securities broker or dealer) that charges a sales load (commission) only at the time of such a sale.

(Sec. 111) Directs the SEC to study and report to specified congressional committees on: (1) the use of soft dollar arrangements by investment advisers; and (2) the increased rate of arbitration claims and decisions involving mutual funds since 1995 in order to identify trends in such rates, their causes, and the means to avert them.

Title II: Prevention of Abusive Mutual Fund Practices - (Sec. 201) Declares that SEC rules and regulations shall require each registered investment company to: (1) disclose its code of ethics in the periodic report to shareholders and any waivers and material violations of it on a readily accessible electronic public information facility of such company; (2) adopt, implement, and review and update annually policies and procedures reasonably designed to prevent violations of specified Federal securities laws; and (3) appoint a chief compliance officer responsible for overseeing such policies and procedures, whose compensation is approved by members of the board of directors who are not interested persons of such company, and who reports directly to such members, including any violations, waivers, or other significant issues. Requires that each SEC-registered investment adviser also adopt, implement, and review and update annually policies and procedures reasonably designed to prevent violations of specified Federal securities laws.

Mandates SEC rules that require registered investment companies to establish policies and procedures to protect persons from retaliation for providing information regarding violations of either securities laws or the code of ethics (whistleblower protections).

Requires SEC self-certification guidelines that require members of the board of directors who are not interested persons to certify in the periodic report to shareholders that procedures are in place: (1) for verifying that the determination of current net asset value of any redeemable security issued by the company used in computing periodically the current price for purchase, sale, and redemption complies with certain statutory requirements; (2) for the oversight of funds flowing into and out of the securities of the company; (3) to ensure that investors are receiving any applicable discounts on front-end sales loads that are disclosed in the company's prospectus; (4) to ensure that, if the company's shares are offered as different classes of shares, such classes are designed in the interests of investors, and could reasonably be an appropriate investment option for an investor; and (5) to ensure that information about the company's portfolio securities

is not disclosed in violation of the securities laws or the company's code of ethics.

Requires such self-certification guidelines also to require that: (1) the members of the board of directors who are not interested persons of the company have reviewed and approved the compensation of the company's portfolio manager in connection with their consideration of the investment advisory contract; (2) the company has established and enforces a code of ethics as required by this Act; and (3) the company is in compliance with this Act as well as its own procedures.

(Sec. 202) Prohibits a portfolio manager or investment adviser of a registered open-end investment company from serving simultaneously as portfolio manager or investment adviser of an investment company that is not registered (hedge fund, an unregulated mutual fund with 99 or fewer investors), or of such other categories as the SEC may prescribe in order to prohibit conflicts of interest.

Authorizes the Commission, however, by rule, regulation, or order, to permit joint management by a portfolio manager in exceptional circumstances when necessary to protect the interest of investors, provided that such rule, regulation, or order requires: (1) enhanced disclosure by the registered open-end investment company to investors of any conflicts of interest raised by such joint management; and (2) fair and equitable policies and procedures for the allocation of securities to the portfolios of the jointly managed companies, and certification by the members of the board of directors who are not interested persons of such registered open-end investment company, in the periodic report to shareholders, or other appropriate disclosure document, that such policies and procedures of the company are fair and equitable.

(Sec. 203) Prohibits any officer, director, partner, or employee of a registered investment company, any affiliated person, investment adviser, or principal underwriter of such company, or any officer, director, partner, or employee of such an affiliated person, investment adviser, or principal underwriter, from engaging in short-term transactions in securities issued by a registered open-end investment company or its affiliates.

Exempts from this prohibition transactions in money market funds or other funds whose investment policy expressly permits short-term transactions, as well as other categories of registered investment companies as the Commission shall specify by rule.

Instructs the SEC to revise its rules so as to permit an investment company to charge redemption fees in excess of two percent upon the redemption of securities within an SEC-specified period after their purchase in order to prevent short-term trading that is unfair to the company shareholders.

(Sec. 204) Directs the SEC to prescribe standards concerning the obligation of registered open-end investment companies to use fair value methods of determining net asset value when market quotations are unavailable or do not accurately reflect the fair market value of the companies' portfolio securities, in order to prevent dilution of the interests of long-term investors or as necessary in the other interests of investors.

(Sec. 205) Directs the SEC to issue rules to: (1) prevent securities transactions in after-hours trades that are executed at a price based on a net asset value determined as of a time prior to the actual execution of the transaction; and (2) permit execution of after-hours trades that are provided to a registered open-end investment company by specified intermediaries, after the time net asset value was determined, if such trades follow prescribed procedures.

(Sec. 206) Requires the SEC to report to certain congressional committees on: (1) the economic harm of market timing and late trading of mutual fund shares on long-term mutual fund shareholders; (2) its findings and actions taken regarding illegal late trading and market timing practices, including market timing practices that are not in violation of prospectus disclosures; (3) when it became aware that market timing was harming long-term shareholders and the circumstances surrounding such discovery; and (4) the steps it has taken since becoming aware of market timing practices to protect

long-term mutual fund investors.

Actions Timeline

- **Nov 20, 2003:** Received in the Senate and Read twice and referred to the Committee on Banking, Housing, and Urban Affairs.
- **Nov 19, 2003:** Mr. Oxley moved to suspend the rules and pass the bill, as amended.
- **Nov 19, 2003:** Considered under suspension of the rules. (consideration: CR H11533-11547)
- **Nov 19, 2003:** DEBATE - The House proceeded with forty minutes of debate on H.R. 2420.
- **Nov 19, 2003:** At the conclusion of debate, the Yeas and Nays were demanded and ordered. Pursuant to the provisions of clause 8, rule XX, the Chair announced that further proceedings on the motion would be postponed.
- **Nov 19, 2003:** Considered as unfinished business. (consideration: CR H11572-11573)
- **Nov 19, 2003:** Passed/agreed to in House: On motion to suspend the rules and pass the bill, as amended Agreed to by the Yeas and Nays: (2/3 required): 418 - 2 (Roll no. 638).(text: CR H11533-11537)
- **Nov 19, 2003:** On motion to suspend the rules and pass the bill, as amended Agreed to by the Yeas and Nays: (2/3 required): 418 - 2 (Roll no. 638). (text: CR H11533-11537)
- **Nov 19, 2003:** Motion to reconsider laid on the table Agreed to without objection.
- **Nov 4, 2003:** Reported (Amended) by the Committee on Financial Services. H. Rept. 108-351.
- **Nov 4, 2003:** Placed on the Union Calendar, Calendar No. 205.
- **Jul 23, 2003:** Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises Discharged.
- **Jul 23, 2003:** Committee Consideration and Mark-up Session Held.
- **Jul 23, 2003:** Ordered to be Reported (Amended) by Voice Vote.
- **Jun 18, 2003:** Referred to the Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises.
- **Jun 18, 2003:** Subcommittee Hearings Held.
- **Jun 11, 2003:** Introduced in House
- **Jun 11, 2003:** Referred to the House Committee on Financial Services.

LegiList

CONGRESS, MADE CLEAR.

Search Every Federal Bill, Law, and Vote

LegiList is the fastest way to research Congress. Track any bill from introduction to enactment, see how every legislator voted, follow committee activity, and read the full text of every bill — all in one place, always up to date.

legilist.com

Free Course: Learn How Congress Actually Works

LegiList Learn is a free, self-paced course that walks through the entire legislative process — from drafting a bill to a presidential signature. Seven modules, plain language, no politics. Earn a certificate when you finish.

legilist.com/learn

Developer API: Build Apps on Legislative Data

The LegiList API gives developers direct access to bills, votes, legislators, committees, and more. Start free with 1,000 requests per day — no credit card required. Upgrade to Pro when you need to scale.

legilist.com/api

Public data belongs to the public. — legilist.com