

Castle, Moore Introduce the Mutual Fund Fee Reform Act -- July 31, 2007

Washington, D.C. -- Congressman Mike Castle (R-DE) and Congressman Dennis Moore (D-KS), senior members of the House Financial Services Committee, today introduced legislation directing the U.S. Securities and Exchange Commission (SEC) to reform disclosures of 12b-1 fees -0 by requiring disclosure of fees charged to mutual fund investors.

In 1980, the SEC issued a rule known as the 12b-1 rule. The original intent of the rule was to assist the industry to bolster their economies of scale by using the 12b-1 proceeds to cover their marketing and distribution costs to attract more assets. At the time, the SEC felt the 12b-1 fee would be a temporary fix to help smaller struggling funds become financially viable.

"Mutual funds are no longer facing the same circumstances they did in the early 1980s," Rep. Castle said. "Two decades ago, only 6 percent of American households were invested in mutual funds. Today, half of all American families combine to have \$10 trillion at stake, more than a 500 percent increase. The number of funds has grown from less than 500 mutual funds in 1980 to over 8,000 today. In a little over a decade, the amount investors paid in 12b-1 fees rose by over \$8 billion, from \$3.4 billion in 1995 to \$11.8 billion in 2006."

"These fees are now being used to compensate brokers-dealers. The use of the 12b-1 fee is unclear to investors and if the intent of the fee has evolved from the 1980 intent of advertising and distribution, to now compensate brokers, it should be re-evaluated and dealt with as such. Reform of this rule is long over due, and I strongly encourage the Commission to make this fee more transparent so that investors are not being misled," Rep. Castle said.

"Given that 12b-1 fees have evolved over time and are now being used for purposes other than their original intent, such as compensating financial intermediaries, I think it is important that the SEC improves the disclosure of these fees to ensure that consumers have a clear understanding of their purpose and how their money is being spent," Rep. Moore said. "I appreciate the work of Congressman Castle and his leadership on this issue, and I look forward to the House passing this important legislation."

Both Congressman Castle and Congressman Moore are members of the House Financial Services Committee, which oversees all components of the nation's housing and financial services sectors including banking, insurance, real estate, public and assisted housing, and securities.

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