OPENING STATEMENT OF

RICHARD C. BREEDEN, CHAIRMAN
U.S. SECURITIES AND EXCHANGE COMMISSION

AT THE PUBLIC MEETING OF THE COMMISSION
WASHINGTON, D.C.

JULY 28, 1992

U. S. Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

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Good morning ladies and gentlemen. Today we have before us three proposals from the Division of Investment Management intended to promote innovation and flexibility by removing unnecessary regulation.

The first of these items will create an entire new spectrum of investment companies. Our current regulatory system provides only two models for investment companies with managed portfolios. Open-end funds have the highest investment liquidity due to daily redemptions at net asset value. However, such funds must also be prepared to redeem any and all shareholders every day. This creates a need for a highly liquid portfolio. At the opposite end of the spectrum, closed-end funds never offer redemption at net asset value to their shareholders. Because they need not <u>ever</u> make redemptions, such funds have far more flexible portfolio management features. Today's proposal would create three new types of options for products combining features of both open- and closed-end funds.

One option would be a closed-end fund with regular redemptions (e.g. quarterly, semi-annual or annual). Shares of such a fund would trade on the secondary market, but the market and investors would know that, on some regular basis, the fund would repurchase a specified minimum and maximum volume of shares if tendered for redemption. This should reduce the discounts that have been common for many closed-end funds, thereby increasing returns to investors. Because redemptions would only occur at known times and with known maximum quantities, the portfolio constraints for the fund would be minimized. Investors would, however, have improved liquidity and better prices.

Another option would be an "interval fund." This type of open-end fund would allow shareholders to redeem an unlimited amount of their shares at net asset value at fixed regular intervals, but not every day. In other words, some funds might redeem shares on a monthly or quarterly rather than on a daily basis. Because liquidity demands would be more predictable than is true today, the fund would have greater portfolio flexibility. However, here investors would have less convenience in "exiting" a fund. Thus, investors would need to consider carefully the tradeoffs of liquidity and investment performance.

A third option would be an "extended payment" open-end fund. Like a regular open-end fund, it would redeem its shares continuously. However, such a fund would have more than seven days in which to redeem shares. This would be similar to the redemption features of many limited partnership investment vehicles, where a required period of advance notice gives an opportunity for orderly portfolio changes.

Extended payment and interval funds would make it easier for open-end funds to invest in securities that are somewhat liquid, but not liquid enough to ensure seven-day redemption. Such a fund might be able to invest, for example, in securities issued by small businesses that are not yet traded in a public market. It could also trade in thinly traded securities of other domestic or foreign businesses that might not be feasible investments for today's open-end funds, or other types of securities.

Of course regulatory changes to permit the creation of such funds must ensure that investors understand what they are buying. For previously open-end funds, for example, clear disclosure will be needed to inform investors that they offer more limited redemption rights than do standard open-end mutual funds. Similarly, investors should understand clearly the terms of any periodic repurchase arrangements of a closed-end fund, including the process for making pro-rata payments if all requests for redemption are not honored.

Since these proposals would create completely new products, the comment prcess will be important to address disclosure and other investor protection concerns. The Commission will carefully review all comments on these new proposals.

The second item on the agenda is a proposed change in the way the staff applies the Investment Advisers Act to foreign advisers registered with the Commission when they or their affiliates give advice to foreign clients. The staff proposes to adopt a conduct-and-effects test. Under this aproach, a foreign adviser registered with the Commission will be subject to its home country law, rather than U.S. law, when it gives advice to clients in its home country, as long as the foreign adviser's conduct does not affect U.S. clients or U.S. markets. As a safeguard, the staff will require the foreign adviser and its parent to make documents and employees located abroad freely available to the staff so that we can ensure that the adviser's foreign conduct does not have an adverse effect on U.S. investors.

This proposal is another step by the Commission to reflect the increasingly global securities markets. American financial firms with their unparalleled expertise should not be hindered from expanding into foreign markets by unnecessary local regulations. At the same time, we ourselves must avoid regulating conduct of foreign firms where such conduct does not affect U.S. investors or U.S. markets.

The final proposal on the agenda would simplify the way in which investment companies organized as limited partnerships can obtain routine exemptions from certain technical provision of the

Investment Company Act. Over the past 3 years more than 20 exemptions have been issued in this area. This proposal should streamline regulation in this area, by enabling investment company sponsors to choose the form of organization that best suits their needs. At the same time, the expense and delay of filing exemptive applications that serve no function in protecting investors would be eliminated.