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This is your third day here. By now you've heard plenty about the industry's spectacular performance. So I'll just cite what is, to me, the most impressive figure of all: In the first three months of this year, net sales of equity mutual funds, at more than $70 billion, amounted to some 4.4% of personal income. On an annualized basis, this percentage is slightly higher than the personal savings rate. In other words, during the first part of 1996, every single savings dollar that households produced went into stock mutual funds.

As usual, the ICI is on top of the trend, even in its title for this meeting: more than ever before, "Helping Americans Save for the Future" is what the people in this room do.

Although I have several points to make today, a single theme unites all of them: The increasing popularity of funds brings increasing responsibilities -- for investors; for the Commission; and for the industry.

The Increasing Responsibility of Investors

I'll begin with the unprecedented responsibilities being assumed by the American people. It's clear that their savings and investment habits have been transformed. An era of security is ending; an era of self-reliance has begun.

This change did not happen overnight; indeed, it's been the better part of a century in the making. Wall Street was practically a private club until World War I. The war effort was credited by the first SEC Chairman with creating "a vast number of security holders. From a few hundred thousand before 1916 who held securities, more than 20 million became investors during the War, mostly in bonds."

As dramatic a change as this was, it involved government bonds, which are among the most secure investments. Americans by and large continued to shun the stock markets, and the Depression served to reinforce that risk-averse philosophy. For decade after decade, Americans were conservative savers focused on keeping money in federally insured bank accounts and maintaining life insurance.

Even the unprecedented prosperity following World War II did not break this pattern. A survey taken in 1978 found that when it came to money, Americans were still risk-averse. Even among those categorized as "affluent," only 5 percent were willing to assume "substantial risk."

Fast forward to 1996: The entire ethos of personal finance has changed -- we've traded security for self-reliance. Membership in Wall Street's club has been flung wide open -- more than 50 million of us now invest in the market, directly or indirectly. Americans today have even more wealth invested in the stock market than in real estate.

We as a nation have somehow become less risk-averse. The mutual fund industry has played a central role in this transition. One out of three American families now invests in funds -- that's more than 30 million households. Fund assets, at around $3 trillion, now exceed insured commercial bank deposits, which stand at $2.4 trillion.

Nor does the love affair with mutual funds show any sign of abating. During the last 12 months, fund assets have increased by more than $700 billion -- the size of the entire fund industry only a decade ago.

When most of us saved at a bank, bought whole life insurance, and were covered by a defined benefit plan, the responsibility for investment decisions was in someone else's hands. By entering the untamed world of our capital markets, American investors have assumed higher risk in the hope of higher reward. They've taken on a huge responsibility -- to make their own decisions about their own financial future. But unfortunately, many find this new world complex and confusing. Choosing among thousands of stocks, bonds, funds, and insurance products can be a daunting task. There is an unacceptably wide gap between financial knowledge and financial responsibilities. Closing this "knowledge gap" is among the most important problems we face today.

The Increasing Responsibility of the Commission

This is a serious new responsibility for the SEC.

Like the ethos of personal finance, the ethos of regulation has changed. In the past, regulators might have fought this trend toward self-reliance, intervening to protect American investors from "dangerous risk." But today we realize that you can't protect investors against risk by depriving them of the chance to take it. We can't stop anyone from taking chances, nor would we want to. But we can do our best to ensure that they know what they are doing and to protect them against abuses.

Over the past two years, I've held a series of investor town meetings across America. These meetings not only give me an opportunity to advise people about the questions they should ask before they invest, they also provide a forum for hearing what investors want or need.

I'm amazed at the level of interest out there. At a gathering in New York last week -- Matt Fink was there with us -- more than 1,000 investors showed up. And one of the things they want most is guidance in selecting appropriate investments while avoiding the pitfalls.

The SEC has been working hard to respond to this need. Much of our effort has focused on improving mutual fund prospectuses. We appreciate the industry's efforts to develop and refine fund Profiles and we look forward to reviewing the results of the ICI survey of fund investors, released yesterday. From what I can see, those results support our longstanding interest in enhancing the Profiles' discussion of risks, comparing fund performance to a market index, and providing key information about the fund's portfolio manager.

We proceed with some caution, however. In our focus groups, we found that investors didn't necessarily want more or less information, they wanted more understandable, more meaningful information. Investors are pleading with the mutual fund industry to communicate to them by using words and concepts they can understand.

As we work together to improve the information investors receive about mutual funds, let us keep in mind that no matter what rules the Commission may pass, success will depend on the words you choose and the information you impart in communications with investors. I urge you -- in long documents and in short -- in prospectuses and shareholder reports -- to speak to investors in simple English. Tell them plainly what they need to know to make an intelligent investment decision.

Many of you are already moving in this direction. The SEC is doing all it can to support you and your like-minded colleagues on the corporate side. With the help of an English professor and author of a book on writing clearly, we are creating a handbook and a series of workshops designed specifically to assist prospectus writers. Our handbook is going through a final draft now and should be ready for widespread distribution within two months.

We will soon be holding workshops for issuers and their attorneys on how to rewrite disclosure documents. The American Society of Corporate Secretaries has agreed to work with us to put on plain English workshops at their fall meetings. You, too, will be receiving an invitation before the year is out.

Another goal of ours is to provide investors with better tools for understanding a mutual fund's risk level. As you know, the SEC's concept release on improving risk disclosure drew a response far beyond our expectations -- some 3,600 individual investors submitted comment letters. The ICI, in response to the release, submitted the results of a survey of over 600 fund shareholders on their perceptions of investment risk. Most striking about those results and our comment letters is their consistency. Both indicate a wide variety of definitions of risk. Both cast significant doubt on the viability of government-mandated risk measures. And yet, both indicate that investors want better risk disclosure.

While I've concluded that, at least for the time being, we do not need to mandate a specific risk measure -- there are several steps we will take to improve the quality of risk disclosure.

We will ask that fund names be more closely related to their actual investment practices. Consider a Morningstar commentary about a "Short-Term Bond" fund that lost more than 4% of its value in 1994: "You'd think that a fund labeled 'short' would hold up in a rising interest rate environment," said the author. You certainly would. Clarity in labeling will help investors and funds alike.

We believe that a bar graph of the kind included in the Profile prototypes could, with some enhancements, help investors better understand the volatility risks of a fund's portfolio. We also expect to require all funds to include a brief, plain English risk summary in their prospectuses.

Even though I do not believe that the government needs to mandate a specific risk measure, we applaud the efforts of the private sector to develop different kinds of measures, as well as the NASD's decision to reconsider allowing the use of third party ratings in fund advertising materials.

The Commission has responded to the growing number of investors in other ways: through pamphlets, handbooks, and brochures; through a toll-free 800 number that provides answers to commonly asked questions; and through our World Wide Web site, which offers our huge EDGAR database of corporate information, as well as other material for the benefit of investors.

But our responsibility extends beyond investors to include the industry. We're committed not to make your life any more complicated than it need be. Along that line, I think we've also accomplished a lot:

Through our Office of Compliance Inspections and Examinations, we've moved from a purely cyclical approach to examinations -- where funds are inspected on a regular cycle, whether they need it or not -- to a risk-based approach, where funds may be inspected more or less often depending on many factors, including their size, their customer complaint history, their advertising, and their inspection history, among other things.

We're also making significant changes to the scope of our examinations. Where a fund's own internal controls are top-notch -- as many are -- our examiners may not need to conduct a top-to-bottom, comprehensive review of fund activities. Instead, our examiners will be selecting and focusing their attention on those areas within the fund that are the most important, and leaving routine matters to the funds' own compliance systems. These so-called "smart examinations" will result in more meaningful exams and less wasted time, both for you and for the SEC.

Without a doubt, the most dramatic item on our agenda for the industry is to eliminate the overlap between state and federal regulation.

We've faced the awful truth that the current combined system of regulation is not what we would create if we were starting from scratch. Its structure looks more like the product of Rube Goldberg, than of Thomas Jefferson.

From the start, I've made it a high priority to work with state regulators to better coordinate our efforts and eliminate duplication. Last fall, the issue was brought into sharper focus by a proposal by Congressman Jack Fields to pre-empt state securities regulation.

I give Jack Fields a lot of credit. I may not have agreed with every item in his bill. But it did all of us a service by questioning cherished assumptions, and forcing us to take a fresh look at how our markets are regulated.

It also offered a rare opportunity to make progress in eliminating duplication. Last October, we opened up a dialogue with state regulators about how both they and we might better utilize our limited resources.

It's our experience that state regulators are the front line of defense. They're often the first to identify potential problems, before too many investors are harmed.

I told the states that I believe they should continue to receive the funds they currently receive. The local cop must be there walking the beat.

But at the same time, with a limited number of cops, it's important that we don't all walk the same beat. I laid out what I felt was a reasonable middle ground between Congress and the states.

The states recognize the need to eliminate wasteful duplication and they've been responsive to our suggestions. At the same time, a bipartisan effort addressed many points of contention in the original Fields Bill, improving the chances that it will be passed. As reported out of full committee last week, the bill follows many of the recommendations I made to the states last October, including pre-emption of state mutual fund regulation; and now it looks as if companion legislation in the Senate may be introduced later this week.

Whatever the fate of this particular legislation, any approach that strikes a fair and workable balance between the states and federal interests will have my support. Better utilization of resources will offer better protection to investors and fewer burdens to mutual funds.

The Increasing Responsibility of the Industry

This dramatic deregulatory step is imminent. It will change the way you do business, very much for the better. But again, this benefit comes at the price of increased responsibility. If scandals erupt after state review ends, then whatever the cause, people will conclude that lower standards were the result of deregulation, and there will be a hue and cry for re-regulation. I urge the industry to seize this opportunity to take a fresh look at its practices and to address not only any conflicts of interest that may exist, but also any practices that might even be perceived as fostering conflicts.

This question of avoiding even the perception of conflicts of interest is so important that we've been emphasizing it in every professional area we regulate, including the setting of accounting standards. I'll digress for a moment, but I ask you to bear with me, for our entire system of regulation is really only as good as the numbers on which it rests. If they go wrong, we go wrong.

As I speak, the SEC is engaged in an effort to strengthen and safeguard the independence of the Financial Accounting Standards Board. Accounting standards have been set by the private sector for almost sixty years. This is a huge responsibility. If standards are drawn, or even seem to be drawn, to favor corporate interests over those of investors, faith in our markets will erode.

Accountants report on corporate America's performance for the benefit of investors -- they prevent companies from giving themselves an "A" report for a "C" performance. It stands to reason that the rules accountants follow in making these reports should not be unduly influenced by the special interests of corporate America -- public oversight is also called for, to look after the substantial public interest. Right now, corporate interests predominate.

While tension between the business community and standard-setters is predictable and often healthy, farsighted leaders over six decades have supported the independence of the process and accepted even those standards that may have worked against their short-term interests. Farsighted leaders in your industry have created boards of distinguished citizens whose records of public service and credibility signal a commitment to protection of public investors. In an area as important to investors as the reliability of financial reports, I expect no less. The positive economic consequences of a visibly independent process far outweigh any potential dislocations it may cause. I am absolutely committed to increasing public oversight of the accounting process.

In the mutual fund industry, independent directors serve this oversight role. They are uniquely positioned and obligated to promote the interests of fund shareholders; to ensure that funds are managed responsibly and ethically; and to uphold the public trust.

Central to their duties is to oversee and address potential conflicts of interests between the fund and its investment adviser. In fulfilling this mission, fund directors must ask tough questions about tough subjects. They must tackle, for instance, the issue that refuses to go away -- personal trading by fund insiders. What purpose does its serve? How does it benefit shareholders? Should it be allowed -- but only with limitations? If I were a director, I would have reservations about portfolio managers trading for their own account. With millions of investors migrating from insured bank accounts, this industry can hardly afford even the appearance of conflicts.

If fund management is satisfied that personal trading is desirable and serves a useful purpose -- then directors should ask for a clear statement of why this is so. And, if personal trading is permitted, directors should ensure that the fund's code of ethics contains strict safeguards, reporting and verification procedures.

Besides this heightened obligation to police itself, the fund industry is also obliged to help educate investors, as well as simplify and clarify its communications with them. I'm pleased to say that many in the fund industry have picked up on this need for education and information.

I've already mentioned our joint effort on the fund Profiles. T. Rowe Price, Schwab, and Fidelity, to name just a few, have put together guides for less experienced or first time investors who want to purchase fund shares. The Web sites of the American Association of Individual Investors, Vanguard, and other groups offer easy to understand material on topics ranging from retirement to estate planning to investing for your children's future. Wells Fargo, Prudential and other fund families offer on-line interactive worksheets that assist investors in determining how much they should be saving to achieve their financial goals.

These are positive developments. But there is ample evidence that we're still not doing well enough, including the recent survey of "investor literacy" by the Investor Protection Trust. Although what might or might not constitute "investor literacy" is debatable, some of the figures in the survey should give us pause:

- only half of those surveyed understood, for example, that there is a relationship between diversification and risk; and

- 2 out of 3 believed that no-load mutual funds involve no sales charges or other fees.

Taken as a whole, the IPT survey confirms the need for us to continue, and even enhance, our efforts to educate investors -- especially as Americans continue to turn, in record numbers, to investments as a prime way of preparing for future expenses.

My friends, we stand at what may be a defining moment in American economic history. If the present trend continues, this may someday be described as the era of democratization of American finance. No one can say whether the increasing assumption of risk might be good or bad for our nation and its people. But we can say that it is happening, and we must respond to it.

You and I are in a unique position to make many positive changes. We can help the industry respond to the flood of new investors while preserving its excellent reputation.

Together, we've made progress toward that goal. We must be firm in our resolve to continue -- especially when the market has reached such dizzying heights.

As we move forward, some will ask you, as they have asked me, why you are worried about uninformed investors, when the market is breaking records practically every week.

I commit to you today to continue the fight begun at the NASAA convention last year, when I asked the states to work with us towards a bipartisan effort to eliminate costly redundancy and wasteful duplication.

I commit to substitute, wherever possible, consensus solutions to problems rather than resorting to costly regulatory fixes.

I commit to working with you on a priority basis to develop simplified Profile prospectuses written in plain English.

I commit to continue efforts to organize inspections in the least intrusive manner based on selective choices rather than bureaucratic dogma.

I commit to work with you in town meetings and other forums to educate investors throughout the nation about the industry by building confidence in its standards while nurturing your efforts at even more effective self-regulation.

What I expect from you in return is nothing less than the mandate presented you yesterday by your distinguished and charismatic leader, John Fossel: 1) To promote open, honest, and understandable communications with shareholders; 2) To find a better way to inform shareholders about risk and return; 3) To put your shareholders' interests first, to fight for their well-being, and to dare mighty things; 4) To structure your boards with independent directors who will fiercely defend these principles with the same vigor and commitment that John presented them.

Let this exchange of commitments send a message to all that both regulator and regulated in this vital, burgeoning industry will brook no compromise of integrity and no impediment to the primacy of our investors, whose trust we must cherish and defend with all our hearts and souls.

Some will tell you, as they have told me, to leave things alone, everything is fine.

In response, remind them that investors today are not as sophisticated as they should be. Remind them that there is a universe of investors out there who have never been tested -- whose only experience has been a bull market. And remind them of President Kennedy's wise saying: "The time to repair the roof is when the sun is shining."

Fortune has brought us a good measure of sunshine. Let's get the roof fixed. Thank you.

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