



## ICI Grapples with Scandal's Public Relations Fallout

By [Colin Dodds](#)

Eliot Spitzer's shadow fell heavily upon last week's meeting of the Investment Company Institute's Public Information Committee, which is composed of spokespeople from different fund firms.

The committee's meeting, which had been scheduled before news of Spitzer's complaint broke, was devoted to dealing with the current scandal now facing the industry, says ICI spokesman Chris Wloszczyna. In addition to the meeting, which was held at **American Funds'** New York offices, there was also a conference call, he says.

The meeting was the latest development in the industry's ongoing confrontation of the scandal spawned by New York attorney general Eliot Spitzer. His allegations are that four fund firms engaged in abusive trading practices, including allowing market timers to use their funds contrary to their own policies and allowing late trading in their funds.

So far the ICI's response has been subdued.

"To call it an initiative would be a bit strong," says Wloszczyna.

The trade group has written an editorial for *USA Today*, put out statements about the situation and made president Matthew Fink and chairman Paul Haaga available to the press, says Wloszczyna.

At the meeting last week, it was agreed upon that fund firms should focus their messages more on the virtues of mutual funds, such as their safety, liquidity and low costs, says Lisa Gallegos, a spokeswoman at **Franklin Templeton**, who attended the meeting.

But some say those efforts are too little, too late. The ICI should have been pushing that message first and foremost for a long time, says **Morningstar** managing director Don Phillips. Rather, it chose to use its megaphone to protect some of its weakest practices, such as high fees and lack of transparency, he says.

Moreover, Phillips has been critical of the ICI's ability to represent the mutual fund industry in the public spotlight. One of the examples that he has pointed to was the lack of an ICI response to the corporate scandals that hit the likes of **Enron** and **WorldCom**. While the fund industry was a major investor in these companies and many shareholders got burned by their practices, the ICI did little to distance the industry from those firms, according to Phillips.

This time around the scenario is a bit different. The Spitzer allegations, because they broke so suddenly, gave the ICI very little opportunity to get out ahead of the issue, says Phillips

On the whole, though, the ICI and the fund industry were complacent and believed their own press clippings about being a scandal-free industry too much, says Phillips. That was proven by the fact that many firms didn't take the scandal seriously when it was first developing, he says. Many of the fund executives Phillips says he spoke with in the first few days of the Spitzer investigation indicated that they believed the problems to be small and confined only to the firms in the complaint. Investors and advisors, on the other hand, while enraged, are not too surprised by the allegations, he says.

The ICI, however, did drop the ball in a big way after the allegations were announced, says Phillips. The announcement that ICI president Matthew Fink planned to retire came just three days after news of Spitzer's allegation.

By making that announcement, the ICI shot itself in the foot, Phillips says. Now the ICI is stuck with lame-duck leadership during a period when the fund industry's reputation is at stake, he says.

That leadership is more important to the fund industry now than perhaps at any other time in its history. The ICI faces several problems in trying to deal with the growing scandal in the fund industry, says an exec at a leading public relations firm specializing in crisis management. The first problem is that the organization still doesn't know how serious or widespread the problem is, he says.

It is also hard for the ICI to come out with a broad policy statement to deal with the situation, says the exec. For instance, it can't come out and vilify market timers, because market timing isn't illegal and some of its members actively court timers as clients, he says.

That being the case, the best the ICI can do is to put out broad generalities, the exec says. Where the ICI's real strength will come to bear is in Washington, in keeping lawmakers from going after its members, he says.

The ICI's message has been that serving investors is paramount and that regulators need to go after the wrongdoers implicated in the investigation, says Wloszczyna.

On the whole, the ICI has done a pretty good public relations job, given the hand it was dealt, says the exec.

As for individual fund firms, public relations is tricky because in situations like this, legal and compliance departments typically take charge, says the exec. For that reason, firms' legal strategies will dictate a great deal of how the scandal plays out in the public eye, he says.

But when a firm's communication with shareholders and the public is dictated solely by legal concerns, it can be worse than if the firm simply says nothing, says John Picard, principal at marketing firm **Picard & Co.** That's because it gives shareholders the sense that the firm is looking out for itself, rather than them, which diminishes trust, he says.

The best route for a fund firm right now is to be proactive and to get in front of the issue, says Picard. He cites **Alliance's** recent announcement that it is suspending a handful of employees after uncovering a market-timing scheme as an example of a good, proactive response to the situation.

Other firms, by being proactive in their public relations, could use the scandal as a way to differentiate themselves and put themselves on the side of the good guys, he says.