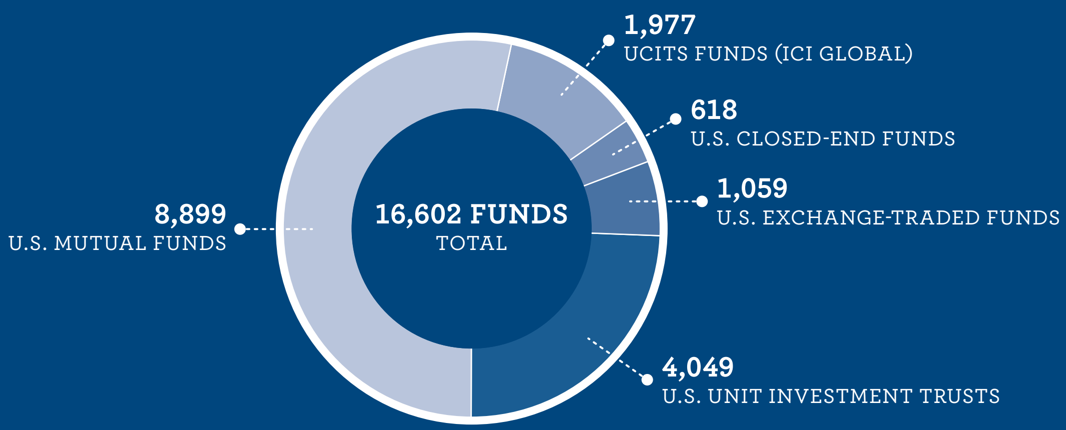
2013
Annual Report to Members

INVESTMENT
COMPANY
INSTITUTE®

ICI Represents...

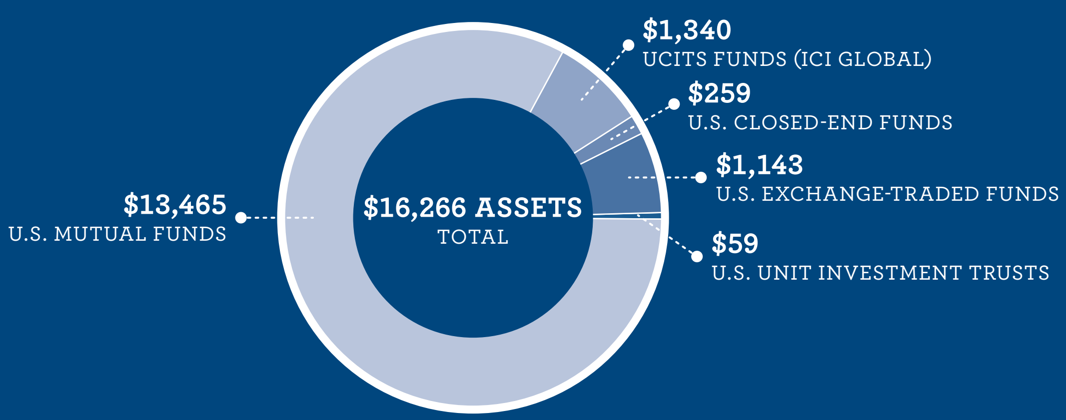
More than 16,000 funds*

NUMBER OF INVESTMENT COMPANIES BY TYPE



With more than $16 trillion in assets*

INVESTMENT COMPANY ASSETS, BILLIONS OF DOLLARS



Serving more than 90 million U.S. shareholders

U.S. OWNERSHIP OF FUNDS OFFERED BY INVESTMENT COMPANIES, MAY 2013

47.1 percent
OF U.S. HOUSEHOLDS OWN FUNDS

57.7 million
U.S. HOUSEHOLDS OWN FUNDS

97.9 million
INDIVIDUALS OWN FUNDS

* *Data for mutual funds, closed-end funds, and exchange-traded funds are as of June 2013. Data for unit investment trusts are as of December 2012. Data for UCITS funds are as of July 2013.*

Source: Investment Company Institute

Contents

TO OUR MEMBERS

Gregory E. Johnson

CHAIRMAN, INVESTMENT COMPANY INSTITUTE
CHAIRMAN, PRESIDENT, AND CEO, FRANKLIN RESOURCES, INC.

All our work on behalf of funds and fund investors is grounded in timeless values—but as an industry, we never stand still. New products, new competitors, and new regulatory priorities constantly challenge funds and advisers to innovate and adapt. As the premier association serving the fund industry, the Investment Company Institute must respond to similar challenges—and it does.

After more than 70 years focusing largely on U.S.-registered funds and the U.S. market, ICI has made a significant leap onto the global stage. Responding to the globalization of fund investing, and the corresponding rise of global regulation, the Institute has expanded its overseas presence and expertise—with the founding of ICI Global in October 2011 and the expansion of membership to include non-U.S. funds. Now, with offices in Washington, London, and Hong Kong staffed with professionals who bring deep expertise to the issues confronting funds internationally, the Institute is truly a global organization.

This expanded focus has brought significant benefits to all ICI members. Regulators around the world are working on issues—systemic risk, regulation of money market funds, market structure and trading, and taxation of financial instruments, among many others—that are vital to funds and their investors, whatever their national identity. Increasingly, regulations adopted in one country influence regulators and affect funds and their investors in many other jurisdictions. Today the Institute is equipped as never before to engage with policymakers to communicate the perspectives and expertise of our diverse membership, encourage sound policy and coordination on global issues, and advance the interests of our millions of investors worldwide.

At the same time, ICI's policy agenda in the United States is as active as it has ever been. The continuing regulatory fallout from the financial crisis has brought the fund industry a host of new rules—and even new regulators. In the past year, the Institute's advocacy on behalf of America's retirement system and defense of the tax incentives for retirement savings have been a focus of major effort, including noteworthy research and analysis.

In my judgment, no association surpasses ICI in the strengths that it brings to its missions—to the benefit of funds and their investors. An engaged and active membership grounds ICI's policy positions in industry realities—a tradition that ICI Global is building upon and extending. ICI's staff brings deep intellectual resources, growing out of decades of experience with legal, economic, and industry operations issues for funds, markets, financial intermediaries, and investors. And through the work of the Board of Governors and its committees, the fund executives and directors who participate in the governance of the Institute assure a high level of stewardship of member resources.

It has been my great honor and a personal pleasure to serve the Institute's members as chairman during this dynamic period of activity and expansion. I remain confident that ICI will continue to build upon its record of historic accomplishment in the years ahead.

No association surpasses ICI in the strengths that it brings to its missions—to the benefit of funds and their investors.

Gregory E. Johnson
Chairman, Investment Company Institute
Chairman, President, and CEO, Franklin Resources, Inc.

LETTER FROM THE PRESIDENT

Paul Schott Stevens

PRESIDENT AND CEO
INVESTMENT COMPANY INSTITUTE

History shows that innovation and progress often are the result of people making new connections—of taking things that are known and linking them in ways that no one had before. It also shows that open, collegial networks provide an ideal environment to form connections and easily exchange ideas.

ICI uses its convening power to forge just such connections, foster insights, and make progress on matters of concern to our members and millions of fund investors. With markets around the world becoming ever more interconnected, our efforts increasingly are international in scope. ICI Global is a prominent expression of our commitment to a productive dialogue on the issues of greatest importance to global fund sponsors and their investors.

This attitude is behind everything we do. Our world-class research provides us with a means to inform regulators, the media, and the public. Our respected economic and legal analysis helps frame the debate on regulatory and tax issues in the United States and around the world. Of course, our staff, our numerous committees, and the many other member representatives with whom we interact—all of them create a network that helps support the growth and success of our industry.

Our efforts to connect with regulators are especially important to the industry. ICI has a long and successful history of promoting dialogue and cooperation in the pursuit of sound, investor-centered regulation. Nonetheless, there are times when we have fundamental differences with regulators. When this happens, we redouble our efforts to demonstrate how investor interests would be served best. We generally are able to find common ground, but when this is not possible, we are not afraid to stand on principle and advocate for the shareholders we serve.

Consider money market fund reform, where ICI has brought members together for more than five years following the financial crisis. I am confident that our work has proven of genuine assistance to the Securities and Exchange Commission in formulating and assessing proposals to increase the resilience of money market funds.

Consider the legal challenge mounted by ICI and the U.S. Chamber of Commerce to amendments adopted by the Commodity Futures Trading Commission (CFTC) to its Rule 4.5. Though we ultimately did not prevail in the courts, there is no question that our principled stand influenced the direction of the CFTC's harmonization rules and the substituted compliance approach it eventually adopted.

You will be able to read more about these and many other issues in this report, which we publish each year as a record of the connections we create—always keeping in mind that the most important connection we make is with you, our members. ICI always seeks to be greater than the sum of its parts, and that begins with an engaged and dedicated membership. I welcome any thoughts you may have about how we can improve that connection and become even more effective on behalf of funds and fund shareholders.

ICI uses its convening power to forge connections, foster insights, and make progress on matters of concern to our members and millions of fund investors.

Paul Schott Stevens
President and CEO
Investment Company Institute

RETIREMENT

Promoting and Preserving the Strengths of the U.S. Retirement System

Though ICI research has shown that the system is working, myths and misguided proposals about retirement persisted. ICI continued its efforts to educate stakeholders about the issues involved.

The U.S. retirement system has successfully provided generations of Americans with the means to accumulate the financial resources they need in retirement. For Americans saving toward a secure retirement, the defined contribution (DC) plan system plays a crucial role in building resources for their financial futures. Success of the system is shown, in part, by Americans' accumulation of $20.9 trillion in retirement assets as of the middle of 2013. That's more than one-third of all household financial assets in the United States.

ICI's long-standing commitment to Americans' retirement security drives the Institute's vigorous analysis of, and responses to, retirement-related proposals by policymakers and regulators, as well as far-reaching efforts to educate the public and the media about the value of funds in providing a secure retirement.

Defending the System

America's retirement system frequently is the subject of media and policymaker misconceptions. ICI applies the skills of its Research, Law, Government Affairs, and Public Communications teams to leverage its objective research and analysis—and ICI members' expertise—to counter these misconceptions.

In the past year, ICI continued to emphasize its research and analysis through speeches, blog posts, member engagement, and social media. For example, a new paper from ICI Research, *The Success of the U.S. Retirement System*, reported a number of measures of the system's strengths, including data showing that most U.S. households are able to maintain their income when they retire. ICI consistently reinforced this message in speeches, submissions to Congress, and briefings for policymakers and the media.

The Institute also vigorously responded to misinformed media reporting with clear and forceful messages. When an episode of PBS's *Frontline* painted only a partial picture of the 401(k) system, ICI enhanced the resources on its website, including a dedicated retirement page (**www.ici.org/retirement**), and created a series of blog posts that painted the complete picture, providing the public with research and resources they could use to find out more about the benefits of 401(k)s and other DC plans.

Defending Tax Incentives

For the second year in a row the Administration's budget, released in April, included a proposal to limit the up-front tax benefit of tax-deferred retirement contributions to 28 percent—a proposal based on a basic misunderstanding of the difference between tax deferrals (where tax is eventually paid) and tax deductions and exclusions (which permanently exempt income from tax). In addition, the budget included a new proposal to limit the total accrual of retirement benefits by an individual (including assets in DC plans and individual retirement accounts and accrued defined benefit [DB] plan benefits).

ICI responded to these efforts to limit benefits by meeting with legislators and their staff to explain the benefits of tax deferral, as well as by sharing

Research, congressional testimony, and vigorous engagement with policymakers, regulators, academics, the media, and the public—these are just some of the ways in which ICI continued to defend America's retirement system in fiscal year 2013.

research showing Americans' overwhelming support for the tax treatment of DC retirement savings plans. Representatives of ICI member companies also got involved, visiting 46 congressional offices in June during a "Hill Day" to educate members of Congress and their teams about the damaging effects of such measures. ICI further informed this debate through statements submitted to the House Ways and Means Committee and through partnerships with numerous retirement tax incentives coalitions. (For more on these efforts, see page 9.)

Expanding Retirement Saver and Investor Knowledge

In 2012, DC retirement plan sponsors and participants began receiving new disclosures on fees and other plan features pursuant to regulations issued by the Department of Labor (DOL)—the result of a decades-long effort supported by the fund industry to enhance disclosures to 401(k) investors. As part of ICI's ongoing emphasis on improving retirement saver and investor knowledge, the Institute also continued to work with policymakers and regulators on how best to provide participants with lifetime income illustrations. The Lifetime Income Disclosure Act, a legislative initiative introduced in May, would mandate that benefit statements provide lifetime income illustrations, using the current account value, and showing monthly income only as an annuity calculation. On the regulatory side, DOL released its own lifetime income illustration proposal, which would require benefit statements to include annuity-based illustrations of a participant's current account balance and projected account balance at retirement age. Through comment letters and engagement with bill sponsors, committee staff, and DOL, ICI continues to express its view that any legislation or regulations in this area should allow for a broader, more flexible approach, including allowing use of illustrations based on projected account balances, and by permitting disclosures using methodologies beyond annuity calculations.

In related work, ICI filed a comment letter regarding a survey that DOL is undertaking to assess individuals' understanding of information presented on benefit statements, including lifetime income illustrations. The comment letter offered specific recommendations on the survey design, survey questions, and sample benefit statements to be used in the study. In response to comments received, the DOL made revisions to the survey materials that reflected ICI's input in a number of areas.

A Continuing Commitment

Research, congressional testimony, and vigorous engagement with policymakers, regulators, academics, the media, and the public—these are just some of the ways in which ICI continued to defend America's retirement system in fiscal year 2013. The future will no doubt offer more challenges, as well as more opportunities to engage and educate others on this subject.

STAFF SPOTLIGHT

Peter Brady

SENIOR ECONOMIST
INVESTMENT COMPANY INSTITUTE

In 2013, ICI Research continued to present findings that balance the often misguided views expressed in policy circles and by the media about Americans' readiness for retirement. Tell us about these efforts.

We analyzed all available data and research on the U.S. retirement system and found no evidence to support the view that the United States faces a widespread retirement savings crisis. We presented these findings in a white paper titled *The Success of the U.S. Retirement System*. Our reading of the data is that current retirees are not in crisis, workers near retirement appear to be prepared, and there is every reason to believe that younger workers will reach retirement just as prepared. In particular, the belief that the shift in the private sector from DB [defined benefit] plans to DC [defined contribution] plans will create a crisis is based on an exaggerated and nostalgic view of the importance of private sector DB plans historically. In fact, more retirees are getting income from private-sector plans now, and they're getting more of it.

What is the most important thing to understand about Americans' retirement preparedness?

In thinking about retirement, it's important to understand that the U.S. retirement system has many components. We developed the "retirement pyramid" analogy [see page 10] to illustrate this point and to show that, for the majority of Americans, Social Security benefits are the most important retirement resource. Social Security is designed to be the primary means of support for workers with lower lifetime earnings and a strong foundation for those with higher lifetime earnings.

How does ICI Research support the Institute's responses to proposals to change the tax treatment of retirement savings?

The most prominent proposals appear to be based on a fundamental misunderstanding of tax deferral. So, the first step was to explain the basics, which we did in [the ICI white paper] *The Tax Benefits and Revenue Costs of Tax Deferral*. After establishing the facts, we were better able to explain our opposition to these proposals—in presentations to the policy community, in visits with Capitol Hill staff, and, most recently, with a series of blog posts. For example, we explained that a deferral of tax is neither a deduction nor an exclusion. Retirement contributions reduce taxes today, but increase taxes when distributed. Deductions and exclusions reduce taxes today—period. "Modest" proposals to limit the tax benefit of deductions and exclusions represent a radical change in tax treatment if applied to deferrals.

What do you want members to take away from your research?

That, for the vast majority of Americans, the U.S. retirement system is working; and that things have gotten better, not worse. Rather than dismantle and replace it, it's important that any efforts going forward maintain and improve this system.

»»» **46** Number of congressional offices visited by ICI members on ICI's "Hill Day" on retirement

INFORMING THE TAX REFORM DEBATE THROUGH RESEARCH AND ADVOCACY

Policymakers in 2013 continued to lay the groundwork for fundamental tax reform, taking the position that all tax expenditures should be on the table—including the tax incentives that successfully encourage Americans to save for retirement. Also implicated in these efforts: the municipal bond interest exemption, which is an important incentive for investors to help finance state and local governments. ICI's Government Affairs, Research, and Law Departments collaborated to leverage the Institute's convening power and research data to defend these incentives.

ICI sought to inform this debate with its data, research, and members' experience. For example:

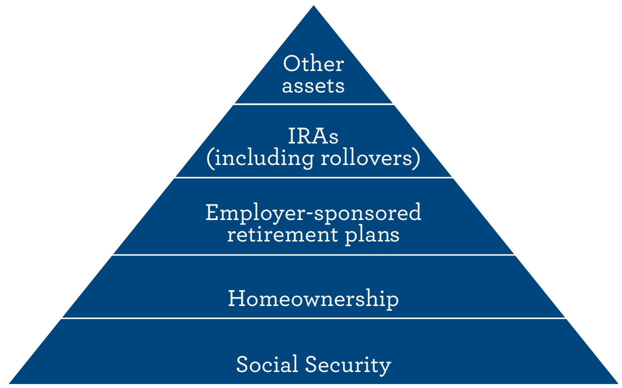
- In a March 15, 2013, "Lunch and Learn" briefing session for congressional staff held on Capitol Hill, hosted by the Savings Coalition of America, ICI Senior Economist Peter Brady illustrated the strengths of the U.S. retirement system, the broad public support for DC plans, and the distinction between tax deferrals and deductions or exclusions.
- ICI explored the economic and social value of preserving retirement plan tax incentives in an April 15, 2013, submission to the House Ways and Means Committee's Tax Reform Working Group on Pensions/Retirement. The statement drew on ICI research to demonstrate widespread public support for the incentives, which enable workers to save for retirement in tax-deferred accounts.
- In a statement to the same committee's Tax Reform Working Group on Financial Services, ICI highlighted the problems for investors if the tax incentives for municipal bonds were removed. This statement explained that the suggested imposition of a tax on interest payments from existing municipal bonds would impose a burden on investors.
- With the help of ICI Government Affairs, Chief Economist Brian Reid briefed members of the House Ways and Means Committee's Pensions/Retirement Working Group in a private presentation about ICI's research and tax reform position, at the committee's Defined Contribution Roundtable on April 17, 2013.
- ICI's Government Affairs team organized a "Hill Day" in June focusing on retirement savings incentives, accompanying 19 ICI Board members and their designees to 46 meetings with House and Senate leaders, members of the tax-writing committees, and staff, educating policymakers on the difference between tax deferrals and deductions or exclusions, and successfully conveying to them that limiting retirement tax incentives hurts *all* savers.
- ICI Government Affairs also organized a "Hill Day" in July on the tax exemption for municipal bond interest, accompanying 13 ICI member representatives to Capitol Hill to educate key congressional policymakers and senior staff about the importance of maintaining the current exemption in any fundamental tax reform efforts.
- ICI Director of Retirement Security and Tax Policy Allen Huffman shared research with policymakers and other attendees at an economic development summit sponsored by Senate Finance Committee Chairman Max Baucus (D-MT) in Butte, Montana. Huffman talked about why it is important for small businesses to offer retirement plans, leveraging ICI research that demonstrates how employees appreciate retirement savings plans at work.

The Strengths of the U.S. Retirement System

The central question in debates over U.S. retirement policy is whether the current system for providing resources is adequate to meet the needs of current and future retirees. Relying on both existing research and original analysis, ICI Research addressed that issue directly in *The Success of the U.S. Retirement System*, published in December 2012. The paper reported that most households maintain their standard of living when they retire and that, on average, more-recent retirees have higher levels of resources to draw on in retirement than previous generations did. For example, adjusted for inflation and the number of U.S. households, assets earmarked for retirement were about three times larger in mid-2013 than in 1985. In addition, poverty among people aged 65 or older has fallen from nearly 30 percent in the mid-1960s to 9 percent in 2012.

It's a Retirement Pyramid (Not a Three-Legged Stool)

The authors of the white paper suggest that retirement resources are best thought of as a pyramid with five basic components: Social Security, homeownership, employer-sponsored retirement plans (including DB and DC plans, whether public-sector or private), individual retirement accounts (IRAs), and other personal savings and assets. The retirement resource pyramid more accurately reflects how Americans prepare for retirement than the traditional three-legged stool analogy. A stable retirement does not require that retiree resources are composed of equal amounts of Social Security benefits, employer-sponsored retirement accounts, and other savings. A retirement resource pyramid, with Social Security benefits providing a sturdy base, can be built using layers of various sizes, depending on each retiree's unique circumstances.



Delivering the Message

This message was well received. As a credible, recognized resource in the retirement industry, members of ICI Research—including ICI Chief Economist Brian Reid and authors Peter Brady, ICI Senior Economist; Kimberly Burham, ICI Economist; and Sarah Holden, Senior Director of Retirement and Investor Research—have shared this perspective in the media and via many other outlets, including numerous meetings with members, foundations, research groups, and even with legislators and their teams on Capitol Hill.

With Congress and the Administration looking at a number of proposals to raise revenues, it is vital that policymakers understand that the retirement system is strong and is succeeding in helping millions of Americans meet their goals. ICI Research remains committed to its work to enhance understanding of the 401(k) system.

Find this paper and other retirement research publications at ***www.ici.org/research/retirement****.*

CONSISTENT TRADITIONAL IRA INVESTORS STAY THE COURSE, REAP THE REWARDS

In discussions of America's retirement system, one resource that's often overlooked is the individual retirement account (IRA). IRAs are the largest single component of retirement assets—but a lack of detailed data on the composition of IRAs and the activities of IRA investors has hampered comprehensive understanding of this vital retirement vehicle. ICI has set out to fill this gap, collecting data starting with tax year 2007 in The IRA Investor Database™—a joint project by ICI and the Securities Industry and Financial Markets Association (SIFMA) that includes account-level data on more than 10 million traditional IRA investors. Recently that effort produced research showing that, like 401(k) participants, IRA savers generally have weathered the financial crisis and stayed the course.

ICI Research has produced a series of papers drawn from information collected in the database. The most recent update, *The IRA Investor Profile: Traditional IRA Investors' Activity, 2007–2011*, examines how traditional IRA investors fared during and after the 2008 financial crisis by analyzing the contributions, rollovers, withdrawals, asset allocation, and account balances of 5.8 million consistent traditional IRA investors (those with accounts in every year between year-end 2007 and year-end 2011). The report showed that despite the financial stresses in the wake of the financial crisis of 2008, traditional IRA investors reacted moderately, with little change in their contribution, rollover, and withdrawal activity. In addition, for all age groups younger than 70 (who generally are not required to take withdrawals), investors saw their traditional IRA account balances, on average, recover to above precrisis levels by 2010.

For more information on research drawn from the IRA Investor Database, visit **www.ici.org/ira**.

Traditional IRA Assets

BILLIONS OF DOLLARS, 1998–2012

[e] Data are estimated.

Sources: Investment Company Institute and Internal Revenue Service Statistics of Income Division

OPERATIONS

Confronting Physical and Virtual Threats to Funds

The fund industry operates in a complex, fast-moving, highly regulated environment where managers must learn to expect—and prepare for—the unexpected. Throughout the year, ICI Operations was there to help.

Throughout fiscal year 2013, ICI's Operations Department worked on a wide array of business and regulatory challenges facing funds. But perhaps the starkest challenge came from an unanticipated event—Hurricane Sandy—in late October 2012. At ICI's 2013 Operations and Technology Conference, panelist Darren Walsh, Global Head of Operations and Technology at OppenheimerFunds, recounted how flooding from the "superstorm" forced his firm to close a key downtown New York office for five weeks. "Never in a million years did we anticipate a scenario like that," he said.

Indeed, crises such as Hurricane Sandy, the April terrorist attack in Boston, and a spate of high-profile cybersecurity issues challenged assumptions and prompted extensive reviews of plans, processes, and procedures in the fund industry.

Coping with Hurricane Sandy and Its Aftermath

As Hurricane Sandy approached New York City, ICI staff regularly engaged with the exchanges, financial intermediaries, regulators, and members. ICI's operations and markets experts participated in ongoing discussions with industry stakeholders and provided critical updates to constituents during and after the market's two-day closure—the longest weather-related interruption of the New York Stock Exchange since 1888.

The Operations Department also organized a series of calls to address the operational implications of the market interruption. Drawing together members of all of ICI's operations-related committees, the calls became the focal point for airing issues, concerns, and solutions to meet investor needs during the weather disruption, and to ensure a smooth transition upon the reopening of the markets.

Once the storm had passed, ICI turned its attention to capturing lessons learned, notably on the readiness of the industry's disaster-recovery programs and the ability of the exchanges, the Depository Trust and Clearing Corporation (DTCC), funds, service providers, and the intermediary community to work together during and after a catastrophic event.

Toward this end, ICI hosted a post-Sandy webinar featuring a "fireside chat" with Securities and Exchange Commission (SEC) Commissioner Daniel Gallagher and Commodity Futures Trading Commission (CFTC) Commissioner Scott D. O'Malia. The Institute also organized a panel with all the major exchanges to discuss the response to the hurricane, as well as a panel with the SEC, the Financial Industry Regulatory Authority (FINRA), brokers, and fund representatives to discuss their views on market disruptions and the impact on funds.

Recognizing the post-Sandy need to revamp business continuity practices and pursue automated solutions for manual workarounds that resulted from the two-day closure, ICI's Operations Department organized several working groups to address vulnerabilities

Recognizing the post-Sandy need to revamp business continuity practices, ICI's Operations Department organized several working groups to address vulnerabilities revealed by the storm.

revealed by the storm. The team organized a Business Continuity Steering Committee to lead urgent initiatives, including improving communications between funds and distributors, enhancements for investor account transfers, coordinating with vendors to improve data flow for pricing and dividend accrual information, and updating documentation on common practices to help fund transfer agents manage future unscheduled market closures.

Emerging Threats: Cybersecurity

An urgency around another type of technology threat—cyberattacks—grew in 2013. Indeed, Mary John Miller, the Treasury Department's Under Secretary for Domestic Finance, called the issue of cybersecurity "hugely important" in her remarks at ICI's General Membership Meeting (GMM). Likewise, SEC Chair Mary Jo White told GMM attendees in her keynote address that addressing online vulnerabilities must be "a constant focus for both the regulators and the broader business community."

As with business continuity generally, cybersecurity has long been a regular agenda topic for ICI's Technology Committee. Over the past decade, committee meetings have provided members with the opportunity to hear from information security specialists from the government and multinational corporations. These presentations enhance the committee's ongoing discussion of new and emerging threats, as well as potential mitigation strategies and resources available in this area.

ICI events also have provided the chance to exchange views and best practices on cybersecurity. At the 2013 Operations and Technology Conference, a panel session observed that while cyberattacks can have very sophisticated sponsors using advanced technology (e.g., nation-states such as Iran and North Korea), no one should ignore the danger from more mundane methods of attack.

"We spend a lot of time on these more exotic kinds of actors coming in through cyberspace," said Operations and Technology Conference panelist Avivah Litan, Vice President and distinguished analyst at Gartner Research. "We forget sometimes about the guy in the print room." Her takeaway: cybersecurity strategy must involve multiple layers of security.

If a crisis affects the financial markets, ICI's web page **www.ici.org/emergency** *provides resources and updates for members and the public.*

QUESTION & ANSWER

Basil Fox

CHAIRMAN, ICI OPERATIONS COMMITTEE
PRESIDENT, FRANKLIN TEMPLETON INVESTOR SERVICES LLC

What is the role of the ICI Operations Committee?

Broadly speaking, the investment management industry is highly regulated and very complex. The Institute, through various committees, helps make sure we're paying attention to all the dynamic changes that may impact us.

As for the Operations Committee specifically, our goal is to have senior executives who can participate and who can commit their firms when we decide to get behind certain initiatives. Fortunately, we have a group of very experienced individuals on the committee, working with the Institute to help create the right kind of change for the industry as a whole.

Tell us how the Operations Committee carries out that role.

The Operations Committee has two in-person meetings each year, usually held at ICI headquarters in Washington, DC. In the interim, lots of discussion takes place, especially between myself as chair and the ICI staff, about how we move our agenda forward. This year, we've added conference calls for the committee to keep in touch on regulatory or other developments that may take place between our two regularly scheduled meetings. We did the first one of those calls in July and had very good participation.

Overall, the Operations Committee is very collaborative and collegial. That said, there are different interests represented, and it's important to make sure that all the voices are heard. For example, you have large, medium, and small fund groups. Consensus on important issues can't be reached by hearing only from one constituency or the other.

At every Ops Committee meeting, we get updates from the advisory committees: the Bank Trust and Retirement Advisory Committee, the Broker/Dealer Advisory Committee, the International Operations Advisory Committee, and the Transfer Agent Advisory Committee. Quite frankly, those committees—which have funds, intermediaries, and their respective service providers represented—do a lot of the heavy lifting of bringing firms together, getting agreement, and making progress on some very tactical issues.

For example, suppose DTCC wants to introduce a new service or members want to improve existing services. Well, usually that means significant system programming has to happen. There might be new layouts for records—a number should go in this field, a letter should go in that field, and so on. The advisory committees help drive industry consensus on those kinds of nuts-and-bolts decisions. And the advisory committees in turn spawn subcommittees, because of the detailed level of work that needs to be done.

What are some of the big topics on the Operations Committee's plate?

The big topics are the ones you would expect, given where we are on the back end of the financial crisis.

> We have a group of very experienced individuals on the committee, working with the Institute to help create the right kind of change for the industry as a whole.

OPERATIONS

One area involves new regulations. What are the implications of these rules? What do we as a fund industry need to be paying attention to? We supply operational input on impacts and feasibility for ICI comment letters, whether they're about money market reform or all the activity coming out of the Dodd-Frank Act.

Another big area for us is the fact that many financial intermediaries—such as broker-dealers—have moved back to the omnibus model over the past five or six years. It's not a new development, but it's expanding and is still high profile. In fact, some of the media reporting on the omnibus trend is not accurate—there are a few gadflies out there who are very negative about omnibus.

Therefore, we work to make sure members are educated about how fund groups approach working with intermediaries in the omnibus model. The Broker/Dealer Advisory Committee in particular has been busy, helping make sure that our funds have efficient technology solutions to ensure a good exchange of information with intermediaries. [For more on the shift to omnibus accounts, see "Improving Oversight of Financial Intermediaries" on page 16.]

What are the priorities for the committee in the year ahead?

We'll stay focused on key regulatory developments, some of which will come to fruition in 2014. Take anti–money laundering, for example. There are potential changes for our industry coming from the Financial Crimes Enforcement Network (FinCEN) and others that could affect how we deal with omnibus accounts. It's our job to figure out how we effectively implement these changes.

Another hot issue right now is escheatment—a process under which states seize accounts that are deemed abandoned or unclaimed. Escheatment isn't anything new, but the states are changing the rules about when an asset becomes dormant and needs to be turned over. This is a more aggressive stance than we've seen historically. In response, we've established the Abandoned Property Task Force, which meets by telephone every month and reports to the Transfer Agent Advisory Committee. Fifty states mean 50 sets of rules, so it's a significant undertaking.

From a member perspective, what do you see as the value and the benefits of the committee?

As a member, and as a fund shareholder, I believe what the committee does is very important. The fund industry may not be solving world peace, but we are managing people's life savings. We need to make sure that we're actively part of the dialogue, working towards viable, cost-effective outcomes for our investors. The Operations Committee, along with the advisory committees it works with, gives us that voice.

For more information on operations, visit **www.ici.org/ops**.

Improving Oversight of Financial Intermediaries

One of the most prominent fund industry trends in recent years has been the shift by financial intermediaries—such as broker-dealers—away from individual accounts held on the books of the fund transfer agent back to aggregated, or omnibus, accounts. This shift has numerous and significant implications. Notably, it has revealed the need to modernize the methods that funds use to conduct their oversight activities, including obtaining transparency information about beneficial shareholder accounts when needed.

In 2013, in cooperation with financial intermediaries and the DTCC, ICI continued its work to help funds adapt to this transition and to create transparency solutions allowing the industry to exchange data efficiently, cost-effectively, and securely. The Institute also made progress in helping funds expand their oversight tools to include independent compliance control reviews performed for broker-dealer firms.

Improving the Effectiveness of Intermediary Compliance Controls

Throughout 2013, a subgroup of ICI Operations Committee members met with representatives of the four major national accounting firms to evaluate and create improvements for a critical oversight tool: the Financial Intermediary Controls and Compliance Assessment engagement, or FICCA.

The FICCA framework calls for the omnibus account recordkeeper to engage an independent accounting firm to assess its internal controls relating to specified activities that the recordkeeper performs for fund shareholder accounts. These areas of focus, among other things, include transaction processing, information security, document retention and recordkeeping, shareholder communications, and anti–money laundering.

Operating under attestation standards issued by the American Institute of Certified Public Accountants, the auditing firm then issues a report on the design and operating effectiveness of the intermediary's compliance controls for these activities.

The series of 2013 meetings between the Operations subgroup and the accounting firms led to proposed revisions and reorganization of the 17 control areas included in the FICCA engagement, and the development of supporting materials, including an overview of audit reporting standards and a glossary of terms.

Promoting Understanding of Omnibus Account Service Agreements

An essential part of the omnibus account relationship is the omnibus account service agreement, commonly known as the subaccounting service agreement. This contractual arrangement, entered into by a mutual fund organization and a financial intermediary, specifies services the intermediary agrees to provide to fund shareholders that would otherwise be the responsibility of the fund's transfer agent. Areas typically covered by the service agreement include trade processing, recordkeeping, beneficial owner communications, and reporting.

In 2013, ICI surveyed member firms represented on the Operations Committee about servicing standards included in intermediary subaccounting agreements (which are fundamental to recordkeeping and servicing shareholder accounts), including adherence to fund prospectuses and business requirements. The data gathered from 56 fund complexes, representing 74 percent of total industry assets ($9.5 trillion), will assist members' understanding of standards commonly included in subaccounting service agreements.

Refining ICI's Transfer Agents Study for the Changing Environment

For more than a quarter century, ICI and partner PricewaterhouseCoopers (PwC) have conducted the biennial Mutual Fund Transfer Agents Trends and Billing Practices Survey. Since the last edition of this in-depth survey in 2011, ICI has worked with a member advisory group and PwC to enhance the 2013 survey to reflect industry changes.

In recognition of a changing landscape that includes intermediary third-party arrangements for subaccounting and retirement plan recordkeeping services, ICI has expanded the survey's data collection and analysis accordingly. This year, 102 ICI member firms have registered to participate in the survey, a 32 percent increase over 2011. The participating firms represent 79 percent of industry assets (as of March 31, 2013).

Set for release in the summer of 2014, the report will provide valuable industry data and insights for fund management when reviewing their transfer agent billing arrangements. It also will serve as an independent resource that senior executives can use with mutual fund directors to compare their funds' transfer agency fees with those of similar funds. As in past years, only survey participants will be able to access the data and analysis in the final report.

26 Number of years ICI and PricewaterhouseCoopers have conducted the biennial Mutual Fund Transfer Agents Trends and Billing Practices Survey

ICI GLOBAL

Playing a Growing Role Around the World

Markets and regulation are increasingly international in scope, reinforcing the need for funds to take a global approach to the issues that concern them. Through ICI Global, the Institute is providing a unique opportunity for members around the world to convene and coordinate efforts.

Navigating a world where global connections and activities are increasingly important poses a growing challenge for funds and regulators worldwide. At ICI's General Membership Meeting this past year, Securities and Exchange Commission (SEC) Chair Mary Jo White remarked on the fund industry's global reach as well as ICI's response to it: the formation of ICI Global in 2011, "to give voice to internationally active investment funds and advocate for transnational solutions to regulatory challenges."

That mission, addressing the needs of funds and their investors worldwide, continued to drive ICI and ICI Global's work in 2013, a year that saw extraordinary growth—in ICI Global's membership and in the organization with the opening of ICI Global's Hong Kong office in February.

ICI Global's membership significantly increased this year, with 11 new members joining for a total of 38. Nine of those members are based in the Asia-Pacific region, where the asset management sector has experienced tremendous expansion. That rapid growth is one reason why ICI Global opened a Hong Kong office under Qiumei Yang, Executive Vice President and Head of Asia Pacific for ICI Global.

But challenges also are growing, and in response, ICI Global intensified its focus on four main policy areas: the role of funds in financial stability, transnational regulatory developments, trading and market structure, and the role of funds in pensions and long-term savings.

The Role of Funds in Financial Stability

Around the globe, regulators continued to assess and address the perceived risks in the financial markets.

Through comment letters and meetings with legislators, regulators, and policymakers, ICI and ICI Global expressed members' concerns about policymakers' financial stability agenda and its impact on funds and their investors. ICI President and CEO Paul Schott Stevens and ICI Global Managing Director Dan Waters met with senior officials from the Financial Stability Board, the Basel Committee on Banking Supervision, and the Bank for International Settlements to ensure that these policymakers appreciated and understood the role that money market and other funds play in the international economy and their importance to investors.

Transnational Regulatory Developments

Regulations with cross-border impact can pose acute problems for funds. Some—such as the Foreign Account Tax Compliance Act (FATCA)—are complicated to implement. Others—such as proposed remuneration policies for fund managers under the fifth iteration of the Undertakings for Collective Investment in Transferable Securities (UCITS V)—are simply bad ideas.

ICI and ICI Global met with regulators to share suggestions about how best to implement FATCA. Through comment letters, vigorous engagement with policymakers and regulators worldwide, and meetings with a coalition of financial sector associations, ICI and

Addressing the needs of funds and their investors worldwide continued to drive ICI and ICI Global's work this year, a year that saw extraordinary growth.

ICI Global worked to maximize FATCA's benefits while minimizing its burdens. This work contributed to the signing of nine intergovernmental agreements (IGAs) and played a role in the U.S. Treasury's decision to grant a six-month delay for FATCA implementation.

ICI and ICI Global also actively responded to a European Parliament proposal to introduce a cap on UCITS fund managers' bonuses to no more than 100 percent of a manager's base salary. ICI Global worked with a European coalition of fund associations to ensure that Parliament understood the ramifications of the bonus cap if it were applied, and Parliament ultimately voted against the cap this past summer.

Trading and Market Structure

Jurisdictions worldwide continue to face difficult questions about the rapidly evolving structure of their markets—most significantly, the impact of technology on trading.

In Europe, the reform of the Markets in Financial Instruments Directive (MiFID) remained the most significant regulatory development relating to trading and market structure. As part of its work on MiFID, ICI and ICI Global regularly met with members of the European Parliament, European Commission representatives, and financial attachés from several member states.

In the United States, the Commodity Futures Trading Commission (CFTC) has been developing final guidance for the regulation of cross-border swaps. ICI and ICI Global worked hard to ensure that the final guidance did not pose additional and unnecessary burdens on either U.S. or non-U.S. funds.

And when regulators in the Asia-Pacific region and the International Organization of Securities Commissions issued their own consultations and rulemaking initiatives on market structure and trading issues, ICI and ICI Global ensured that members' concerns were heard.

The increasing examination of trading and market structure issues worldwide prompted ICI Global to host its inaugural Global Trading and Market Structure Conference, which examined the effect of these issues on institutional investors around the globe.

The Role of Funds in Pensions and Long-Term Savings

Around the world, countries are asking how they can help their populations build resources for retirement. To stimulate an exchange of ideas, ICI Global hosted its first Global Retirement Savings Conference, where participants discussed retirement systems worldwide, the growing role of defined contribution systems, and the role funds can play in those systems.

As fund professionals, along with regulators, policymakers, and legislators, continue to expand their work around the world, ICI and ICI Global will keep working on behalf of funds and their investors, to help them navigate this increasingly changing—and global—industry.

QUESTION & ANSWER

Qiumei Yang

EXECUTIVE VICE PRESIDENT
HEAD OF ASIA PACIFIC, ICI GLOBAL

Last spring, ICI Global opened a Hong Kong office, run by Qiumei Yang, Executive Vice President and Head of Asia Pacific for ICI Global. Yang previously worked at the Hong Kong Stock Exchange as Deputy Head of the market development division and Head of mainland development. Yang also spent 10 years at the China Securities Regulatory Commission in a variety of roles, including Deputy Director General for the department of investment fund supervision.

There has been extraordinary growth in the Asia-Pacific region. What is driving that growth?

One driver is the rising middle class in many parts of Asia Pacific, particularly in China, Indonesia, and India, which means more people have more money to invest. Another driver is that while many economies slowed down following the 2008 global financial crisis, economies in the Asia-Pacific region did not slow down as much. Finally, the opening up of China's capital markets has been a huge force behind Asia Pacific's growth. China and Hong Kong are working on a mutual recognition agreement. Although it is still in its early days, the possibility of a new fund trading platform available to the global fund community would take Hong Kong's and China's asset management sectors to the next level.

Why did ICI Global open an office in Hong Kong?

The office was a natural response to two trends: the growth of asset management in the region and the increase in fund regulation with transnational effects. Funds are becoming an increasingly common tool for Asian investors, and China's and Hong Kong's asset management sectors are rapidly growing. There also is tremendous potential for further growth and development in the asset management sector in places with fast-developing capital markets, such as India and Malaysia, as well as in places with large, established markets, such as Japan and Australia. ICI's Executive Committee, working with ICI President and CEO Paul Schott Stevens and ICI Global Managing Director Dan Waters, saw the value of having a physical presence in the region.

At the same time, regulatory efforts with transnational effects are increasing, and it is crucial that regulators worldwide hear the voices from Asia Pacific's dynamic, diverse markets. Having an ICI Global office in Hong Kong not only provides fund managers throughout the region with a forum to connect with regulators worldwide, but it also helps us support funds in the United States and Europe that could be affected by Asia-Pacific regulations and vice versa.

What issues are Asia Pacific–based members interested in?

Due to the rise in regulations with cross-border effects, Asia Pacific–based members are interested in all of the global matters facing U.S. and European members, including FATCA, UCITS cross-border issues, and ETF [exchange-traded fund] regulation. In addition, they are interested in RQFII [Renminbi Qualified Foreign Institutional Investor] issues and the mutual recognition agreement between China and Hong Kong. In response, ICI Global has been meeting with regional regulators and policymakers, as well as officials from the Hong Kong Securities and Futures Commission, and we have set up two task forces on RQFII and mutual recognition.

ENGAGING IN THE IMPLEMENTATION OF FATCA

Over the year, ICI and ICI Global closely engaged with regulators to share concerns and suggestions about how to implement the Foreign Account Tax Compliance Act (FATCA)—legislation enacted by the U.S. Congress that requires foreign financial institutions to report on the account activities of their U.S. investors and thereby limit offshore tax abuses.

Keith Lawson, Senior Counsel for tax law at ICI, coordinated the actions of a broad coalition of banking, insurance, and asset management companies and associations. As chair of the FATCA Business Advisory Group (BAG) formed by a committee of the Organisation for Economic Co-operation and Development (OECD), Lawson led business presentations at five OECD meetings that focused on Internal Revenue Service (IRS) reporting formats and other FATCA implementation issues.

Although the U.S. Treasury's progress toward signing intergovernmental agreements (IGAs) with countries remains slow, ICI and ICI Global have commended Treasury staff for their willingness to meet as often as necessary to ensure a comprehensive understanding of the coalition's concerns.

In April, when the European Union began discussing multilateral FATCA-like regimes, ICI and ICI Global's role in FATCA implementation expanded to include significant work on mitigating the effects of a new proposal to implement automatic exchange of information (AEOI). ICI and ICI Global will continue discussions with the U.S. Treasury, Her Majesty's Revenue and Customs (HMRC), the OECD, and others about the need for a global solution to these implementation issues.

2012

Date	Event
SEP 12	The UK becomes first country to sign an IGA with the U.S. to implement FATCA.
OCT 22	ICI and ICI Global write to U.S. Treasury Dept., suggesting solutions for remaining FATCA issues, urging an implementation delay, and expressing strong support for IGAs.
OCT 24	Treasury postpones implementation of FATCA until January 1, 2014.
NOV 15	Treasury issues Model 2 IGA.
DEC 5	Treasury signs first completed Model 2 IGA with Switzerland. Unlike the Model 1 IGA, Swiss financial institutions are directed to register with, and report to, the IRS rather than their local governments.
DEC 13	ICI Global Tax Committee meets in London with HMRC officials.
DEC 18	The UK releases draft IGA implementation guidance reflecting ICI Global's conversations with HMRC officials.
JAN 17	Treasury issues final FATCA regulations.
JUN 12–13	ICI's Keith Lawson chairs a BAG meeting at an OECD event focused in part on AEOI.
JUL 12	Treasury announces six-month delay in implementing FATCA, to July 1, 2014.
JUL 12	ICI issues a press release supporting Treasury in explaining reasons for the delay, helping generate positive news coverage.
JUL 16	ICI and ICI Global write to Treasury urging that treaty relief for funds be paired with any global FATCA initiative.
AUG 19	The IRS opens a FATCA registration portal for financial institutions.

2013

ICI GLOBAL

Bringing Together Regulators, Experts, and Industry to Serve Investors

Good policymaking on issues that concern funds and their investors requires open dialogue among regulators, academics and other experts, and fund representatives. A key role for ICI and ICI Global is to facilitate these exchanges, to foster insights and stimulate discussion that will move these issues forward.

With that in mind, ICI and ICI Global organized a number of forums throughout the past year to discuss issues within three key policy areas: the role of funds in financial stability, trading and market structure, and the role of funds in pensions and long-term savings.

Building Understanding on Money Market Fund Regulations

The role of funds—particularly money market funds—in financial stability continues to draw attention from legislators, securities regulators, and central bankers around the world. To examine money market fund regulation across a range of jurisdictions, in October 2012 ICI and ICI Global joined three other fund organizations—the European Fund and Asset Management Association (EFAMA), the Investment Funds Institute of Canada (IFIC), and the Institutional Money Market Fund Association (IMMFA)—to host the International Money Market Funds Summit in Brussels, Belgium.

At the event, stakeholders from Europe and North America came together to address such topics as changes in money market fund regulations and practices since the 2008 financial crisis, and the value of these funds to investors, issuers, and the economy.

Examining Trading and Market Structure Matters

Many jurisdictions around the world face difficult ongoing issues as a result of the rapidly evolving structure of equity and other financial markets. Those issues—such as the effect of technological advancements on trading—demand close attention from the buyside, including the funds represented by ICI and ICI Global and the shareholders they serve.

To promote dialogue around these issues, in December 2012 ICI Global hosted its first Global Trading and Market Structure Conference. The London-based event, which focused on trading and market structure issues from the buyside's perspective, brought together an international group of regulators, institutional investors, and representatives from securities exchanges. Participants discussed numerous topics, including reform of derivatives regulation, the role of exchanges, and regional developments in securities markets.

Kay Swinburne, member of the European Parliament, encouraged buyside representatives to bring their concerns to legislators, telling attendees, "Having your voice heard directly or through trade associations…is critically important."

13 Number of countries represented at the Global Retirement Savings Conference

Given the increasingly international nature of trading and the interconnectedness of markets around the world, gathering in one place helped participants from different regions and sectors of the fund industry address the challenge of ensuring that global financial markets are highly competitive, transparent, and efficient.

Joining Together to Address Global Retirement Savings Challenges

As traditional systems for building retirement resources come under increasing pressure, many countries are looking to defined contribution (DC) systems to help address retirement challenges. Consequently, the role that funds can play in pensions and other long-term savings plans is an important issue for members around the world.

To examine this issue, ICI and ICI Global hosted more than 100 people representing 13 countries at the first Global Retirement Savings Conference. The event, which took place in Hong Kong in June, brought together member firm representatives, industry experts, journalists, and regulators from Sweden, Australia, Peru, and Hong Kong.

Attendees discussed retirement systems worldwide, the role of defined benefit pension systems, the growth of DC systems, and the innovative ways that different countries have designed their DC systems. Attendees also discussed how investment funds are uniquely positioned to serve such systems, now and in the future.

For information about upcoming ICI events, please visit www.ici.org/events.

CROSS-BORDER SWAPS: CARVING OUT A DEFINITION FOR *U.S. PERSON*

As a result of the Dodd-Frank Act, the Commodity Futures Trading Commission (CFTC) has been working on creating rules to regulate the swaps marketplace, including cross-border swaps. When the CFTC proposed its original guidance for these types of transactions, it included a definition of *U.S. person* that would have captured a range of funds that ICI and ICI Global believe the Dodd-Frank Act never intended to capture, including non-U.S.-regulated funds with little or no connection to the United States.

ICI Global and ICI submitted comment letters on the CFTC's proposed guidance, opposing the agency's broad definition. In response to ICI and ICI Global's comments and others, the CFTC's final guidance included a carve-out from the definition of *U.S. person*. The carve-out applies to publicly offered funds that are only offered to non-U.S. persons and not offered privately or publicly to U.S. persons. ICI and ICI Global will continue to seek further guidance in this area for non-U.S.-regulated funds that were not explicitly excluded.

ICI and ICI Global also submitted a comment letter to the SEC, which is working on its own rule proposals and interpretive guidance regarding the regulation of cross-border swaps. Because global firms will face significant costs and burdens if the two regulatory approaches produce different outcomes regarding whether an entity or transaction would be subject to the Dodd-Frank Act, the letter urged the SEC to harmonize its rules with the CFTC's final guidance.

FINANCIAL MARKETS

Working Toward Efficient, Effective Global Markets

For the past five years, regulators and policymakers have been particularly focused on market structure issues, looking to harmonize approaches and properly prepare for risks. ICI and ICI Global have led international efforts to ensure that the interests of the fund industry and its millions of shareholders are represented throughout the world.

Fiscal year 2013 saw significant disruptions that threatened the functioning of the financial markets—and investor confidence. In the United States, Hurricane Sandy hit New York City in October 2012, forcing U.S. markets to close for two days (see page 12). Market participants also were unnerved in August 2013 by the "flash freeze"—a computer glitch in the United States that halted trading in $5.7 trillion of securities for three hours.

These and similar events served to heighten the already elevated sense of urgency that regulators have brought to market-related issues since the 2007–2009 financial crisis. Across the globe, policymakers advanced reforms aimed at closing regulatory gaps, harmonizing rules across borders, and bringing market regulation up to date with rapid and unrelenting technological advances.

The funds offered by ICI's membership collectively invest more than $15 trillion of assets on behalf of more than 90 million individual shareholders and thousands of institutions, with ICI Global member funds managing another $1 trillion in assets. Therefore, a core objective for the Institute is to ensure that financial markets in every important jurisdiction function as efficiently as possible for the benefit of investors.

Engaging in Markets Worldwide

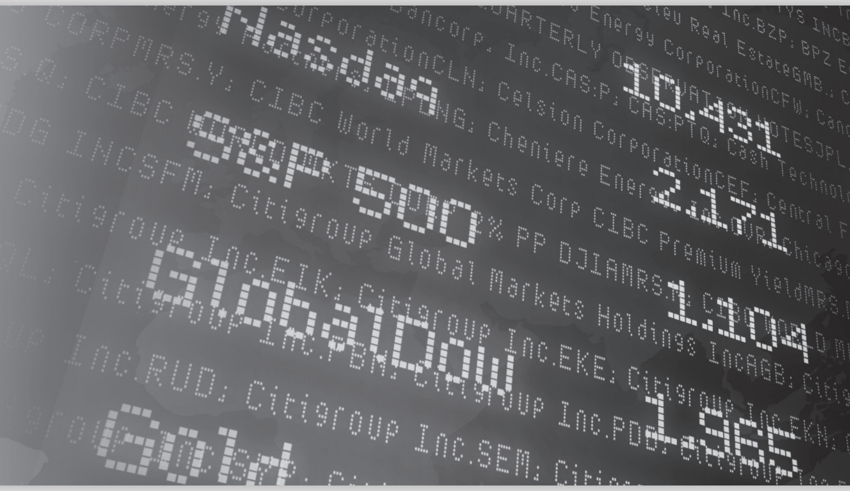
ICI carried out most of its 2013 policy work on markets through calls, in-person meetings, letters, and other direct engagement with regulators in Asia, Europe, Latin America, and the United States. Though this engagement occurred across a wide array of issues, it was characterized by a few overarching themes.

One key theme: putting emphasis on the perspective of long-term investors. For instance, in response to an October 2012 roundtable on technology and trading held by the Securities and Exchange Commission (SEC), ICI General Counsel Karrie McMillan urged the Commission to promptly establish mechanisms to address technology-based risks. "If long-term investors do not participate in developing the parameters surrounding, and the implementation of, these mechanisms," she wrote, "[investors] may not be adequately protected from further and regular market infrastructure disruptions."

ICI also stressed the importance of taking a measured, balanced approach to regulation. Regulations that are too restrictive, the Institute argued, may discourage the use of evolving, innovative practices that can help funds conduct business more effectively and, ultimately, help investors reach their financial goals.

For example, in March 2013, ICI and ICI Global responded to a consultation report on market structure by the International Organization of Securities Commissions (IOSCO). In that letter, ICI and ICI Global, noting that the current structure of securities markets is "unduly complex," welcomed regulator action to improve transparency. At the same time, the two organizations emphasized that trading venues such as "dark pools" can help investors by enabling funds to transact without displaying their full trading interest—thereby lessening

A core objective for the Institute is to ensure that financial markets, at home and overseas, function as efficiently as possible for the benefit of investors.



the cost of implementing trading ideas and mitigating the risk of information leakage.

Fostering Dialogue and Understanding

In addition to directly engaging regulators, ICI fostered discussion and understanding in financial markets on many levels. For example, ICI teamed up in January 2013 with the Independent Directors Council to offer a webinar. Moderated by ICI Senior Counsel Ari Burstein, it covered the evolution of market structure, board considerations in overseeing trading, and differences between the equity, fixed income, and derivatives markets.

ICI also sought to further the dialogue among varied stakeholders with an interest in the markets and market reform by holding a number of events throughout the year (see page 22).

ICI even helped to educate the public about high-profile developments affecting the direction of the markets in 2013. For example, starting in late April, a sharp increase in interest rates—fueled by uncertainty about the future of the Federal Reserve's quantitative easing program—caused many bond funds to experience their first outflows in several years. Some commentators placed the blame for rising bond yields and falling prices on fund investors themselves, pointing to the flows from bond funds as evidence that fund investors were driving the markets.

In a post on *ICI Viewpoints*—and, subsequently, in a string of media interviews—ICI Chief Economist Brian Reid corrected the record by taking a closer look at fund flows, and the reasons behind them. Citing data from ICI and others, he noted that outflows from bond mutual funds and ETFs accounted for a small percentage of total bond fund assets and that purchases and sales of bonds by mutual funds were only about 5 percent of the transaction volume handled by primary dealers. The outflows, he explained, seemed in line with past periods of rising interest rates.

A Busy Year Ahead

The pace of market policy activity shows no sign of abating. Just a few upcoming developments include the following:

- The Commodity Futures Trading Commission (CFTC) has requested comments on a wide-ranging report about possible new rules on oversight of high-speed and automated trading.
- Europe will work to complete reform of its Markets in Financial Instruments Directive (MiFID).
- China will significantly expand the ability of foreign investors to buy mainland stocks, bonds, and other securities.

On these topics and others, ICI and ICI Global will continue to educate and inform regulators and policymakers about the role of funds while representing the long-term interests of investors.

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*For more information on trading and markets, please visit **www.ici.org/policy/trading**.*

Promoting a Sound Approach to Regulating Financial Benchmarks

Creation of sound policy often involves helping regulators refine rules so that they address problems precisely and avoid difficulties that often spring from overly broad, one-size-fits-all approaches. In 2013, ICI and ICI Global brought this focus to the issue of financial benchmarks.

Benchmark Controversy and Regulator Response

In the summer and fall of 2012, a number of banks settled charges that their employees had manipulated the London Interbank Offered Rate (LIBOR), a key global benchmark for short-term interest rates.

In the wake of the LIBOR controversy, regulators launched efforts to scrutinize the methodology, use, and oversight of financial benchmarks. The first of these, the so-called Wheatley Review in the United Kingdom, focused specifically on LIBOR. Efforts that followed—including reviews by the International Organization of Securities Commissions (IOSCO), the Financial Stability Board, the European Commission, and the European Securities and Markets Authority (ESMA)—broadened the scope and included commercial indexes tracked by many funds.

ICI and ICI Global Provide Input

In letters and meetings, ICI and ICI Global urged regulators to carefully distinguish between survey-based and commercial benchmarks. Applying the same regulatory response across the range of benchmarks, the two organizations argued, would lead to needless costs ultimately borne by investors.

ICI and ICI Global strongly supported efforts to reform the process for establishing survey-based benchmarks—namely, steps to strengthen the credibility of those benchmarks, to improve governance over rate submissions and calculations, and to make the rate-setting process more fact-based and transparent by using transaction data to the greatest extent possible.

ICI and ICI Global noted the clear distinctions between survey-based benchmarks and commercial indexes based on securities. For one, underlying data for commercial indexes based on securities typically are taken from a regulated exchange or other source of market bids, offers, or executed prices. By contrast, survey-based benchmarks usually require subjective estimates of the price of theoretical transactions.

Administrators of commercial indexes have every incentive to prevent manipulation. Indeed, index providers have a strong commercial incentive to provide high-quality indexes for asset managers. Any commercial index provider that allowed—or that even was perceived to allow—manipulation of its benchmarks would stand to lose far more than it could gain from any potential manipulation.

Given these and other distinctions, ICI and ICI Global urged regulators to evaluate survey-based benchmarks and commercial indexes separately.

A More Tailored Approach

In July 2013, IOSCO released its final report on financial benchmarks, setting out 19 principles that set standards for benchmark governance, quality of methodology, and accountability. Consistent with recommendations from ICI and ICI Global, the report acknowledged that the universe of benchmarks is large and diverse, and that not all standards would apply to all benchmarks. As other regulators finalize their work on benchmarks, ICI and ICI Global will continue to advocate taking a measured approach and avoiding one-size-fits-all regulation that leads to needless costs.

RESPONDING TO GLOBAL GROWTH OF ETFs

Exchange-traded funds (ETFs) provide numerous benefits to both retail and institutional investors: low cost, versatility for managing portfolios, liquidity, and flexibility, among others. These attributes have helped drive the extraordinary growth of ETFs—and not just in the United States. As the table illustrates, ETFs with an open-end structure have shown triple-digit growth since 2008 in regions spanning the globe.

In 2013, ICI continued to respond to this exciting global growth, notably through expanding its research efforts and through the work of its U.S. and global ETF committees. ICI will continue to keep abreast of further ETF developments as product innovation evolves to meet greater variety of investor needs.

Global ETF Assets by Region

BILLIONS OF U.S. DOLLARS, SELECTED YEARS

	December 2008	December 2010	December 2012	September 2013
United States[1]	$496	$891	$1,217	$1,466
Europe[2]	143	281	331	364
Asia[2]	52	85	135	163
Canada[2]	16	38	57	58
Latin America[2]	5	10	12	11

[1] ETFs registered under the Investment Company Act of 1940.

[2] ETFs with an open-end mutual fund structure; excludes exchange-traded products with grantor trust, partnership, notes, and depository receipt structures.

Sources: Investment Company Institute and ETFGI

FINANCIAL MARKETS

COMMITTEE SPOTLIGHT: ETF COMMITTEE

ICI established its ETF Committee in 2008 to reflect the importance of this rapidly growing product. Twenty-six ETF industry leaders now serve on the committee, making it the primary venue for ETF member sponsors to anticipate and address specific policies and new challenges facing the funds.

In the fall of 2012, the ETF Committee—now chaired by ICI Governor James Ross, Senior Managing Director and Global Head of ETFs at State Street Global Advisors—collaborated on the development of industry-approved language that firms would agree to use to help educate investors. These efforts led to the October 2012 launch of **UnderstandETFs.org**, a new website aimed at educating investors and the public about ETFs and how they are used. Education will continue to be a top priority for the committee in the coming year.

In addition to this effort, the committee gathered to exchange views on such topics as ETF rulemaking initiatives, trading and market structure, global issues, and congressional oversight, and engaged in discussions with regulators and market participants.

For more information on ETFs, please visit www.ici.org/etf_resources.

MONEY MARKET FUNDS

Keeping the Focus on Investors

ICI works tirelessly to provide the public, media, and policymakers with accurate and timely information about money market funds, making its points through objective research, public appearances, blog postings, and direct media response. The Institute has always strived to ensure that any efforts to reform the funds preserve their key features and competitive markets.

Over the past year, policy activity around money market funds has remained intense, with regulators at times pushing into uncharted territory. In this environment, ICI has kept money market funds as one of its major priorities.

The Institute has stood firmly by two core principles. First, any measures designed to make money market funds more resilient must preserve the key features of money market funds that make them so valuable for shareholders and issuers. Second, new regulations must not jeopardize the robust and competitive nature of the global money market fund industry, which plays a vital role for investors and the U.S. economy.

FSOC's Intervention and ICI's Response

In 2010, with ICI's input, the Securities and Exchange Commission (SEC) adopted comprehensive reforms to Rule 2a-7, the rule governing money market funds. These measures reflected ICI's principles—they strengthened the funds without damaging their core features or undermining competition. When Europe's sovereign-debt crisis and the federal debt-ceiling crisis rattled the markets in 2011, prime money market funds successfully weathered a period of heavy redemptions—thanks in large part to the reforms adopted in 2010.

Despite this success, SEC staff advanced concepts in the summer of 2012 that would have structurally altered money market funds, including floating net asset values (NAVs), capital requirements, and daily redemption holdbacks. When a bipartisan majority of SEC commissioners opposed this plan, then Chairman Mary L. Schapiro asked the newly formed Financial Stability Oversight Council (FSOC) to intervene in the issue. In November 2012, FSOC took action. Though it indicated a willingness to consider other reform ideas, it nevertheless recommended to the SEC that it propose the very same three concepts that a majority of SEC commissioners had opposed just months prior.

ICI immediately voiced its strong concerns with FSOC's approach. "The process that the FSOC is following is deeply flawed," said ICI President and CEO Paul Schott Stevens in a statement. "The SEC is the appropriate agency to evaluate additional money market fund reforms." ICI reiterated and expanded on those concerns in a 115-page comment letter filed with FSOC in January 2013, explaining the Institute's continued opposition to FSOC's three proposals and arguing that the Council had not made the case for applying any reforms to government, Treasury, or tax-exempt funds. The letter also highlighted FSOC's failure to follow the legal process required by the Dodd-Frank Act, analyzed misleading statements from the Council, and pointed out significant shortcomings in FSOC's required economic analysis.

As a better way to strengthen money market funds, ICI endorsed and detailed the idea of temporary "gates" to halt redemptions from prime money market funds during times of market stress. Coupled with an option to impose fees for further asset withdrawals, the Institute argued, the approach would directly address regulators' concerns

Regardless of what the future brings, ICI will work to ensure that the U.S. economy and its investors continue to enjoy the benefits that money market funds have provided for four decades.

about redemption pressures without changing the fundamental nature and value of these funds.

A New Direction at the SEC

As the FSOC intervention occurred, the SEC took a new and encouraging direction regarding money market funds. In November 2012, the agency's Division of Economic and Risk Analysis released a study that offered the first official examination of the experience of money market funds in 2008 and the effectiveness of the SEC's 2010 reforms. Chairman Elisse Walter worked to bring forward a new proposal—one that carefully considered the views of all the commissioners, as well as the new economic analysis.

Taking over from Walter in April 2013, Chair Mary Jo White engaged rapidly on money market funds. In June 2013, the Commission voted 5-0 in favor of a proposal with two central components that could either stand alone or be combined. Under one alternative, money market funds would offer a stable NAV coupled with a new ability to impose liquidity fees and redemption gates if a fund's liquidity is constrained. Under the other, floating NAVs would be imposed on prime and tax-exempt institutional money market funds.

ICI weighed in on the SEC's proposal with a 77-page comment letter filed on September 17, 2013. The Institute outlined its positions, including urging the SEC to exclude tax-exempt funds from any structural reform. The worst alternative, ICI said, would be the "overkill" of combining fees and gates with floating NAVs. A day after the filing of ICI's letter, Stevens aired these views in testimony before a subcommittee of the House Financial Services Committee.

A Global Issue

Regulatory action on money market funds has not been limited to the United States. In September 2013, the European Union released a sweeping reform package targeting both variable NAV and constant NAV money market funds. Measures in the proposal include onerous capital requirements that pose a threat to the viability of stable NAV money market funds in Europe.

Given the global nature of the issue, ICI and ICI Global met with policymakers and rallied stakeholders. Notably, ICI Global joined four other fund groups to host the International Money Market Funds Summit in Brussels, Belgium. The October 2012 event brought together industry analysts, market participants, policymakers, and investors to address key money market fund topics.

What Lies Ahead for Money Market Funds

The SEC will likely issue new rules for money market funds in 2014, and it is possible that implementation of any rules will stretch years beyond that point. Regardless of what the future brings, ICI will work to ensure that the U.S. economy and its investors continue to enjoy the benefits that money market funds have provided for four decades.

For more information on money market funds, please visit ***www.ici.org/mmfs****.*

Amplifying Voices of the Economy on Money Market Funds

Millions of individuals and organizations rely on money market funds as transparent, diversified cash-management tools. These funds also provide a critical source of financing for public and private entities across the economy. Not surprisingly, as regulators have increased their efforts around money market funds, investors, businesses, chambers of commerce, nonprofit institutions, and government officials have engaged in the debate, voicing steadfast support for money market funds and their important role.

On ICI's website ***www.PreserveMoneyMarketFunds.org****, visitors can learn the facts about money market funds.*

During the past year, ICI continued its efforts to ensure that policymakers hear from and heed these voices of the economy. Working closely with members and allies, the Institute conducted intense outreach and education. At ICI's website **www.PreserveMoneyMarketFunds.org**, visitors could learn the facts about money market funds, get updates on policy activity, learn what others are telling regulators or the media, and weigh in themselves with policymakers on the 2013 proposal.

In January, ICI's Research and Law Departments collaborated to produce "Money Market Mutual Funds, Risk, and Financial Stability in the Wake of the 2010 Reforms," a paper that illustrated the success of the comprehensive reforms instituted by the SEC in 2010. It explained how the major market-moving events of 2011—including the U.S. debt-ceiling debate and Europe's sovereign-debt crisis—tested the effectiveness of the reforms and demonstrated money market funds' ability to withstand severe market stress.

In August 2013, the Institute furthered this outreach with a webinar regarding the impact of the SEC's 2013 proposal on municipal finance. Alongside panelists from the Government Finance Officers Association and the U.S. Chamber of Commerce, ICI Senior Associate Counsel Jane Heinrichs examined the specifics of the SEC proposal, explaining how it would affect the ability of state and local governments to both manage their cash and issue short-term debt.

As ICI's Law team interacted with regulators, ICI Government Affairs maintained a steady dialogue with key members of Congress from both parties, briefing lawmakers and staff on how these proposals would affect a range of their constituents, including investors, businesses, and state and local governments. ICI also testified before the House Subcommittee on Capital Markets and Government Sponsored Enterprises on September 18 about the SEC rule proposal and the importance of getting regulatory reform right.

15 Percent increase of money market fund assets between January 2007 (precrisis) and January 2013

MONEY MARKET FUNDS: A YEAR IN QUOTES

"As regulators examine possible reforms for money market funds, they should harmonize the views expressed by investors and regulators in a range of other jurisdictions. This approach is most likely to foster systemic stability."	*Dan Waters, ICI Global Managing Director,* ICI Viewpoints *(October 4, 2012)*
"What's at stake isn't the business model of one industry, but the survival of a cash-management and financing vehicle used throughout the economy by businesses of every size, state and local governments, nonprofit institutions, and families."	*Paul Schott Stevens, ICI President and CEO, letter to the* Wall Street Journal *on money market funds (October 7, 2012)*
"It's deeply disappointing that the FSOC has proceeded without giving due weight to the views of fund sponsors, investors, and the issuers who depend upon money market funds for vital financing."	*F. William McNabb III, Chairman and CEO of Vanguard, Chairman of the ICI Money Market Working Group; statement by the ICI Money Market Working Group (November 13, 2012)*
"The structural changes that you favor would make money market funds uneconomical and drive them from the market. As a result, the supply of funding in the wholesale market would devolve to products that are less regulated and less transparent and pose greater systemic risks."	*Brian Reid, ICI Chief Economist, letter to William C. Dudley, President, Federal Reserve Bank of New York (February 21, 2013)*
"Given the nature of their investments—and their recent experience in times of financial turmoil—Treasury, government, and tax-exempt money market funds simply don't require further substantial reforms."	*Brian Reid, ICI Chief Economist,* ICI Viewpoints *(March 25, 2013)*
"Many [state and local] governments invest in money market funds because of their secure nature, simple accounting methodology and management, and liquidity—all features that are necessary for governments to protect public funds, access cash, and pay bills....changing the main feature of the funds to a floating NAV would create administrative and costly burdens to governments, large and small."	*Government Finance Officers Association (September 17, 2013)*
"These funds are used by businesses throughout the United States to meet their cash management and short-term funding needs. They are an integral part of a tightly interwoven system for low-cost, short-term business financing of unrivaled liquidity and efficiency. This system has served the American economy well, and provides a competitive advantage for American businesses in global markets."	*Statement of the U.S. Chamber of Commerce (September 18, 2013)*
"Many [state treasurers] that use money market funds for short-term investing and cash management needs have few viable alternatives that have the same or similar features of safety, return, liquidity, and diversification of credit risk."	*Georgia State Treasurer Steve McCoy on behalf of the National Association of State Treasurers before the House Subcommittee on Capital Markets and Government Sponsored Enterprises (September 18, 2013)*

DERIVATIVES AND COMMODITIES

A Year of Engagement with Members, Regulators, and the Courts

It was a very active year for this rapidly evolving area, where trades and regulation often occur across national boundaries. ICI was engaged on every front, advocating for members and shareholders.

ICI's advocacy before the Commodity Futures Trading Commission (CFTC) has grown this year as the agency continues to implement Dodd-Frank Act provisions, creating a new regulatory framework for swaps. As always, ICI's goal is to help shape regulations that are prudent and tailored, avoiding unnecessary burdens and costs that ultimately are borne by fund shareholders.

Taking a Principled Stand

ICI has a long history of successfully working with regulators to build consensus. In the case of CFTC Rule 4.5, the Institute made every effort during the rulemaking process to advocate for an outcome that worked for all parties, but in the end felt compelled to turn to the courts to seek a balanced outcome.

Nearly three years ago, the CFTC proposed to amend Rule 4.5 to require advisers to funds investing in commodity interests to register as commodity pool operators (CPOs)—imposing an unnecessary layer of regulation and costs on funds that for many decades have been robustly regulated by the SEC. Despite strong opposition by ICI and others, the CFTC adopted the amendments in early 2012. In response, ICI and the U.S. Chamber of Commerce challenged the Rule 4.5 amendments in federal court that April. One of ICI's key arguments was that the CFTC had violated the Administrative Procedure Act by failing to provide an adequate cost-benefit analysis.

In December 2012, a federal district court upheld the amended rule, leading ICI and the Chamber to appeal the case. In June 2013, the appeals court upheld the lower court's decision, finding that the CFTC's action cleared the "low bar" applicable to the agency under the Administrative Procedure Act, and that the agency's cost-benefit analysis justified "the marginal benefit of CFTC regulation of registered investment companies in the derivatives markets."

A Renewed Focus on Harmonization Helps

When it adopted the Rule 4.5 amendments, the CFTC also proposed rules to harmonize CFTC and SEC requirements applicable to dually registered funds and their advisers. ICI submitted comments on the harmonization proposal and included a cost-benefit analysis demonstrating that—despite the CFTC's stated goal of harmonization—the proposed rule would impose unnecessary and burdensome costs on funds and their advisers.

In its June 2013 ruling on ICI's legal challenge to Rule 4.5, the court of appeals acknowledged the importance of the CFTC's harmonization proposal and its results, as well as ICI's ability to challenge the merits of the final harmonization rule in a subsequent suit. (For more on the rule, see "ICI Makes Its Voice Heard on Harmonization" on page 35.) In August 2013, the CFTC adopted a "substituted compliance" regime that largely relies on the SEC's regulatory process.

ICI will continue to work vigorously to ensure that the CFTC's evolving regulatory regime does not adversely affect funds or their shareholders.

The Institute has continued to provide the perspective of registered funds to the regulators hammering out a new regulatory framework for derivatives.

ICI Seeks Clarity on Swap Definition

In 2011, the Treasury Department proposed to exempt foreign exchange swaps and forwards from the CFTC's definition of *swap*. It was unclear, however, whether Treasury would finalize its determination before the CFTC's implementation of the swap definition in October 2012. Without certainty about the swap definition, registered funds could not determine whether they met the trading thresholds under Rule 4.5 that would require CFTC registration.

Through letters, calls, and meetings with regulators, ICI and others urged timely action by Treasury—and if not Treasury, then the CFTC—to provide clarity to funds and other investors. The CFTC provided exemptive relief and a letter further clarifying the matter, and Treasury finalized its determination in November 2012. ICI and ICI Global then asked the CFTC to provide similar treatment for another, functionally equivalent foreign exchange product used in emerging markets.

ICI Weighs In on Derivatives Rulemakings

The CFTC has so far completed more than 90 percent of its mandatory Dodd-Frank rulemakings, while the SEC has issued proposals for most of its mandatory rules. The Institute has continued to provide the perspective of registered funds to the regulators hammering out a new regulatory framework for derivatives. For example, in the last year, ICI—sometimes jointly with ICI Global—submitted 16 comment letters to the CFTC, SEC, and international regulators on an array of derivatives initiatives.

The Institute supported CFTC rules to enhance protections for customer funds held by futures commission merchants (FCMs) and derivative clearing organizations, particularly a ban on FCMs using one customer's excess margin to satisfy another customer's obligation. ICI will continue to work with regulators to ensure such protection of excess collateral.

Additionally, ICI encouraged regulators to adopt requirements for new swap execution facilities that would minimize information leakage, potential front-running, and the likelihood of swap prices moving against a fund.

Given the global nature of the swaps market, ICI and ICI Global also urged greater international harmonization and coordination of efforts to reform derivatives markets. For example, ICI and ICI Global asked the Basel Committee on Banking Supervision and the International Organization of Securities Commissions to adopt consistent international standards for margin requirements for non–centrally cleared derivatives. In addition, ICI and ICI Global emphasized this point in letters to the CFTC and SEC regarding their efforts on cross-border application of swaps regulations.

Finally, ICI members began complying with a number of new CFTC regulations, including those that require recordkeeping, reporting, and clearing. ICI continues to assist members with implementation issues, including seeking necessary compliance extensions.

STAFF SPOTLIGHT

Jennifer Choi

SENIOR ASSOCIATE COUNSEL, SECURITIES REGULATION
INVESTMENT COMPANY INSTITUTE

To what extent have shifting timetables or interpretative issues regarding the CFTC's swaps rules and guidance contributed to implementation difficulties?

Starting this year, funds began to wrestle with compliance with the new CFTC swap regulations. For example, registered funds began complying with specific recordkeeping obligations and with reporting requirements. Registered funds also began to clear certain swaps that the CFTC has mandated for clearing. In addition, funds had to negotiate various trading and clearing arrangements and documentation with dealers and futures clearing merchants. These tasks were made more difficult because many of the industry's questions and concerns either were not addressed fully or addressed at the very last moment. In fact, the CFTC issued more than 100 no-action letters to provide relief under the new Dodd-Frank regulations, recognizing the unrealistic time frame for compliance or unintended consequences of the regulations. Typically, these letters were issued mere days before or on the day of the compliance deadline.

What is your overall impression about whether, so far, the CFTC generally has heard the fund industry's views and reflected them in its final rules on swaps?

It has been an evolutionary process. On some issues, the CFTC has started to recognize the unique characteristics of registered funds, but not yet on a consistent basis. We continue our efforts to familiarize the agency with the registered fund industry and our strong interest in a highly competitive and transparent derivatives market, so that registered funds can continue to employ derivatives in the best interests of shareholders.

What has been a particular area of focus for funds in the derivatives area?

Given the strict requirements of the Investment Company Act of 1940 for custody of fund assets, and the importance to our members of protecting fund assets, we have been active in advocating for enhanced protection of collateral posted by funds engaged in derivatives transactions. We have urged that additional safeguards be provided to customer assets held by intermediaries and clearinghouses, to avoid unauthorized uses of these assets.

What was the most important message ICI and ICI Global conveyed in their comments on derivatives proposals by domestic and international regulators?

That the derivatives markets and market participants operate in a global marketplace. ICI and ICI Global have urged domestic and international regulators to coordinate to avoid imposing unnecessary burdens and costs on our members—and, ultimately, on fund shareholders.

16 Comment letters submitted in the past year by the Institute to regulators regarding commodities and derivatives regulatory initiatives

ICI MAKES ITS VOICE HEARD ON HARMONIZATION

Though ICI's legal challenge to Rule 4.5, filed in partnership with the U.S. Chamber of Commerce, was not accepted by the courts, ICI's principled stand against overlapping regulation helped the Institute advance the fund industry's concerns about the CFTC's harmonization proposal, which would not truly have harmonized CFTC and SEC requirements for dually registered advisers and their funds. In several comment letters, as well as a cost-benefit analysis based on member data, ICI explained why the proposal was inadequate and imposed unnecessary burdens on funds.

In its June 2013 ruling, the U.S. Court of Appeals for the District of Columbia Circuit rejected ICI's challenge to the Rule 4.5 amendments. However, it validated ICI concerns when it stated that it "expected the CFTC to carefully consider the costs and benefits of its 'harmonization rule,'" and noted ICI's opportunity to challenge the merits of that rule in a subsequent suit.

The outcome? The CFTC's final harmonization rule, issued in August 2013, reflects ICI's recommendations to the CFTC, with a few gaps. The rule broadly permits registered fund CPOs to comply with CFTC regulations through compliance with certain SEC requirements, but disappointingly leaves intact systemic-risk reporting obligations, though there has been no evidence showing that registered funds pose systemic risk. ICI is continuing to work with members and regulators to clarify aspects of the rule and facilitate compliance.

ADVOCACY AND REACTION IN THE REGULATORY AND JUDICIAL SPHERES

"Given that many derivatives transactions are conducted across multiple jurisdictions, ICI and ICI Global also support efforts for real and meaningful coordination among regulators on how these regulations will be applied to market participants that engage in cross-border transactions."

ICI and ICI Global comment letter in response to the Basel Committee on Banking Supervision and the International Organization of Securities Commissions on proposed international minimum standards for margin requirements for uncleared derivatives (March 14, 2013)

"The court made clear that it expects the costs and benefits of the harmonization rule to be carefully considered. While we continue to believe that the CFTC's recent amendments to Rule 4.5 were improperly adopted, we intend to focus on ensuring that the CFTC's regulatory regime as it evolves does not adversely affect fund investors."

Karrie McMillan, ICI General Counsel, responding to the ruling of the U.S. Court of Appeals for the District of Columbia Circuit on ICI and the U.S. Chamber's challenge to Commodity Futures Trading Commission Rule 4.5 (June 25, 2013)

INDEPENDENT DIRECTORS COUNCIL

Question & Answer with Amy B. R. Lancellotta

The Independent Directors Council (IDC) helps investment company independent directors fulfill their oversight responsibilities to represent the interests of fund shareholders. IDC also promotes the highest standards of fund governance, for the benefit and protection of fund shareholders. Amy B. R. Lancellotta has been Managing Director of IDC since November 2006.

IDC added to its strong lineup of educational offerings this year. What are some of the educational opportunities now available to directors?

IDC strongly believes that an educated and informed director provides the best protection for a fund and its shareholders. So, in addition to publishing two new papers this past year—*Considerations for Board Composition: From Recruitment Through Retirement* and *Investment Performance Oversight by Fund Boards*—we expanded our webinar series. From our webinar on board oversight of alternative investments to our webinar on fund industry litigation, SEC enforcement actions, and insurance for fund directors, we covered numerous issues that interest the fund director community.

Our webinars enable directors to easily and efficiently access educational information from their homes or offices. The positive responses we continue to receive about our webinars inspired us to create a new series based on a core curriculum that we developed this year, which identifies key responsibilities for directors. We will hold the first webinar in this new series in the upcoming months, and this new core curriculum also will be the basis for conference panels.

IDC wants to make it easy for directors to access our educational opportunities, and our website is an important gateway to our offerings. This past year, we redesigned IDC's site to make it more intuitive and user-friendly. It's truly a director's one-stop shop for our educational offerings, including all our papers, webinars, and e-newsletters.

This year you introduced conference calls for specific segments of the director community. What inspired that idea?

Directors, as well as our Governing Council and IDC staff, were the force behind this idea. During chapter meetings, directors often said how helpful it was to talk with other directors of similar-sized funds, which prompted us to include sessions at our conferences broken out by fund complex size. We then considered other segments of the community where directors would be interested in a dedicated forum to discuss their unique issues. As a result, we've instituted a series of one-hour conference calls for different segments—we started with a call for audit committee chairs and recently held a call for board leaders. Both were extremely successful.

IDC strongly believes that an educated and informed director provides the best protection for a fund and its shareholders.

IDC's chapter meetings continue to evolve and help IDC respond to the needs of fund directors. What issues were directors most interested in this past year?

Valuation policies and procedures were on the forefront, because of an SEC settlement of an enforcement action. Those valuation discussions often led to broader conversations about funds' compliance programs. Other topics of interest have been mandatory retirement policies, peer assessments, and risk management.

Chapter meetings are helpful because they give directors an opportunity to talk about issues and hear other directors' perspectives. In addition, the meetings give IDC the opportunity to think about how we can weave the issues that directors discuss into other initiatives. For example, in response to directors' heightened interest in valuation, we recently held a webinar on the subject. We've also included many relevant articles on valuation in our e-newsletter, *Board Update*, and we had a panel on the topic at this year's Fund Directors Conference.

Board Update *has included several articles on IDC's involvement in the debate about the Public Company Accounting Oversight Board's proposal that would mandate audit firm rotation. Please tell us about that.*

Since 2011, IDC has opposed the PCAOB's proposal to require public companies—including funds—to submit to mandatory audit firm rotation. This past summer, the House of Representatives overwhelmingly voted to prohibit the PCAOB from requiring mandatory audit firm rotations, and in September, the Senate introduced a companion bill on audit firm rotation. In addition to submitting congressional statements, we've written comment letters to and met with PCAOB members to express our strong opposition. The requirement would impose unnecessary burdens on fund boards as well as inappropriately marginalize the role of boards and their audit committees.

IDC's 10-year anniversary is next year. What are your thoughts as IDC approaches this milestone?

It has been great to watch IDC evolve into a well-respected, effective organization that serves the fund director community. This past year we were fortunate to be guided by IDC's new chairman, Susan B. Kerley. Susan has brought a high level of energy and dedication to the director community and has been instrumental in helping IDC streamline its priorities. Next year's anniversary will be a time to reflect on IDC's growth and successes, highlight the contributions of our founding members and previous chairmen, and acknowledge the important ways in which directors protect shareholders' interests.

For more information on IDC, please visit **www.idc.org**.

ICI POLITICAL PROGRAM

Making Members' Voices Heard on the Hill

Elected officials face a workload full of tight deadlines, shifting priorities, and diverse constituent concerns against a backdrop of intense media scrutiny. ICI cuts through the noise by providing lawmakers and their staffs with objective information in a measured, bipartisan manner. ICI's reputation for consensus building provides the ICI Government Affairs team with frequent opportunities to offer ICI research, legal analysis, and operational insights to lawmakers and their aides.

The fund industry is able to show its support for elected officials in other ways too. By supporting candidates who understand the issues affecting funds and their 90 million shareholders, ICI's political action committee, ICI PAC, enables members to speak with a united voice in the political arena, demonstrating the industry's reach and relevance.

Each year, the Institute's Board of Governors appoints a group of its members—the ICI PAC Board—to oversee and provide policy direction for ICI's political activities. William F. Glavin Jr., Chairman, President, and CEO of OppenheimerFunds Inc., has led the ICI PAC Board since May 2013, bringing a wealth of ideas and energy to the position. Day-to-day work is managed by ICI Political Affairs Officer George F. Shevlin IV.

ICI's political programs offer several ways for members to connect with elected officials. Members can donate directly to ICI PAC, contribute directly to specific candidates by participating in fundraisers hosted by ICI PAC, and contribute directly to lawmakers recommended by the ICI PAC Board.

Thanks to member support, ICI's political program raised $2.6 million during the 2011–2012 election cycle for lawmakers in key positions. Contributions in 2012 supported almost 180 legislators who lead and are members of such important panels as the Senate Finance Committee, the Senate Banking Committee, the House Ways and Means Committee, and the House Financial Services Committee.

Support like this complemented ICI's ongoing efforts to build relationships with legislators who have expertise on a host of fund-related issues. For example, in the area of retirement savings, ICI is educating policymakers about the success of the nation's retirement system, and about the strong levels of public support for it, explaining that proposals to change the tax treatment of retirement savings would harm the system and the constituents who depend on it. Member representatives also have gotten involved, participating in a 2013 "Hill Day" organized by ICI that enabled them to meet with key leaders and 46 congressional offices.

Participating in ICI PAC enables members to "get invested" in the major policy issues affecting the fund industry.

If you have any questions regarding the ICI PAC Board or ICI PAC, please contact George Shevlin at george.shevlin@ici.org or 202-326-5892.

ICI's reputation for consensus building provides the ICI Government Affairs team with frequent opportunities to offer ICI research, legal analysis, and operational insights to lawmakers and their aides.

CLOCKWISE FROM TOP LEFT:

House Ways and Means Chairman David Camp (R-MI) discusses prospects for tax reform, at an event held in his honor at ICI on June 27, 2013.

Senate Minority Whip John Cornyn (R-TX) gives a political overview at an event hosted by ICI PAC on March 7, 2013.

Senator Mark Warner (D-VA) greets an attendee at an ICI PAC reception on October 9, 2012.

Senate Finance Committee Chairman Max Baucus (D-MT) outlines the issues surrounding tax reform, at an ICI PAC luncheon on February 14, 2013.

55th ANNUAL GENERAL MEMBERSHIP MEETING

Unchanging Commitment in a Changed World

Each year, ICI's General Membership Meeting (GMM) offers fund industry leaders, regulators, and policymakers an opportunity to connect with each other. ICI continued this proud tradition May 1–3, 2013, with GMM and three concurrent conferences—the Operations and Technology Conference, the Mutual Fund Compliance Programs Conference, and IDC's Fund Directors Workshop.

A wide range of experts expanded upon the year's theme: Unchanging Commitment in a Changed World. Mary Jo White addressed the global nature of markets and the fund industry in her first major address as Chair of the Securities and Exchange Commission, emphasizing that the SEC must protect U.S. investors and markets in an increasingly global regulatory environment. A strictly domestic approach, she said, is "no longer acceptable or effective."

White also took note of the fund industry's global reach and ICI's formation in 2011 of ICI Global, "to give voice to internationally active investment funds and advocate for transnational solutions to regulatory challenges."

Continuing the international theme, at the GMM Leadership Panel, U.S. and European industry leaders reflected upon the industry's core values and identified opportunities for the future. Several other panels focused on international politics, economics, and pensions, featuring noted experts on these topics.

The conference also focused on domestic issues—many sectors of the U.S. economy are still struggling, some investors remain wary, and there may be further pitfalls ahead if the government does not act to solve the problems of growing debt and deficits. ICI President and CEO Paul Schott Stevens spoke with Lloyd C. Blankfein, Chairman and CEO of the Goldman Sachs Group, who argued that the most serious problem facing the country might be inaction. Mary John Miller, the Department of Treasury's Under Secretary for Domestic Finance, spoke to Stevens about steps that the Administration and various regulators can take to improve the country's economic picture.

In the closing session, ICI Chairman Gregory E. Johnson, Chairman, President, and CEO of Franklin Resources, spoke with former senators Kent Conrad and Judd Gregg, members of the National Commission on Fiscal Responsibility and Reform, about the role played by politics in proposals for debt reduction—as well as the role that ICI members can play as advocates for change.

The industry's steadfast commitment to its investors remains unchanged. William F. "Ted" Truscott, GMM Chairman and CEO of Global Asset Management for Columbia Management and Threadneedle Investments, reminded attendees that "even in the worst of times… investors have not lost their commitment to using funds as an important tool to help meet their financial goals. In good times and in bad, we must work hard to earn and keep that kind of commitment."

For summaries, videos, and pictures from GMM, please visit ***gmm.ici.org/gmm/highlights***.

Each year, ICI's General Membership Meeting (GMM) offers fund industry leaders, regulators, and policymakers an opportunity to connect with each other.

CLOCKWISE FROM TOP LEFT:

GMM Chairman William F. "Ted" Truscott, CEO of Global Asset Management for Columbia Management and Threadneedle Investments, salutes longtime GMM planner and ICI Director of Membership, Sandy West, upon her retirement.

Mary Jo White, Chair of the U.S. Securities and Exchange Commission, addresses the 2013 General Membership Meeting. Her appearance at GMM was her first major public address since being sworn in.

Lloyd C. Blankfein (right), Chairman and CEO of the Goldman Sachs Group, shares his views on markets and the economy during a luncheon keynote session with ICI President and CEO Paul Schott Stevens.

ICI Chairman Gregory E. Johnson (left), Chairman, President, and CEO of Franklin Resources, moderates a discussion on U.S. fiscal policy with two former U.S. senators and members of the National Commission on Fiscal Responsibility and Reform: Kent Conrad (D-ND) and Judd Gregg (R-NH). Shortly after GMM, Gregg was named CEO of the Securities Industry and Financial Markets Association (SIFMA).

Appendices

APPENDIX A

Organization and Finances

Organization

ICI is a 501(c)(6) organization that represents registered investment companies on regulatory, legislative, and securities industry initiatives that affect funds and their shareholders.

ICI members include mutual funds, exchange-traded funds, closed-end funds, sponsors of unit investment trusts, UCITS funds, and their investment advisers and principal underwriters. The ICI president and staff report to the Institute's Board of Governors (see Appendix B, page 46), which is responsible for overseeing the business affairs of ICI and determining the Institute's positions on key public policy matters.

ICI's Board of Governors is composed of 60 members, representing ICI member companies and independent directors of investment companies. Governors are elected annually to staggered three-year terms. The Board is geographically diverse and includes representatives from large and small fund families as well as fund groups sponsored by independent asset managers, broker-dealers, banks, and insurance companies. This broad-based representation helps ensure that the Institute's policy deliberations consider all segments of the fund industry and all investment company shareholders.

Five committees assist the Board of Governors with various aspects of the Institute's affairs. These five include an Executive Committee—responsible for evaluating policy alternatives and various business matters, and making recommendations to the Board of Governors—as well as Audit, Compensation, Investment, and Nominating Committees. Other than the Institute's president, who is a member of the Executive Committee, all members of these committees are governors. The Board also has appointed an ICI PAC Board to administer the Institute's political programs, including the political action committee, ICI PAC (page 38). The ICI PAC Board includes 11 governors and the treasurer of ICI PAC. The Institute's president serves as an ex officio member. The Institute employs a staff of 165 (see Appendix F on page 49 for a list of ICI staff leadership and management).

ICI addresses the needs of investment company independent directors through the Independent Directors Council (Appendix C, page 47). IDC organizes educational programs, keeps directors informed of industry and regulatory developments, and assists in the development and communication of policy positions on key issues for fund boards.

FIGURE 1

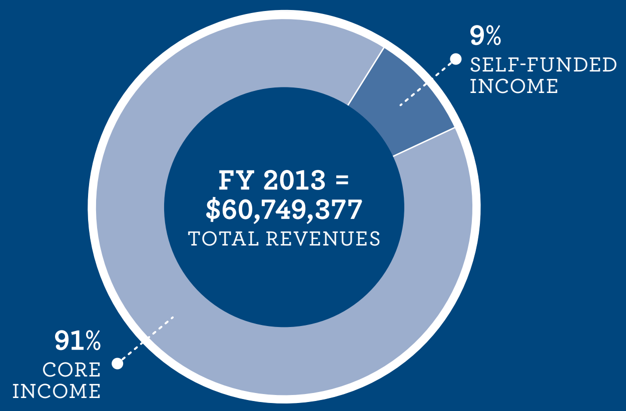
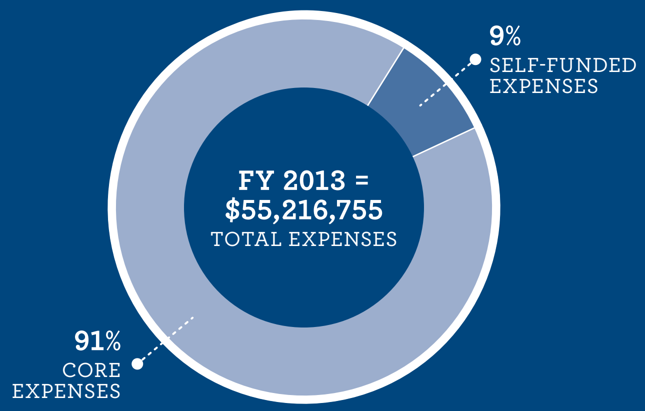


FIGURE 2



Seventeen standing committees, bringing together more than 1,700 industry professionals, guide the Institute's policy work. ICI standing committees perform a number of important roles, including assisting with formulation of policy positions as well as gathering and disseminating information on industry practices (see Appendix D, page 47). In addition, 34 industry advisory committees, task forces, forums, and working groups with more than 2,400 participants tackle a range of regulatory, operations, and business issues. In all of its activities, ICI strictly observes federal and state antitrust laws, in accordance with a long-standing and well-established compliance policy and program.

Finances

The Institute always has sought to prudently manage its financial affairs in a manner deemed appropriate by the Board of Governors, which is responsible for approving ICI's annual budget and its member net-dues rate. The Board of Governors considers both the Institute's core and self-funded activities when approving the annual net-dues rate.

Core activities are related to public policy and include regulatory, legislative, operational, economic research, and public communication initiatives in support of investment companies and their shareholders, directors, and advisers. Reflecting the Institute's strategic focus on issues affecting investment companies, the Board of Governors has chosen to fund core activities with dues rather than seek alternative sources of revenues, such as sales of publications. The significant majority of ICI's total revenues, 91 percent, comes from dues, investment income, royalties, and miscellaneous program sources (see Figure 1). Similarly, by design, 91 percent of the Institute's total resources are devoted to core activities (see Figure 2).

Core income supports the wide range of initiatives described in this report. Self-funded activities (e.g., conferences, special surveys) are supported by separate fees paid by companies and individuals who participate in these activities. The financial goal for self-funded activities is that fees should cover all direct out-of-pocket costs while providing a margin to cover associated staff costs, which ensures that these activities are not subsidized by member dues.

ICI Unaudited Financial Statements

Statement of Financial Position

as of September 30, 2013

ASSETS	
Cash and cash equivalents	$916,535
Investments, at market value	52,485,470
Accounts receivable	1,394,132
Prepaid expenses	1,653,046
Other assets	736,308
Furniture, equipment, and leasehold improvements; net (less accumulated depreciation of $10,446,681)	5,719,647
Total assets	$62,905,138
LIABILITIES AND NET ASSETS	
Liabilities	
Payroll and related charges accrued and withheld	11,360,424
Accounts payable and accrued expenses	4,057,856
Deferred revenue	1,159,707
Rent credit	3,663,993
Deferred rent	3,086,204
Total liabilities	23,328,184
Net Assets	
Undesignated net assets	40,355,256
ICI Global net assets	(1,778,302)
Board designated net assets	1,000,000
Total net assets	39,576,954
Total liabilities and net assets	$62,905,138

Statement of Activities and Changes in Net Assets

for the year ended September 30, 2013

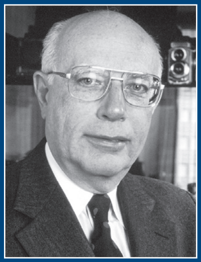
CORE INCOME	
Membership dues	$52,665,765
Investment income	101,310
Royalty income	881,259
Program income	1,331,101
Total core income	54,979,435
CORE EXPENSES	
Administrative expenses	41,297,816
Program expenses	6,092,264
Depreciation and lobby proxy tax	3,007,380
Total core expenses	50,397,460
Change in net assets—core	4,581,975
SELF-FUNDED INCOME	
Conferences	5,376,462
Other self-funded income	393,480
Total self-funded income	5,769,942
SELF-FUNDED EXPENSES	
Conferences	4,701,737
Other self-funded expenses	117,558
Total self-funded expenses	4,819,295
Change in net assets—self-funded	950,647
Change in net assets from operations	5,532,622
ICI Global, net	(970,495)
Non-operating expenses	(1,197,406)
Actuarial pension/postretirement plan gain	14,121,678
Change in net assets	17,486,399
Net assets, beginning of year	22,090,555
Net assets, end of year	$39,576,954

These financial statements are preliminary unaudited statements as of September 30, 2013. Audited financial statements for the fiscal year ended September 30, 2013, will be available after February 1, 2014. To obtain copies of the audited statements, please contact Mark Delcoco at 202-326-5974.

2013 ICI Executive Committee

LEFT TO RIGHT: George C. W. Gatch, Dorothy A. Berry, William F. Glavin Jr., Edward C. Bernard, F. William McNabb III, John F. Cogan Jr., Paul Schott Stevens, Gregory E. Johnson, Martin L. Flanagan, Lloyd A. Wennlund, Susan B. Kerley, William F. Truscott, James A. McNamara, James F. Rothenberg, Jacques P. Perold

NOT PICTURED: Paul L. Audet, Mellody Hobson



David Silver \ 1931–2013

With the passing of David Silver this year, the fund industry lost a great friend and a great leader. During 25 years with ICI—14 as president—he leveraged his extensive knowledge of the financial landscape and his abilities as a skillful negotiator to guide the Institute and the fund industry through landmark changes, unprecedented growth, and increasing regulatory and technical complexity.

"His unique mix of qualities made him the right man for ICI, at the right time. He was able to put together something that has stood the test of time."

ICI Governor John F. Cogan Jr.
Chairman of Pioneer Investment Management USA Inc.
Colleague of David Silver, both as ICI Chairman and as Chairman of ICI Mutual

APPENDIX B

ICI Board of Governors

As of September 30, 2013

Gregory E. Johnson[2, 3, 4, 6, 7]
ICI Chairman
Chairman, President, and CEO
Franklin Resources, Inc.

Edward C. Bernard[2, 6, 7]
ICI Vice Chairman
Vice Chairman
T. Rowe Price Group, Inc.

Paul L. Audet[2]
Senior Managing Director and Head of U.S. Mutual Funds
BlackRock, Inc.

Ashok N. Bakhru
Independent Chair
Goldman Sachs Funds

Dorothy A. Berry[1, 2]
Independent Chair
Professionally Managed Portfolios
Independent Trustee
PNC Funds

Leonard P. Brennan
Chief Executive Officer
Russell Investments

Marie A. Chandoha
President and CEO
Charles Schwab Investment Management, Inc.

John F. Cogan Jr.[2]
Chairman
Pioneer Investment Management USA Inc.

Robert Conti
Chief Executive Officer
Neuberger Berman Management LLC

Michael J. Cosgrove
President of Mutual Funds and Global Investment Programs
GE Asset Management, Inc.

Patrick P. Coyne
President
Delaware Investments

Bruce L. Crockett[3]
Independent Chair
Invesco Funds

James E. Davey
President
The Hartford Mutual Funds

Thomas R. Donahue
Chief Financial Officer and Treasurer
Federated Investors, Inc.

Kenneth C. Eich[1]
Chief Operating Officer
Davis Selected Advisers, L.P.

Nora M. Everett
President and CEO
Principal Funds

Thomas E. Faust Jr.[1, 4]
Chairman and CEO
Eaton Vance Corporation

Martin L. Flanagan[2, 7]
President and CEO
Invesco Ltd.

Paul K. Freeman
Independent Director
DWS Investments Funds

Brian J. Gaffney
Chief Executive Officer
Allianz Global Investors U.S.

George C. W. Gatch[2, 3, 6]
CEO, JPMorgan Funds
JPMorgan Asset Management

C. Gary Gerst
Independent Chair
Henderson Global Funds

William F. Glavin Jr.[2, 6]
Chairman and CEO
OppenheimerFunds, Inc.

William J. Hackett
Chief Executive Officer
Matthews International Capital Management, LLC

John T. Hailer
President and CEO, U.S. and Asia
Natixis Global Asset Management, L.P.

Peter A. Harbeck
President and CEO
SunAmerica Asset Management Corp.

Brent R. Harris[4, 6]
Chairman
PIMCO Funds

Diana P. Herrmann[1]
President and CEO
Aquila Investment Management LLC

Mellody Hobson[1, 2, 6]
President
Ariel Investments, LLC

Robert M. Keith
Executive Managing Director
AllianceBernstein

Susan B. Kerley[2, 5]
Independent Director
MainStay Funds
Legg Mason Partners Funds

John Y. Kim[1]
Chairman and CEO
New York Life Investment Management LLC

Arthur J. Lev
Managing Director and Head, Long Only Business
Morgan Stanley Investment Management Inc.

Susan C. Livingston[6]
Partner
Brown Brothers Harriman & Co.

Robert J. Manning[1]
Chairman and CEO
MFS Investment Management

Susan B. McGee
President and General Counsel
U.S. Global Investors, Inc.

F. William McNabb III[1, 2]
Chairman and CEO
Vanguard

James A. McNamara[1, 2]
President and CEO
Goldman Sachs Mutual Funds

Thomas M. Mistele
Chief Operating Officer
Dodge & Cox

Mark D. Nerud
President and CEO
Jackson National Asset Management LLC

Catherine L. Newell
General Counsel
Dimensional Fund Advisors LP

Stuart S. Parker
President
Prudential Investments

Jacques P. Perold[2]
President
Fidelity Management & Research Company

Donald H. Pratt[1]
Independent Chair
American Century Funds, Kansas City Board

Karla M. Rabusch
President
Wells Fargo Funds Management, LLC

J. Alan Reid
Chief Executive Officer
Forward Management LLC

Robert L. Reynolds[1]
President and CEO
Putnam Investments

James E. Ross
Senior Managing Director and Global Head of ETFs
State Street Global Advisors

James F. Rothenberg[2, 6]
Chairman
Capital Research and Management Company

Thomas S. Schreier Jr.[3, 6]
Vice Chairman, Wealth Management
Nuveen Investments

Laura T. Starks
Independent Director
TIAA-CREF Funds

Michael D. Strohm[3]
Chief Executive Officer
Waddell & Reed, Inc.

Jonathan S. Thomas
President and CEO
American Century Investments

Garrett Thornburg[1, 6]
Chairman
Thornburg Investment Management, Inc.

William F. Truscott[2, 4]
CEO, Global Asset Management
Columbia Management

Mary Ann Tynan
Independent Director
Oppenheimer Funds

Robert W. Uek[1]
Independent Trustee
MFS Funds

Lloyd A. Wennlund[2, 6]
Executive Vice President and Managing Director
Northern Trust Global Investments

Michael J. Woods
Managing Director, Head of Asset Management, Americas, Global Client Group
Deutsche Asset & Wealth Management

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[1] Governor on sabbatical
[2] Executive Committee member
[3] Audit Committee member
[4] Investment Committee member
[5] Chairman of the Independent Directors Council
[6] ICI PAC Board member
[7] ICI Education Foundation Board member

APPENDIX C

Governing Council of the Independent Directors Council

As of September 30, 2013

Ashok N. Bakhru*
Independent Chair
Goldman Sachs Funds

Dorothy A. Berry*
Independent Chair
Professionally Managed Portfolios
Independent Trustee
PNC Funds

James H. Bodurtha
Independent Director
BlackRock Funds

Robert P. Bremner
Independent Director
Nuveen Funds

David H. Chow
Independent Trustee
Market Vectors ETF Trust

Bruce L. Crockett*
Independent Chair
Invesco Funds

Diana M. Daniels
Independent Director
Goldman Sachs Funds

Dennis J. Dirks
Independent Director
Fidelity Equity and High Income Group of Funds

Peter S. Drotch
Independent Director
ING Funds

Paul K. Freeman*
Independent Director
DWS Investments Funds

C. Gary Gerst*
Independent Chair
Henderson Global Funds

Anne M. Goggin
Independent Director
RS Funds

Karen N. Horn
Independent Director
T. Rowe Price Funds

Leonade D. Jones
Independent Director
American Funds

John P. Kavanaugh
Independent Trustee
MFS Funds

Susan B. Kerley*
IDC Chair
Independent Director
MainStay Funds
Legg Mason Partners Funds

Garry L. Moody
Independent Director
AllianceBernstein Funds

Steven J. Paggioli
Independent Director
Aston Funds
Managers Funds
Professionally Managed Portfolios

Donald H. Pratt*
Independent Chair
American Century Funds, Kansas City Board

Davey S. Scoon
Independent Chair
Allianz Funds

Erik R. Sirri
Independent Director
Natixis Funds

Laura T. Starks*
Independent Director
TIAA-CREF Funds

George J. Sullivan Jr.
Independent Director
SEI Funds
State Street Navigator Trust

Mary Ann Tynan*
Independent Director
Oppenheimer Funds

Robert W. Uek*
Independent Trustee
MFS Funds

Ralph F. Verni
Independent Chair
Eaton Vance Funds

Jonathan F. Zeschin
Independent Director
Matthews Asia Funds

* On ICI Board of Governors

APPENDIX D

ICI Standing Committees and Chairs

As of September 30, 2013

Accounting/Treasurers
Brian W. Wixted
Senior Vice President and Treasurer of the Funds
OppenheimerFunds, Inc.

Chief Compliance Officer
Pauline C. Scalvino
Chief Compliance Officer
The Vanguard Group, Inc.

Chief Risk Officer
Joseph A. Carrier
Chief Risk Officer
Legg Mason, Inc.

Closed-End Investment Company
Keith A. Weller
Executive Director and Senior Associate General Counsel
UBS Global Asset Management (Americas) Inc.

ETF (Exchange-Traded Funds)
James E. Ross
Senior Managing Director and Global Head of ETFs
State Street Global Advisors

International
Liliane Corzo
Vice President and Senior Counsel
Capital Research and Management Company

Investment Advisers
Vacant

Operations
Basil Fox
President
Franklin Templeton Investor Services LLC

Pension
Douglas O. Kant
Senior Vice President and Deputy General Counsel
Fidelity Investments

Public Communications
Mary Athridge
Managing Director, Corporate Communications
Legg Mason

Research
Gary Blank
Senior Vice President for Public Affairs and Policy
Fidelity Investments

Sales Force Marketing
James A. Jessee
President
MFS Fund Distributors, Inc.

SEC Rules
John Zerr
General Counsel
Invesco Advisers, Inc.

Small Funds
Susan B. McGee
President and General Counsel
U.S. Global Investors, Inc.

Tax
Gregory K. Hinkle
Vice President and Funds Treasurer
T. Rowe Price Group, Inc.

Technology
Michael L. Radziemski
Partner and Chief Information Officer
Lord Abbett & Co., LLC

Unit Investment Trust
W. Scott Jardine
General Counsel
First Trust Advisors, L.P.

APPENDIX E

ICI Global Steering Committee

As of September 30, 2013

Robert Higginbotham (Chairman)
President, Global Investment Services
T. Rowe Price International Ltd.

Mark Armour
CEO
Invesco Perpetual

Andrew Arnott
President and CEO, John Hancock Funds
John Hancock Financial Services, Inc.

David J. Brennan
Chairman and CEO
Baring Asset Management Limited

Iris Chen
CEO
China Asset Management (Hong Kong) Limited

Peng Wah Choy
CEO
Harvest Global Investments Limited

Robert Conti
CEO
Neuberger Berman Management LLC

Chen Ding
Chief Executive Officer
CSOP Asset Management Limited

George H. Ding
CEO, Hua An Funds
HuaAn Asset Management (Hong Kong) Ltd.

Gregory P. Dulski
Senior Corporate Counsel, International
Federated Investors, Inc.

Mark Flaherty
Chief Investment Officer, UK
Fidelity Management and Research Company, UK

Campbell Fleming
CEO
Threadneedle Investment Services Ltd.

Hamish Forsyth
President, Europe
Capital Group Companies Global

Toby E. Goold
Managing Director
Dodge & Cox Worldwide Investments Ltd.

James S. Hamman
Director
Artisan Partners Global Funds, PLC

Arnie Hochman
Vice President, Legal
TD Bank Financial Group

Gaohui Huang
CEO
E Fund Management (HK) Co., Ltd.

Terry Johnson
Head, International Sales
Legg Mason Investments (Europe) Limited

Arthur J. Lev
Managing Director and Head, Long Only Business
Morgan Stanley Investment Management Inc.

David Levi
Managing Director and Head of Global Business Development
Nuveen Investments

Andy Lin
CEO
China Universal Asset Management Co. Ltd.

Zhang Lixin
CEO
Fullgoal Asset Management (HK) Ltd.

Ross Long
Chief Legal Officer
Nikko Asset Management Co., Ltd.

Brenda Lyons
Executive Vice President
State Street Bank and Trust Company

Lina Medeiros
President of Distribution for UCITS
MFS International (UK) Limited

James M. Norris
Managing Director, International Operations
Vanguard Asset Management Limited

Nicholas Phillips
Co-Head of GSAM Distribution for Europe
Goldman Sachs Asset Management International

Jed Plafker
Executive Managing Director
Franklin Templeton Investments

Niall Quinn
Managing Director
Eaton Vance Management (International) Limited

Karla M. Rabusch
President
Wells Fargo Funds Management, LLC

Tom Rice
Executive Vice President, European Legal Counsel
PIMCO Europe Ltd.

Timothy Ryan
CEO, UK and Co-Head, EMEA
AllianceBernstein, Ltd.

Jonathan Schuman
Executive Vice President, Head of Global Business Development
Matthews International Capital Management, LLC

Peter Schwicht
Managing Director
JPMorgan Asset Management (UK) Limited

Roger Thompson
Chief Financial Officer
Henderson Group plc

Liz Ward
Head of Europe
UBS Global Asset Management (UK)

Ben Y. B. Zhang
Managing Director
Hai Tong Asset Management (HK) Limited

APPENDIX F

ICI Staff Leadership and Management

As of September 30, 2013

Executive Office

Paul Schott Stevens[1, 2, 6]
President and CEO

Peter H. Gallary[3]
Chief Operating Officer

Government Affairs

Donald C. Auerbach
Chief Government Affairs Officer and Co-Head

Dean R. Sackett III
Chief Government Affairs Officer and Co-Head

Peter J. Gunas III
Government Affairs Officer, Retirement Security and Tax Policy

Allen C. Huffman
Director, Retirement Security and Tax Policy

Michelle Y. Mesack
Director, Financial Services

George F. Shevlin IV
Political Affairs Officer

Independent Directors Council

Amy B. R. Lancellotta
Managing Director

Annette M. Capretta
Deputy Managing Director

Lisa C. Hamman
Senior Associate Counsel

Law

Karrie McMillan
General Counsel

Dorothy M. Donohue
Deputy General Counsel, Securities Regulation

Sarah A. Bessin
Senior Counsel, Securities Regulation

Ari Burstein
Senior Counsel, Capital Markets

Robert C. Grohowski
Senior Counsel, Securities Regulation

Frances M. Stadler[4]
Senior Counsel, Securities Regulation

Jennifer S. Choi
Senior Associate Counsel

Rachel H. Graham
Senior Associate Counsel

Jane G. Heinrichs
Senior Associate Counsel

Tamara K. Salmon
Senior Associate Counsel

David M. Abbey
Senior Counsel, Pension Regulation

Howard M. Bard
Associate Counsel

Elena B. Chism
Associate Counsel

Anna A. Driggs
Associate Counsel

Keith D. Lawson[5]
Senior Counsel, Tax Law

Karen L. Gibian
Associate Counsel

Ryan M. Lovin
Assistant Counsel

Susan M. Olson
Senior Counsel, International Affairs

Eva M. Mykolenko
Associate Counsel

Operations

Kathleen C. Joaquin
Chief Industry Operations Officer

Linda J. Brenner
Director, Distribution Management and Operations

Martin A. Burns
Senior Director, Operations and Distribution

Jeffrey A. Naylor
Director, Operations and Distribution

Peter G. Salmon
Senior Director, Operations and Technology

Gregory M. Smith
Senior Director, Fund Accounting and Compliance

Public Communications

Mike McNamee
Chief Public Communications Officer

Ianthé Zabel
Deputy Chief Public Communications Officer

Rachel W. McTague
Director, Media Relations

Stephanie M. Ortbals-Tibbs
Director, Media Relations

Todd H. Bernhardt
Senior Director, Policy Writing and Editorial

Miriam E. Bridges
Director, Editorial

Janet M. Zavistovich
Senior Director, Communications Design

Jodi M. Weakland
Director, Design

Research

Brian K. Reid
Chief Economist

Sarah A. Holden
Senior Director, Retirement and Investor Research

Peter J. Brady
Senior Economist

Kimberly D. Burham
Economist

Sean S. Collins
Senior Director, Industry and Financial Analysis

Rochelle L. Antoniewicz
Senior Economist

L. Christopher Plantier
Senior Economist

Judith A. Steenstra
Senior Director, Statistical Research

Sheila M. McDonald
Director, Statistical Research

Erin H. Short
Director, Statistical Research

Administration

Christopher E. Boyland
Senior Director and Information Technology Officer

Andrew L. Colb
Director, System Operations

Paul R. Camarata
Director, Electronic Data Collection

William H. Jones
Director, Software Development

Mark A. Delcoco
Controller/Treasurer

Patricia L. Conley
Director, Accounting

Jane A. Forsythe
Senior Director, Conferences

Mary D. Kramer
Chief Human Resources Officer

Suzanne N. Rand
Director, Human Resources

Anne S. Vandegrift
Director, Benefits

Sheila F. Moore
Director, Office Services

Lee D. Butler
Director, Information Services

Michelle M. Kretsch
Director, Membership

ICI Global

Daniel F. Waters
Managing Director, ICI Global

Qiumei Yang
Executive Vice President and Head of Asia Pacific

Giles S. Swan
Director, Global Funds Policy

Elizabeth C. Todd
Director, Global Legal Affairs

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[1] Executive Committee of ICI's Board of Governors
[2] ICI PAC Board (ex officio)
[3] ICI PAC Board and Treasurer to ICI PAC
[4] Secretary to ICI
[5] Secretary to ICI's PAC Board, Assistant Treasurer to ICI PAC, Political Compliance Counsel
[6] ICI Education Foundation Board

APPENDIX G

Publications and Statistical Releases

Publications

ICI is the primary source of analysis and statistical information on the investment company industry. A complete list of ICI research publications and statistical releases is available on the Institute's website at **www.ici.org/research**. Participant-funded studies are not listed.

INDUSTRY AND FINANCIAL ANALYSIS

- *Financial Intermediary Controls and Compliance Assessment*, November 2012
- Money Market Mutual Funds, Risk, and Financial Stability in the Wake of the 2010 Reforms, *ICI Research Perspective*, January 2013
- Profile of Mutual Fund Shareholders, 2012, *ICI Research Report*, February 2013
- Trends in the Expenses and Fees of Mutual Funds, 2012, *ICI Research Perspective*, April 2013

INVESTOR RESEARCH

- Defined Contribution Plan Participants' Activities, First Half 2012, *ICI Research Report*, November 2012
- Characteristics of Mutual Fund Investors, 2012, *ICI Research Perspective*, November 2012
- Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2012, *ICI Research Perspective*, November 2012
- *America's Commitment to Retirement Security: Investor Attitudes and Actions, 2013*, February 2013
- Ownership of Mutual Funds Through Investment Professionals, 2012, *ICI Research Perspective*, February 2013
- Defined Contribution Plan Participants' Activities, 2012, *ICI Research Report*, April 2013
- The Closed-End Fund Market, 2012, *ICI Research Perspective*, July 2013
- Defined Contribution Plan Participants' Activities, First Quarter 2013, *ICI Research Report*, July 2013

RETIREMENT RESEARCH

- A Look at Private-Sector Retirement Plan Income After ERISA, 2011, *ICI Research Perspective*, October 2012
- *The Success of the U.S. Retirement System*, December 2012
- The Role of IRAs in U.S. Households' Saving for Retirement, 2012, *ICI Research Perspective*, December 2012
- 401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2011, *ICI Research Perspective*, December 2012
- The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2012, *ICI Research Perspective*, June 2013

INVESTMENT COMPANY FACT BOOK

ICI's annual data and analysis resource, *2013 Investment Company Fact Book: A Review of Trends and Activity in the U.S. Investment Company Industry*, provides information and trends for U.S.-registered investment companies, reporting on retirement assets, characteristics of mutual fund owners, use of index funds, and other trends. It is available in both PDF and HTML versions at **www.icifactbook.org**. The HTML version provides downloadable data for all charts and tables.

ICI VIEWPOINTS

In *ICI Viewpoints* blog postings, ICI publishes analysis and commentary from in-house experts in economics, law, fund operations, and government affairs on the key issues facing funds, their shareholders, directors, and investment advisers. *ICI Viewpoints* postings also offer short recaps of select ICI comment letters, as well as notes on ICI news and events, and are available on the Institute's website at **www.ici.org/viewpoints**.

INDEPENDENT DIRECTORS COUNCIL

» *Board Oversight of Exchange-Traded Funds*, October 2012
» *Audit Committee Annual Evaluation of the External Auditor*, October 2012
» *Overview of Fund Governance Practices, 1994–2012*, September 2013

Statistical Releases

The most recent ICI statistics and an archive of statistical releases are available at **www.ici.org/research/stats**.

» Trends in Mutual Fund Investing
A monthly report that includes mutual fund assets, sales, redemptions, cash positions, exchange activity, and portfolio transactions for the period.

» Estimated Long-Term Mutual Fund Flows
A weekly report that provides aggregate estimates of net new cash flows to equity, hybrid, and bond mutual funds.

» Money Market Fund Assets
A weekly report on money market fund assets by type of fund.

» Retirement Market Data
A quarterly report that includes individual retirement account and defined contribution plan assets and mutual fund assets held in those accounts by type of fund.

» Exchange-Traded Fund Data
A monthly report that includes assets, number of funds, issuance, and redemptions of ETFs.

» Closed-End Fund Data
A quarterly report on closed-end fund assets, number of funds, issuance, and number of shareholders.

» Unit Investment Trust Data
A monthly report that includes the value and number of deposits of new trusts by type and maturity.

» Worldwide Mutual Fund Market Data
A quarterly report that includes assets, net sales, and number of mutual funds in countries worldwide.

APPENDIX H

ICI, IDC, and ICI Global Events

October 1–3, 2012	Fund Directors Conference[1]	Chicago
October 4, 2012	International Money Market Funds Summit[2]	Brussels
November 1–2, 2012	Small Funds Meeting	San Francisco
November 2, 2012	Lessons Learned for the Financial Markets and Mutual Funds[3]	New York
November 27, 2012	Closed-End Fund Conference	New York
December 4, 2012	ICI Global Trading and Market Structure Conference[4]	London
December 12, 2012	Securities Law Developments Conference[5]	Washington, DC
March 17–20, 2013	Mutual Funds and Investment Management Conference[6]	Palm Desert
May 1–3, 2013	General Membership Meeting	Washington, DC
May 2, 2013	Fund Directors Workshop[1]	Washington, DC
May 2–3, 2013	Operations and Technology Conference	Washington, DC
May 2–3, 2013	Mutual Fund Compliance Programs Conference	Washington, DC
June 26–27, 2013	Global Retirement Savings Conference[4]	Hong Kong
July 11, 2013	Independent Counsel Roundtable	Washington, DC
September 22–25, 2013	Tax and Accounting Conference	San Antonio

[1] Sponsored by IDC

[2] Cosponsored by ICI Global, the European Fund and Asset Management Association (EFAMA), the Investment Funds Institute of Canada (IFIC), and the Institutional Money Market Fund Association (IMMFA)

[3] The 2012 ICI Capital Markets Conference, which was originally scheduled for Friday, November 2, in New York, was cancelled due to damage caused by Hurricane Sandy. In lieu of the conference, ICI hosted a webinar to discuss issues that the hurricane raised for the financial markets, as well as other relevant trading and market structure issues.

[4] Cosponsored by ICI and ICI Global

[5] Sponsored by the ICI Education Foundation

[6] Cosponsored by ICI and the Federal Bar Association

9 Number of webinars hosted by ICI, IDC, and ICI Global in fiscal year 2013

APPENDIX I

ICI Education Foundation

The ICI Education Foundation (ICIEF) partners with schools, government agencies, and other nonprofits to promote financial education initiatives on behalf of the mutual fund industry. Under a microgrant program launched in mid-2009, ICIEF awards grants to advance investor education within the greater Washington, DC, area. These grants fund teacher training in personal finance in Maryland, DC, and Virginia, as well as adult and youth investment-education programs in workplaces, public libraries, public television, job training programs, online courses, and a unique venue in Northern Virginia known as Finance Park. In addition, ICIEF participates in nationwide coalitions, conferences, and government events devoted to financial education.

APPENDIX J

ICI Mutual Insurance Company

ICI Mutual (ICIM) is an independent company formed by the mutual fund industry to provide various forms of liability insurance and risk management services to mutual funds, their directors, officers, and advisers. An organization must be an ICI member to purchase insurance from ICIM.

ICI by the Numbers » 2013

19,800+
Number of people that *ICI Daily* reaches each day

16
Number of editorials published

11
Number of times testimony submitted to Congress

660
Number of ICI Memoranda issued to members

82
Number of comment letters submitted to regulators

29
Number of ICI research publications released

198
Number of statistical releases posted

2,500
Number of visits to ICI's statistical report builder

200,000
Number of downloads and visits to ICI's *2013 Investment Company Fact Book*

250,000
Number of unique visits on www.ici.org

2.5 million
Page hits on www.ici.org

98%
Percentage of industry assets held by ICI members

249
Number of member complexes

93%
Percentage of member complexes represented on ICI standing and advisory committees

3,400+
Number of industry professionals brought together by ICI through committees, task forces, and working groups

ICI Action on Select Policy Developments, Fiscal Year 2013

FUND REGULATION

Supervision of Principal Underwriters: The Securities and Exchange Commission (SEC) published for comment a proposal by the Financial Industry Regulatory Authority (FINRA) to consolidate National Association of Securities Dealers and New York Stock Exchange (NYSE) supervision rules, including measures regarding oversight of mutual fund underwriters.

In comments to the SEC, ICI urged that the proposed rules be tailored to reflect the significant differences between the operations of retail broker-dealers and mutual fund underwriters. ICI also established a Principal Underwriters Working Group to leverage member expertise in addressing regulatory developments that affect mutual fund underwriters.

TRACE and Rule 144a Transactions: The SEC modified rules around disclosing information via FINRA's Trade Reporting and Compliance Engine (TRACE) database. The changes seek to provide greater transparency in fixed-income transactions subject to Rule 144A (which governs private resales of securities among qualified institutional buyers).

ICI had supported the SEC's proposal, urging similar TRACE disclosure criteria for both Rule 144A and non–Rule 144A transactions. ICI's suggestions were reflected in the final rule.

BrokerCheck: In January 2013, the SEC published for comment FINRA's proposal to require brokerage firms to link all websites and social media accounts to FINRA's "BrokerCheck" disclosure database.

ICI opposed FINRA's BrokerCheck proposal on the grounds that its unclear and overly broad approach was unworkable, particularly given the varied nature of online and social communication. FINRA withdrew the proposal in April 2013.

Filing of Social Media Content: The SEC provided detailed guidance on what social media content would need to be filed with the agency.

The guidance responded to concerns raised with SEC staff by ICI. Importantly, the guidance provided much more clarity on what interactive electronic retail communications would or would not need to be filed with the SEC, given new FINRA filing requirements for communications with the public.

529 Plans: The SEC published a Municipal Securities Rulemaking Board (MSRB) proposal that would increase the amount of information collected by the MSRB on 529 educational savings plans.

ICI provided the SEC with a set of recommendations covering how the MSRB could receive meaningful information while avoiding the imposition of unreasonable requirements on providers of 529 plans.

Money Market Funds: See page 28.

Derivatives and Commodities: See page 32.

OPERATIONS

Investment Company Status and Accounting: The Financial Accounting Standards Board (FASB) released an accounting standards update intended to clarify whether a company qualifies as an investment company under generally accepted accounting principles, or GAAP.

The update reflected ICI's input in a number of areas. For example, consistent with ICI's recommendations, any entity regulated under the Investment Company Act of 1940 automatically qualifies as an investment company for accounting purposes. Thus, '40 Act funds need not perform an analysis to determine what accounting standards apply to them.

Business Continuity: See page 14.

Oversight of Financial Intermediaries: See page 16.

RETIREMENT

DOL Fiduciary Standard: The Department of Labor (DOL) redefinition of what circumstances will cause someone providing advice to be considered a "fiduciary" under the Employee Retirement Income Security Act (ERISA) was not reproposed as scheduled. The new proposed rule is expected to be released in early spring of 2014.

ICI continues to engage with policymakers and DOL staff in an effort to ensure that the proposal reaches only true advisory relationships of trust and confidence, rather than market interactions in which retirement savers receive much needed and routine input and information for their decisionmaking.

Lifetime Income Illustrations: DOL proposed a framework for requiring defined contribution plan benefit statements to include illustrations of monthly income in retirement, based on participants' current and projected account balances.

In a comment letter, ICI agreed that illustrating account balances in the form of potential monthly payments could be helpful. However, the Institute said the framework proposed by the DOL was too rigid and could replace innovative methods already in use by retirement service providers, thus discouraging approaches that could be more effective in presenting forecasts of income streams.

Pension Benefit Statement Survey: The DOL proposed an Information Collection Request survey that would explore whether information presented in benefit statements is helpful to participants.

The Institute applauded the DOL's efforts and suggested a number of changes to improve the agency's information collection methods. For example, ICI recommended that the DOL use one-on-one interviews with individuals, rather than focus groups, to elicit meaningful responses from survey participants.

Missing Participants: The Pension Benefit Guaranty Corporation (PBGC) issued a Request for Information regarding the implementation of a program for missing participants of individual account plans.

ICI provided the PBGC with a number of recommendations on how to create a workable program that could overcome such obstacles as issues involving states' unclaimed property laws.

Preserving Retirement Savings Incentives: See page 6.

FINANCIAL MARKETS

Automated Trading: Regulators and market participants across the globe continued to scrutinize and develop regulatory responses to the increasing use of algorithmic trading and high-frequency trading in the securities markets.

In meetings, at industry events, and in regulatory filings, ICI welcomed attention to the issue while urging regulators to avoid stifling those innovations that could benefit investors. ICI also called for international cooperation to minimize difficulties arising from regulatory conflicts.

Decimalization: U.S. regulators continued to examine the impact of decimalization on the securities markets, including a February 2013 SEC roundtable to discuss the minimum increments (tick sizes) in which stocks trade on the markets.

ICI worked closely with regulators on this issue, helping to resolve issues surrounding a potential pilot program on decimalization and helping to ensure fund industry representation at the SEC's February roundtable, among other efforts.

ETFs and Market Maker Incentives: The SEC examined proposals from NYSE Arca and NASDAQ on providing increased financial incentives to market makers. The proposals aimed to increase the efficiency and liquidity of markets, particularly in products such as ETFs.

ICI supported the overall goal of the proposals but noted in comments to the SEC that aspects of the proposals could raise conflicts of interest between a market maker and an ETF sponsor.

Technology and Market Disruptions: See page 14.

TAXES

Financial Products Tax Reform: A working group of the House Ways and Means Committee released a discussion draft on reforming taxation of financial products. Among the proposals included in the draft was one that would require marking all derivatives to market, as well as one that would require all investors to compute gains or losses using the average cost basis method.

ICI provided the working group with fund industry views on the proposals, noting that the derivatives provisions could lead to a generally higher tax burden on investors, and urging that the mandatory average-cost proposal be dropped because it would add complexities and not improve tax compliance.

Withholding Taxes: Several countries imposed problematic requirements on, or denied claims of, funds seeking to recover taxes that had been withheld. The funds are seeking recovery of these taxes based upon applicable tax treaties and a European Court of Justice decision.

In Asia and Europe—notably in France, South Korea, Spain, and Sweden—ICI continues to engage with regulators and tax officials on withholding-tax issues, to ensure funds and investors do not have their returns reduced improperly.

Taxation of Municipal Bonds: Congress weighed whether to maintain the current tax exemption for municipal bond interest.

In July 2013, ICI members with an interest in muni issues met with 18 congressional offices and committee staff to educate lawmakers about how municipal bonds serve as an important source of financing for states and localities.

Financial Transaction Taxes: FTTs are advancing on multiple fronts. France enacted an FTT in August 2012; a proposal for a multinational European FTT (being considered by a group of 11 EU member states under an "enhanced cooperation procedure") was released in February 2013; and a new Italian FTT came into effect in March 2013.

In May, ICI met separately with government officials from eight European countries to explain the negative impact that an FTT would have on fund investors, issuers, and the financial markets. As a result of ICI's strong advocacy, and that of others, the FTT debate is moving toward a narrower proposal.

Foreign Account Tax Compliance Act: See page 21.

INTERNATIONAL

MiFID Reform: European regulators continued work on reforming the Markets in Financial Instruments Directive (MiFID), a law harmonizing market rules and regulation of investment services across member states in Europe.

ICI engaged directly with members of the European Parliament and European Commission, and with financial attachés from member states, to discuss improvements to MiFID provisions affecting funds and their investors.

Shadow Banking: The Financial Stability Board (FSB), an international group of financial authorities, proposed a high-level policy framework regarding oversight and regulation of nonbank entities (other than money market funds) that engage in credit intermediation.

In its response to the proposed framework, ICI emphasized the strengths of regulated funds—notably, stringent regulatory oversight—and cautioned the FSB against taking an overly bank-centric view of the financial system and financial regulation.

Securities Lending and Repos: The FSB explored policy recommendations to improve the transparency and regulation of the markets for securities lending and repurchase agreements (repos).

Through correspondence and direct engagement, ICI registered strong support for the FSB's work in identifying and addressing systemic risks in the securities lending and repo markets. However, ICI also urged the FSB to step back from recommendations that intrude on areas—such as disclosure standards—best left to national or regional regulators.

Remuneration: A European Parliament committee proposed remuneration requirements under the Undertakings for Collective Investment in Transferable Securities framework (UCITS V), and the European Securities and Markets Authority (ESMA) proposed and subsequently issued guidelines for remuneration policies and practices under the Alternative Investment Fund Managers Directive and MiFID.

ICI Global worked with a coalition of European fund associations to oppose bonus-cap and performance-fee restrictions under UCITS V, restrictions that the European Parliament ultimately rejected. In a letter to ESMA, ICI and ICI Global argued that asset managers—unlike other financial institutions—are both agents and fiduciaries, and that remuneration guidelines should not blunt asset managers' motivation to take appropriate risks, as directed by their clients.

India's Anti–Money Laundering (AML) Requirements: The application of know-your-customer (KYC) requirements by intermediaries in India to U.S.-registered funds has posed significant challenges over the past few years because directors and trustees have been asked to provide personal information that may then be uploaded and maintained in a central repository accessible by intermediaries.

Following the submission of a letter expressing member concerns, ICI met with the Securities and Exchange Board of India (SEBI) and other relevant parties to explain the challenges posed by India's requirements, including how they are outside of international norms, and to propose suggested revisions. In September, SEBI issued a circular with revised KYC requirements for eligible foreign investors that generally exempt U.S.-registered funds from the requirements to provide personal information.

ICI Global: See page 18.

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