INVESTMENT
COMPANY
INSTITUTE

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November 14, 2017

The Honorable Jeb Hensarling
Chairman, Committee on Financial Services
US House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member, Committee on Financial Services
US House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Hensarling and Ranking Member Waters:

I am writing on behalf of the Investment Company Institute* to express support for H.R. 4279, the Expanding Investment Opportunities Act, introduced by Representative Hollingsworth (R-IN) and amended by Representative Foster (D-IL). H.R. 4279 would simplify the closed-end fund offering process reducing unnecessary burdens to encourage more capital formation for small businesses. This will provide significant benefits to fund shareholders and the enterprises they can help finance.

Closed-end funds serve as an important retirement savings and investment vehicle for retail investors and as an important source of funding for emerging businesses. As of June 2017, there were 533 closed-end funds with total assets of $271 billion. We estimate that approximately 3 million retail households rely on closed-end funds to help meet their investment needs. For investors, closed-end funds provide enhanced income and cash flow, increased after-tax efficiency, and broader diversification. Closed-end funds also play an important role in the US economy, channeling capital from fund investors to the markets which, in turn, stimulates economic growth and job creation. The injection of capital through fund investments benefits underlying businesses that rely on the markets as an important source of financing. The underlying businesses utilize the capital to hire employees and develop new technologies, sparking continued innovation and growth.

Despite their numerous benefits, the number of closed-end funds has declined sharply—by more than 19 percent—over the past decade. In 2016, only eight new closed-end funds issued shares—a decline of 81 percent from 2007. This valuable and well-regulated investment vehicle has untapped potential to help fund our economy.

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*The Investment Company Institute ("ICI") is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds, closed-end funds, and unit investment trusts in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI's members manage total assets of US$20.9 trillion in the United States, serving more than 100 million US shareholders, and US$6.6 trillion in assets in other jurisdictions. ICI carries out its international work through ICI Global, with offices in London, Hong Kong, and Washington, DC.

H.R. 4279 would reduce the burdens of Securities and Exchange Commission ("SEC") registration and communication requirements that impose heavy costs on funds and their investors without commensurate investor protection benefits. The resulting cost savings would be passed on to fund shareholders, making these funds more attractive.

In particular, H.R. 4279 would require the SEC to amend its rules to provide several technical, but tangible, benefits to closed-end funds and their shareholders:

- Closed-end funds that meet the criteria of a "well-known seasoned issuer" (having at least $700 million common equity outstanding and having timely made required filings for the preceding 12 calendar months) could register and offer additional shares more quickly through the "automatic shelf registration" process to take advantage of current market conditions;

- Closed-end funds that meet the criteria of a "seasoned issuer" (having at least $75 million in common equity outstanding and having timely made required filings for the preceding 12 calendar months) could incorporate information from subsequent filings into their registration statements automatically;

- Closed-end funds that meet the conditions of several existing safe harbors could rely on those safe harbors to communicate with investors and potential investors more freely during a registered offering; and

- Closed-end funds and, ultimately, their shareholders could save on the costs of prospectus delivery under certain conditions.

These changes, which would conform closed-end fund offering rules to those for traditional operating companies, could encourage new closed-end fund offerings and lead to a concomitant increase in the long-term capital these funds supply to companies in which they invest.

We believe that H.R. 4279 is a reasonable, bipartisan approach to reducing closed-end fund shareholder costs and stimulating economic growth without any reduction in investor protections.

We therefore urge you to vote for H.R. 4279. Thank you for your consideration of our views.

Sincerely,

Dorothy Donohue

Dorothy Donohue
Acting General Counsel

cc: Members of the Committee on Financial Services