



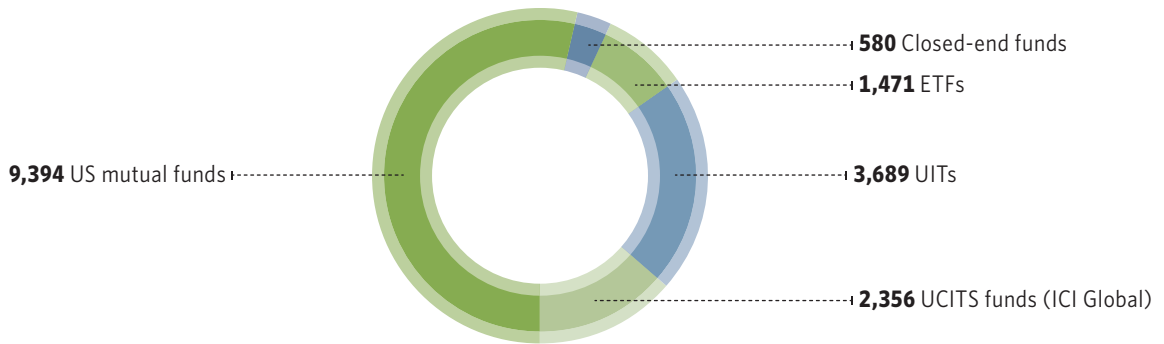
# 2016 Annual Report TO MEMBERS



## ICI REPRESENTS

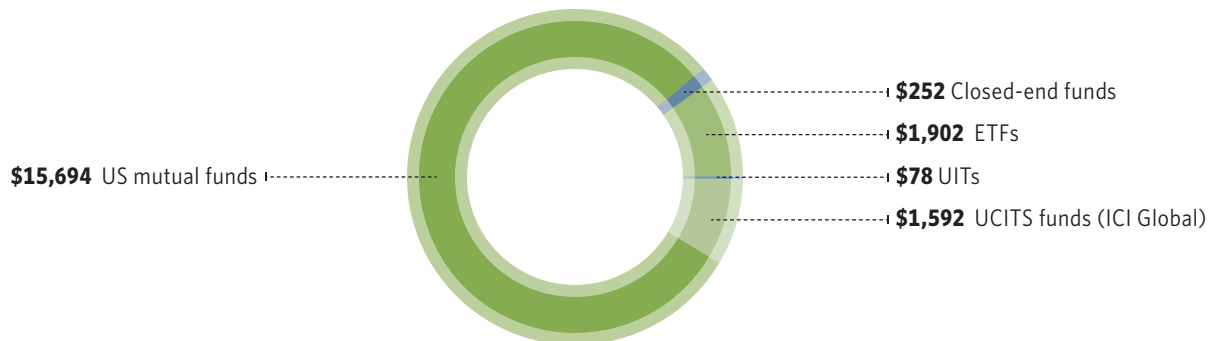
### More than 17,000 funds

NUMBER OF INVESTMENT COMPANIES BY TYPE\*



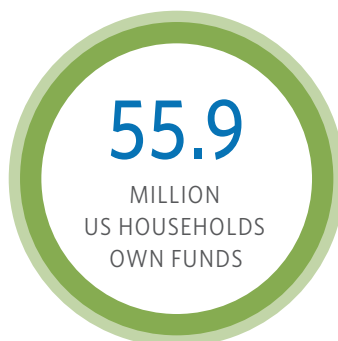
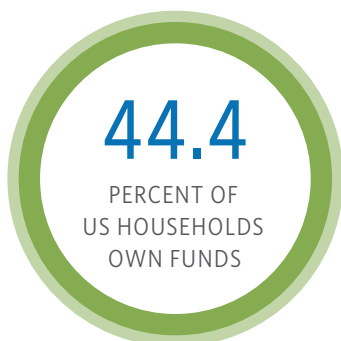
### With more than \$19.5 trillion in assets

INVESTMENT COMPANY ASSETS, BILLIONS OF DOLLARS\*



### Serving more than 95 million shareholders

US OWNERSHIP OF FUNDS OFFERED BY INVESTMENT COMPANIES, MID-2016



\* Data for mutual funds, closed-end funds, exchange-traded funds (ETFs), and UCITS funds are as of June 2016. Data for unit investment trusts (UITs) are as of December 2015.

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## QUESTIONS AND ANSWERS

**F. WILLIAM MCNABB III**  
Chairman  
Investment Company Institute  
Chairman and CEO  
Vanguard



### A Conversation with the Chairman

*As F. William “Bill” McNabb III, chairman and CEO of Vanguard, wrapped up his third and final year as the Institute’s chairman, he sat down with ICI staff to discuss the issues that shaped his tenure—and that will affect members in the future.*

**In the five years since it launched ICI Global, the Institute has made international activities integral to its core services to members. Why is that important?**

Today, all parts of the fund industry must have a global mindset on investment and regulatory matters, whether we offer fund products overseas or not. We’re simply more interconnected than ever before. For example, the typical American retirement investor who holds a long-term target date fund may have about one-third of her portfolio invested outside the United States. That simple fund has the potential to be affected by myriad regulatory bodies—local, national, and international.

Regulators around the world are looking at many of the same issues—delivery of advice, funds’ use of derivatives, liquidity risk management, taxes, and more. Regulators in one jurisdiction follow and react to developments in other parts of the world. Keeping up with, let alone staying ahead of, this changing environment—that’s a big job. Looking ahead, it will be increasingly important for fund firms to

have access to the expertise, resources, and on-the-ground connections that ICI Global has developed.

**How will the Department of Labor’s new fiduciary regulations affect investment companies’ ability to serve retirement investors?**

ICI was deeply engaged with this rulemaking, and helped improve the rule in its final form. Still, there is no question that the final rule will disrupt business models for many ICI members and their distribution partners, and has created a massive implementation challenge for the legal, compliance, and operations professionals in the firms most affected. As always, ICI is working very hard to help our members adjust to this new reality.

It seems clear that the rule will accelerate changes that have been underway for some time. Today, 75 percent of new sales of fund shares already go to no-load funds, rather than to shares with a transaction-based commission. Our industry is moving away from a simple product-based



mindset to a more solutions-oriented approach. Look at the various ways advice is being incorporated into products and services—this will alter the landscape. Providers have to ask: do we have the right kinds of funds to fit into this new business model? Funds will have to fit into categories more clearly to help create solutions for investors.

In addition, we'll see continued cost pressure on all asset classes. These changes will be even more important in the next decade, as Vanguard and many other firms expect a prolonged period of lower market returns.

### **How will the Millennial Generation change the mutual fund industry?**

Millennials will drive some exciting changes, and technology will be a key factor. Based on what we're seeing today, it's clear that Millennials expect a consumer experience where they feel that products and services are being customized for them. They also demand robust, easy-to-use technology on all forms of devices, including mobile—yet our industry is still pretty PC-based.

From an investment standpoint, early evidence suggests that Millennials are using target date funds very aggressively—and therefore are getting broadly diversified, low-cost, high-quality funds into their portfolios right away. I see that as a very positive trend.

### **We're seeing a debate in Washington, DC, and in state capitals on how to improve retirement savings opportunities. What's the best way to do that?**

First, it's important that the United States maintains a healthy and vibrant Social Security system. The voluntary retirement system is a great complement to that. But many workers don't have access to retirement plans at work. Some states are trying to fill the void. We worry about that for several reasons: a) it leads to fragmentation; b) some of the state plans are pretty expensive; and c) states have had varying levels of success running pension plans in the past.

We need to make it easier nationally for small companies to offer defined contribution plans that are low-cost and simple to administer. That's been an aspiration of the industry and many policymakers. We need some help in Washington to get that done. Fortunately, there is bipartisan agreement on a proposal to enable small businesses to participate in a pooled arrangement. That would be progress.

### **Vanguard was one of several firms that took part in creating the *Commonsense Corporate Governance Principles*, a set of best practices for public reporting, corporate boards, shareholders, management, and asset managers. Are we witnessing a change in the way funds approach corporate governance?**

The *Principles* are a great way to get the conversation going on the health of America's public corporations and financial markets. I expect increased scrutiny in the way funds think about governance, and a continued evolution of thinking around long versus short term. Because many fund investors focus on the long term, I believe this will lead to more long term-oriented behavior for operating companies.

### **During your three years as chairman, ICI has been deeply engaged in the debate over financial stability. Where do you think we stand now?**

When you look at the genesis of the financial crisis, the banking system was front and center. Today, the banking system is far more stable and better capitalized. So the financial system as a whole is more stable.

But regulated stock and bond funds and their managers didn't contribute to the crisis—they were among the most stable areas in the system. So ICI has pushed back hard against the idea that funds or their managers should be subjected to inappropriate bank-style regulation. The data and analysis that ICI has brought to bear shaped that discussion—it moved regulators away from treating funds or asset managers as “systemically important,” at least for now. They could still return to that approach, so ICI has to remain vigilant.

Part of that effort has involved ensuring that capital markets regulators play a larger role. The SEC [Securities and Exchange Commission] has assumed its rightful role as chief regulator of the fund industry and asset management more broadly. Many of the rules we see emerging underscore the SEC's role in reducing true or perceived systemic risk. ICI has a tremendous track record of working proactively with the SEC.

### **Do you have any personal reflections to share as you come to the conclusion of your third and final year as ICI chairman?**

My involvement with ICI has been a highlight of my career. I've always believed that the things we can collectively accomplish through ICI represent the very best of what we do for investors. So, I'd like to thank the members, the staff, and the leadership for a wonderful experience. \*



## PRESIDENT'S LETTER

**PAUL SCHOTT STEVENS**  
President and CEO  
Investment Company Institute

### The Year in Review

*In the past year, ICI has worked with more regulators and policymakers—and addressed more issues—than ever before. In the midst of this global growth in engagement, our commitment to sound, investor-centered rulemaking has remained constant.*

Last year, ICI celebrated its 75th anniversary. In my introduction to the *2015 Annual Report to Members*, I told the story of how the US Securities and Exchange Commission (SEC) called on fund industry executives to form a trade group to help it implement the Investment Company Act of 1940. This request was a reflection of the historic and bipartisan nature of the '40 Act—passed unanimously by Congress—and of the collaborative relationship between the regulator and the regulated, who shared a common goal of promoting the growth of a fund industry that would serve the interests of ordinary investors.

Since then, the SEC has had more than 30 chairs, nearly 100 commissioners, and many thousands of staff members. ICI and the industry it represents have changed dramatically. But whether it is the SEC or one of the many other regulators, in the United States and abroad, with which we engage today, our commitment to sound, investor-centered rulemaking has not changed. We work

hard to provide policymakers with the information and perspective that they need for this purpose.

Fiscal year 2016 has been especially busy on this front. ICI filed 111 comment letters, totaling more than 1,600 pages, in the past 12 months. One-third went to the SEC, and one-quarter to various international bodies. I believe the number and variety of regulatory issues we addressed in the past year surpass any in our history.

Of particular note is a series of proposed new rules for funds advanced by SEC Chair Mary Jo White. In each case, we supported the goals of these proposals—but were careful to detail industry concerns about the mechanics of each and suggest ways in which they could better meet the stated goals. As this year's *Annual Report to Members* went to press, the Commission had just adopted final rules on two of those proposals: the first, to modernize fund reporting; and the second, to require funds to adopt a formal liquidity risk management program (see page 6).

Though we're still studying them, it is clear that these tough new rules will spur a number of operational changes across the registered fund industry. Though some of these new rules will likely add complexity and cost, ICI commends Chair White and the SEC for advancing this work, which reinforces that the Commission is the appropriate body to address areas of potential risk in activities and products related to asset management.

ICI remains disappointed that the SEC did not take the opportunity to change the default option for delivery of annual and semiannual reports to online delivery—a step that would have given shareholders the information they need in a more useful form while saving them billions of dollars. Chair White has, however, indicated that the staff will bring the SEC a recommendation on this proposal by the end of the year, and we will continue to urge prompt action by the Commission on this important shareholder initiative (see page 8).

During the past year, ICI also continued its efforts to support the crucial role that defined contribution plans play in helping Americans build resources for their financial futures, and in advocating for the role of funds in the country's retirement system. We responded forcefully to two initiatives that we saw as weakening that system: the fiduciary rule proposed by the US Department of Labor (DOL), and the move by some states to establish their own retirement plans for private-sector workers.

As I said in testimony and other communications to Congress about the issue, ICI and its members agree that financial advisers should act in the best interests of their clients. Yet the DOL's justification for the rule was deeply flawed, and—though the final product was an improvement over the original proposal—the rule as written will still make it more difficult and costly for low- and middle-income Americans to save for retirement (see page 12).

ICI also cautioned state lawmakers and leaders to examine carefully all the costs and risks of legislation to implement state-run retirement plans, explaining that overly optimistic estimates of participation levels, combined with underestimates of costs, could lead to significant risks for state finances—and, ultimately, taxpayers. ICI continues to promote federal solutions to expand access to workplace retirement plans, such as open multiple employer plans (see page 14).

Every part of ICI contributes to efforts of this kind. At the front end, our legal and research staff members play especially prominent roles. But when proposals turn into final rules, our operations

professionals are at work in earnest. They bring members and other stakeholders together to efficiently and effectively implement complicated requirements, often working against very tight timelines.

Our operations agenda this year was even busier than most, anticipating the implementation of:

- » the SEC's latest round of reforms to money market funds, against an October 14, 2016, deadline;
- » the DOL's fiduciary rule requirements, with an initial compliance date in April 2017; and
- » the industrywide effort to shorten the settlement cycle by a day, set to take effect in September 2017.

I am proud that, over many years, ICI's operations initiatives—which of course continue long after implementation deadlines pass—have yielded significant cost savings, efficiencies, and conveniences for fund shareholders (see page 24).

In my many interactions with ICI members this year—including fund boards—there has been a clear recognition of the impact of international developments on fund regulation in the United States and elsewhere, and of the need for ICI to engage internationally. Once again, this year, international developments of importance to our entire membership played a major role in driving our work.

In the past year, supported by staff experts and empowered by a global presence, ICI engaged a wide variety of regional and international bodies on behalf of funds, on issues ranging from taxes, to derivatives, to pension policy, to cross-border fund agreements, to cybersecurity. We also helped shape the global discussion about financial stability, responding strongly to concerns expressed by the Financial Stability Board (FSB) with extensive data, analysis, and commentary demonstrating that regulated funds and their managers do not pose risks to the financial system, and calling for more rigor and transparency in the FSB's work (see page 20).

These are just a few of the areas covered in this report, which we publish each year as a record of ICI's efforts on behalf of funds, their shareholders, directors, and advisers. The association that came together more than three-quarters of a century ago thrives today because of an engaged and dedicated membership. I welcome your continued involvement, and thank you for your ideas and recommendations on our work. \*





### Responding to the SEC Agenda

When Securities and Exchange Commission (SEC) Chair Mary Jo White laid out an ambitious agenda in December 2014 to strengthen regulation of the asset management industry, she kicked off a multiyear process that so far has led to four Commission proposals. Working closely with members, ICI has developed comprehensive responses to each, expressing the industry's support for the SEC's goals while advocating vigorously to ensure that the suggested regulations are designed in a way that will not unduly burden fund managers, that will work well in the context of the markets, and that will best serve the needs of investors.

Specifically, the Institute responded on the industry's behalf to SEC rule proposals to modernize fund reporting, to require funds to adopt a formal liquidity risk management program, to regulate funds' use of derivatives, and to require fund advisers to have formal business continuity and transition plans. Here's a brief overview of activities undertaken during the past fiscal year.

**Modernization of fund reporting.** ICI responded to the SEC's proposal to modernize fund reporting rules—including proposed Rule 30e-3, which would have given funds the option to deliver shareholder reports online by default (see page 8)—with a comment letter expressing its broad support for the proposal. The letter expressed concern, however, that the SEC did not discuss how it would maintain the security of the extensive data that funds would report, and recommended that certain information remain nonpublic because those items involve subjective measures that could vary among funds. ICI also suggested reasonable alternatives to address the host of business, operational, and compliance challenges presented by the proposal.

The SEC's final rules, approved in October 2016, addressed many of ICI's concerns. Though the SEC tabled the vote on the proposed shareholder report rule until a later date, it acknowledged data security concerns, stating that it is working to develop effective controls and systems to tackle data security fears. The Commission also clarified that funds could keep certain information nonpublic, saying that this information is based on subjective inputs and assumptions and, if

disclosed publicly, could convey a false level of precision to investors. And in response to ICI's comments, the Commission made a number of important modifications to the final rules that clarify funds' reporting obligations, reduce funds' reporting burdens, and bring the rules more in line with industry reporting practices.

**Liquidity risk management programs.** In January 2016, ICI responded to an SEC rule proposal that would require mutual funds and exchange-traded funds (ETFs) to establish formal liquidity risk management programs and provide enhanced liquidity-related disclosures, and permit mutual funds to use swing pricing (a method of allocating transaction costs to transacting shareholders). ICI's comment letters generally supported fund adoption of liquidity risk management programs, yet raised several critical concerns.

The letters objected, for example, to the Commission's proposed six-bucket asset classification system and related reporting requirements, which the Institute said called for subjective, unknowable projections about the liquidity of each holding. ICI also opposed the proposal's requirement that funds maintain a minimum amount of assets that could be sold within three days with little price impact, saying it would potentially harm funds' ability to adhere to their objectives, policies, and strategies. Finally, ICI identified pros and cons regarding the use of swing pricing, citing operational and other potential hurdles to its adoption in the United States.

The final package of reforms—also adopted in October—addressed many of the Institute's concerns. The asset classification requirements were simplified, with four buckets, and brought into closer alignment with industry practice. Public reporting of this information will be more general, and thus more useful to investors. Many funds will still determine and manage portfolios in accordance with a minimum amount of highly liquid investments, but some mutual funds and ETFs are now exempt from this requirement, and all affected funds will maintain greater portfolio management flexibility. Finally, the SEC recognized the operational challenges of applying swing pricing in the United States, and has delayed its implementation for two years.

In November, ICI hosted a special conference in Boston to help members analyze the new enhanced data-reporting and liquidity risk management requirements for funds. Going forward, the Institute will continue to work with members on implementation of the rules, involving experts from firms' risk, legal, compliance, and operations functions.

**Regulating funds' use of derivatives.** While generally supporting the goals of the SEC's proposal to regulate funds' use of derivatives, in March ICI expressed members' strong views on the need to preserve the benefits of derivatives as a portfolio management tool and recommended significant revisions to the proposal.

ICI explained that major components of the proposal would restrict funds well beyond the extent needed to achieve the Commission's goal of ensuring that funds are not "unduly speculative." For example, the Institute argued in multiple comment letters that the proposal to limit derivatives positions based on notional amounts was fundamentally flawed, because this method overstates a fund's obligation and the true economic risks with a derivatives transaction.

ICI also cited a study its economists had conducted finding that the SEC's proposed portfolio limits would have a larger-than-expected negative effect on the industry, particularly for taxable bond funds. The Institute explained that the proposed limits could force hundreds of funds to liquidate, adopt different product structures, or radically transform their strategies.

If the SEC does decide to adopt portfolio limits, ICI said, the agency should include a simple but effective schedule to adjust gross notional exposure based on the relative risk of the derivative's underlying reference asset. In supplemental comments filed in July, ICI described this schedule in detail. ICI also recommended practical revisions to the SEC's proposed value-at-risk test, to permit funds that constrain expected risk to use a higher portfolio limit.

**Refining advisers' business continuity and transition planning.** In August, ICI once again expressed overall support for this proposal, which would require SEC-registered investment advisers to adopt formal business continuity and transition plans. ICI's comment letter applauded the proposal's flexibility in allowing business continuity plans to accommodate diverse business models, but objected strongly to the SEC's suggestion that plan violations would constitute fraud and deceit, requesting that the Commission clarify in the final release that this would not be the case.

ICI also asked the SEC to clarify certain requirements, to better reflect the industry's current practices and practical capabilities. For instance, the Institute asked the Commission to interpret the rule to allow employees to telework from home to satisfy the "prearranged alternate physical location" requirement. ICI said that the SEC should permit an adviser to comply with the rule by creating a general "playbook" that consolidates key information and processes for winding down its business—without cataloging and addressing every possible contingency.

Ultimately, the Institute recommended that the SEC issue the proposal's content as guidance to the existing advisers' compliance rule, which already effectively requires a business continuity plan, rather than adopting the proposed rule. ICI argued that fund advisers would be able to navigate their business continuity obligations more easily if the SEC were to issue guidance under the existing compliance rule.

Given the November presidential election and the coming change in administrations, the Commission will remain active in 2017—and ICI will be ready to respond. As they have in the past, staff will continue to monitor the regulatory landscape closely and work with members to ensure that any industry response focuses on meeting regulatory goals and shareholder needs in the most efficient and effective way possible. \*



*ICI developed comprehensive responses to the SEC's ambitious agenda to strengthen regulation of the asset management industry, expressing the industry's support for the SEC's goals while advocating vigorously to ensure that the suggested regulations are designed in a way that will not unduly burden fund managers, that will work well in the context of the markets, and that will best serve the needs of investors.*



### In Online Delivery Debate, ICI Battles for Shareholder Interests

Like most Americans, mutual fund shareholders have turned to the Internet for a wide range of information and services—including financial information and services. In spring 2015, the Securities and Exchange Commission (SEC) proposed a rule recognizing this reality, promising a wide range of valuable benefits.

Proposed Rule 30e-3, part of a broader rulemaking package designed to modernize fund reporting, would allow registered funds to deliver shareholder reports by posting the reports online and mailing shareholders a notice with the web address, instead of mailing full paper reports. For its simplicity and sensibility, the proposed rule earned ICI's full support—and stubborn resistance from interest groups protecting their own businesses.

In written commentary and in person, the Institute's Law and Research teams made the straightforward case for adopting the rule: it would save shareholders billions of dollars in printing and mailing costs, reduce the fund industry's environmental footprint, and open the door to massive innovation in fund disclosure, while preserving investor choice by giving shareholders who prefer paper reports ample notice and easy means to continue receiving them.

ICI's advocacy met stiff opposition from a determined pair of opponents: the paper industry and Broadridge Financial

Solutions, the top vendor delivering shareholder reports on behalf of brokers.

Broadridge charges brokers to deliver fund shareholder reports according to a fee schedule set by the New York Stock Exchange (NYSE). Brokers, in turn, pass these costs on to the funds. After Rule 30e-3 was proposed, Broadridge signaled to the SEC that it would interpret the fee schedule in a way that would cost funds more *not* to deliver paper reports than they currently pay to deliver them.

The Institute fought back against this warped outcome with a two-pronged response. For the short term, ICI called on the NYSE to amend the flawed fee schedule to preserve the rule's cost savings, and prompted an NYSE proposal to do so. For the longer term, ICI has called on the Financial Industry Regulatory Authority (FINRA) to take over responsibility for the fees associated with delivering shareholder reports to broker-held accounts. Unlike the NYSE, FINRA has an investor-protection mandate—and so is uniquely equipped to develop a fee schedule with fund shareholders' interests in mind.

Meanwhile, the paper industry, joined by letter carriers and printing firms, lobbied hard on Capitol Hill to block funding for the SEC to adopt Rule 30e-3. In response, ICI's Government Affairs team countered with a comprehensive campaign of its own, explaining the rule to the House Committee on Appropriations, writing to every House member outlining its benefits for shareholders, and running a full-page ad in *Roll Call*, a widely read Capitol Hill newspaper, challenging the paper industry's efforts.

Although the SEC's final fund-reporting rulemaking didn't include Rule 30e-3, Chair Mary Jo White has directed staff to evaluate the NYSE's delivery fee proposal, and to bring the Commission a new recommendation on the rule by the end of 2016. As the issue plays out, ICI's advocacy will continue on three fronts: urging the Commission to adopt the rule, ensuring that shareholders would pay fair fees if it is adopted, and keeping the funding restriction out of any year-end funding package so that the SEC is free to proceed. \*



ICI General Counsel David Blass tells attendees at the Mutual Funds and Investment Management Conference about ICI's efforts to promote online delivery of documents to shareholders.





## The FSB Makes Progress, but Concerns Remain

When the global Financial Stability Board (FSB) shifted its focus from designing methodologies for designating investment funds and asset managers as systemically important to reviewing asset management activities, it did so with a caveat: designation work would eventually recommence, the FSB said, to take care of any “entity-based sources of systemic risk” that it believes activity-based policies cannot address.

ICI has been working hard to demonstrate that, as far as regulated funds and their managers are concerned, the FSB need not reconsider its designation methodologies. In a comprehensive response to the FSB’s June 2016 consultation based on the activity-based review, ICI reiterated that neither regulated funds nor their managers pose risks to financial stability, while commending the FSB for directing the International Organization of Securities Commissions (IOSCO) and other capital markets regulators to implement the consultation’s policy recommendations.

Yet the response expressed continuing concern with flaws in the FSB’s asset management work, explaining that it still relies on theory and conjecture while discounting data and experience, especially in its consideration of “liquidity mismatch” in open-end funds. For example, the FSB based its recommendations on the premise that fund redemptions could threaten global financial stability—even though it offered no evidence to support that claim. ICI responded that conjecture does not provide sufficient basis for policymaking, and urged the FSB to hold itself to a higher standard of procedural rigor.

ICI remains in close contact with both the FSB and IOSCO to ensure that any final recommendations are well reasoned and reflect the realities of the regulated fund industry. \*

## ICI HELPS LEAD DRIVE FOR REGULATORY RELIEF ON AUDITOR INDEPENDENCE

Prompt, vigorous action by ICI and its members helped funds gain regulatory relief from the unexpected consequences of an SEC rule designed to protect the independence of audit firms. The “loan rule,” as it is known, says that an audit firm cannot be independent from a client if it has borrowed money from a lender that owns more than 10 percent of the client’s equity securities.

The rule seems straightforward when the client is an operating company and the lender has an incentive to influence the auditor to protect its stake in the client. But when the client is a mutual fund, and the lender is an intermediary that owns the fund’s shares on behalf of its own clients (e.g., a bank-affiliated broker-dealer holding fund shares in omnibus accounts), the rule could capture arrangements that are likely to have little effect on an audit firm’s objectivity or impartiality.

That is what happened when the SEC staff alerted audit firms to a strict interpretation of the rule—and sent shock waves throughout the fund industry. The SEC staff interpretation could overturn the audits of many funds’ financial statements, calling into question the validity of the funds’ registration statements and preventing the funds from continuing to sell their shares. ICI quickly engaged with members, audit firms, and SEC officials to explain this possibility, calling for a swift resolution that avoids unreasonable costs and needless disturbance for fund shareholders.

The SEC heeded the industry’s call to action, issuing temporary no-action relief enabling funds to continue to use financial statements audited by firms that technically do not comply with the loan rule. Though the relief expires in December 2017, the SEC now has ample time to craft a long-term solution. ICI will advocate for members’ interests throughout this process. \*



## RETIREMENT

### Building on a Successful System

Since 1940, ICI members have worked hard to help millions of Americans save for long-term goals—including a secure retirement. The role of funds in retirement really kicked into high gear about 40 years ago, starting with the Employee Retirement Income Security Act of 1974 (ERISA), which created the individual retirement account (IRA), and continuing with regulations in 1981 that permitted the 401(k) plan.

Thanks to these changes in public policy, and others since then (including the Pension Protection Act, passed a decade ago), funds have become part of the bedrock of the American retirement system. At the end of June 2016, Americans held \$7.5 trillion in their IRAs and \$7.0 trillion in defined contribution (DC) plans, such as 401(k)s—accounting for almost 60 percent of the \$24.5 trillion set aside as retirement assets in the United States. More than half of the assets held in IRAs and 401(k) plans were in mutual funds.

Building on this foundation of success, ICI has continued to work with Congress and regulators on ways to further strengthen the system. Staff throughout the Institute conduct cutting-edge research that offers unique insights into the retirement market, provide expert analysis of proposals that might affect it, and effectively advocate to policymakers, the press, and the public in support of sound, well-informed public policies.

ICI also reaches out internationally—through in-person meetings and seminars—to explain the US system to pensions experts looking to help their populations build retirement resources (see page 11).

Yet despite these efforts, misperceptions about America's retirement system persist. Throughout the past year, ICI worked hard to counter concerns about adequate coverage and demonstrate that the system is working for the vast majority of Americans. One notable example was the publication of *How America Supports Retirement: Challenging the Conventional Wisdom on Who Benefits*, a new book by ICI Senior Economist Peter J. Brady.

Though other publications have examined the effects of Social Security and tax deferral on the American retirement system separately, Brady's innovative work is the first to take a holistic approach to the two, measuring the benefits that tax deferral and Social Security together provide. When viewed as a whole, he shows, government support for retirement is progressive, and proposals to limit or fundamentally change tax deferral—which provides incentives for employers to offer and workers to participate in voluntary retirement plans—would actually make the code less fair (see page 13).

During the year, Institute experts also weighed in on efforts by the Department of Labor (DOL) to redefine the term *fiduciary* under ERISA investment advice rules, as well as efforts by a number of states to establish state-run retirement accounts that would effectively sidestep protections provided by the landmark 1974 law—while creating a host of other potential problems.

In pushing back against the DOL fiduciary rule, ICI pointed to the agency's flawed rationale, demonstrating that the rule would actually increase fees and reduce returns, especially for the low- and middle-income investors most likely to lose access to advice under it. In interviews, opinion pieces, and testimony and letters to Congress, ICI experts argued for a bipartisan legislative solution that would apply to and benefit all investors.

After the final rule was released, the Institute began working with members to meet the aggressive timetable and goals set up by the DOL—holding a well-attended forum in May to discuss implications of the new fiduciary paradigm and the challenges involved in implementing it, and convening five working groups of members and other stakeholders to work out the details (see page 24).

ICI also responded to recent moves by some states to establish their own retirement plans for private-sector workers, and the DOL's role in these initiatives. In August, the agency effectively exempted such state-run plans from coverage under ERISA—depriving affected workers of vital consumer protections provided by the federal law.





## Looking for Solutions to China’s Retirement Savings Challenges

China’s population is aging at a rate that appears likely to outpace the country’s economic growth, lending credence to the adage, “The Chinese will get old before they get rich.” Facing the prospect that their retirement system may be unsustainable, Chinese policymakers are reassessing current pension policies and examining other countries’ systems for ideas.

In this environment, ICI Global, the Asset Management Association of China, and the Centre for International Social Security Studies at the Chinese Academy of Social Sciences (CISS CASS) came together in April to host an event in Beijing focusing on policies to support pensions and retirement.

Spearheaded by Qiumei Yang, CEO for ICI Global, Asia Pacific, the event—“International Private Pension Systems Conference:



Qiumei Yang, CEO of Asia Pacific for ICI Global, discusses pension reform and the role that funds can play in helping people build retirement savings.

Law and Practice”—featured policymakers, industry experts, and academics from Canada, China, Germany, the United Kingdom, and the United States. Some 200 attendees learned about countries’ experiences with pension reform and the role that funds can play in helping build retirement savings.

Four senior representatives from key ministries in China spoke at the conference, each emphasizing the need for pension reform. Following their remarks, Zheng Bingwen, director of CISS CASS, detailed retirement challenges facing China and examined ideas for potential reforms, including the creation of a framework that would allow individuals to save in tax-advantaged personal retirement accounts that could invest in a number of products, including regulated funds.

Experts then discussed the US, UK, Canadian, and German retirement systems, comparing their experiences with establishing and reforming private pension systems, and the role of individual accounts. The conference ended with a roundtable session where speakers reviewed reform options that may help address China’s challenges.

The Beijing event furthered discussions that ICI Global has pursued through its Global Retirement Savings Conferences in Paris (in partnership with the Organisation for Economic Co-operation and Development), Tokyo, Geneva, and Hong Kong. \*

For more information, visit [www.iciglobal.org/grsc](http://www.iciglobal.org/grsc).

ICI strongly disagreed with the DOL’s decision to cede jurisdiction under ERISA to the states, and also reached out to policymakers in a number of states to warn about the risks in a state-by-state approach to employer retirement plan mandates. The Institute instead continued to advocate for a federal solution, pointing to bipartisan proposals to expand multiple employer plans, and proposals that would make workplace plans easier and less expensive to provide (see page 14).

Though more can undoubtedly be done to help Americans prepare for retirement, it is vital that any policies to expand coverage build on the successes of the current voluntary, employer-based system. ICI will continue to focus on legislative, regulatory, research, and communications activities that spread this message to the widest possible audience. \*





### A New World of Investment Advice

On April 6, the US Department of Labor (DOL) issued its final rule redefining the term *fiduciary* under the Employee Retirement Income Security Act of 1974 (ERISA)—capping a spirited debate spanning six years, two proposals, and extensive commentary from all sides. Throughout the rulemaking process, ICI supported the principle at the heart of the rule—that retirement service providers should be required to act in their clients’ best interests—but urged the DOL to rethink its approach to applying that principle.

In comment letters and in presentations at DOL hearings and elsewhere, ICI warned that the rule as proposed would likely end up restricting American retirement savers’ access to investment information and raising their investment costs. The Institute’s Law and Research teams offered constructive recommendations to enable retirement savers to maintain access to the assistance they need at a price they can afford.

The final rule did indeed include some helpful changes toward that end. It clarifies some of the activities that trigger fiduciary status. It “grandfathers” recommendations on investments acquired before the rule comes into effect. And it simplifies some conditions of the Best Interest Contract exemption, which sets standards that retirement service providers must meet to offer advice for compensation.

Yet the overarching structure of the rule and its exemptions remain—as do ICI’s concerns about how they will affect retirement savers. Like the proposals, the final rule does not have a sound economic rationale. Nor does it shield those engaging in common exchanges of information that so many savers rely on—such as exchanges with call-center representatives, at walk-in centers, and on websites—from fiduciary status and possible legal exposure.

With the first compliance date fast approaching in April 2017 and full compliance required by January 2018, ICI is engaging closely with members, DOL staff, and other stakeholders to comb through the rule’s many changes and prepare for the challenges of implementing them. Working groups of operations professionals at ICI member firms



As part of ICI’s advocacy on the DOL fiduciary rule, President and CEO Paul Schott Stevens appeared before Congress to testify about its shortcomings.

are leading the way, focusing on how fund complexes, intermediaries, and service providers can best develop product strategies, business models, and related practices to support retirement savers in the rule’s environment.

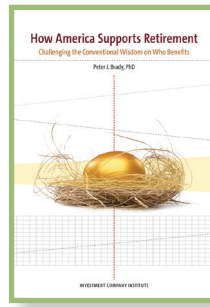
ICI also is advocating for a simpler alternative to the rule: a fiduciary standard adopted through congressional legislation that applies to all financial services providers for all investment accounts. Such a standard would provide strong statutory protections to all investors seeking financial advice, while avoiding the complexity of a stand-alone regulatory regime applied only to retirement savings.

With its final rule, the DOL has ushered in a new world of investment advice for retirement saving. Millions of American workers and retirees are sure to feel its sweeping effects—as will mutual funds, the nation’s most important retirement savings vehicle.

The Institute’s goals in the months and years ahead are clear: smooth the implementation process, monitor the market, measure the rule’s effects, and press for changes if the rule fails to work in investors’ best interests. ICI will remain fully committed to making this new world as easy as possible for members to navigate—and as beneficial as possible for the investors they serve. ✨

## Challenging the Conventional Wisdom on Who Benefits from the US Retirement System

As part of its mission to promote sound, well-informed public policies, ICI published *How America Supports Retirement: Challenging the Conventional Wisdom on Who Benefits*, written by ICI Senior Economist Peter J. Brady. Released in January to glowing reviews, the groundbreaking book culminates years of hard work by Brady and ICI Research.



Brady's innovative work is the first to use a consistent metric—estimates of tax expenditures—to give a comprehensive view of how Social Security and tax deferral work together to provide retirement resources to American workers. The findings demonstrate that the full system of government support for retirement is indeed progressive and show that tax proposals to limit or fundamentally change tax deferral could actually make government's support for retirement less fair.

Brady first presented his findings at a standing-room-only event hosted by the American Enterprise Institute (AEI). He then followed this debut with a series of blog posts on *ICI Viewpoints* and presentations at the Savings and Retirement Foundation, the Retirement Industry Trust Association Conference, the Tax Economist Forum, and the Treasury Department's Office of Tax Analysis.

*How America Supports Retirement* also tackles some of the pervasive myths about who benefits from the US retirement system today,

underscoring the often-overlooked strengths and successes of the country's voluntary, employer-based retirement system. A quick look at myths versus facts includes the following:

**MYTH:** The current tax system provides an “upside-down” incentive to save.

**FACT:** An income tax creates *disincentives* to save. Tax deferral reduces those disincentives and equalizes the incentive to save across workers of all incomes.

**MYTH:** Higher-earning workers get more benefits from tax deferral because they face higher marginal tax rates and thus get more “bang for the buck” for each dollar contributed.

**FACT:** Higher-earning workers benefit more from tax deferral not because they get larger benefits per dollar, but because they contribute more dollars.

**MYTH:** The American retirement system is regressive—its benefits are tilted heavily toward the upper reaches of the income scale.

**FACT:** Overall, the benefits of the American retirement system are progressive. When benefits are measured as a percentage of lifetime earnings, lower earners benefit more from Social Security, while higher earners benefit more from tax deferral. The combined benefits of the two programs, however, are proportionately higher for lower-earning workers.\*

To download the book, read the *ICI Viewpoints* blog series, or watch the AEI presentation video, visit [www.ici.org/whobenefits](http://www.ici.org/whobenefits).



*“Peter Brady shows how Social Security and tax incentives combine to benefit all working Americans. I urge policymakers on both sides of the aisle to take note of Pete’s valuable and insightful analysis.”*

SENATOR ORRIN G. HATCH  
PRESIDENT PRO TEMPORE OF THE UNITED STATES SENATE  
AND CHAIRMAN OF THE SENATE FINANCE COMMITTEE

**PETER J. BRADY**  
Senior Economist  
Investment Company Institute





# State-Run Retirement Programs for Private-Sector Workers Create New Risks for Taxpayers and Savers

Millions of Americans save for retirement using employer-sponsored plans that offer tax advantages and excellent investment options. Yet more can be done to offer retirement saving opportunities to private-sector employees who lack access to such plans at work. ICI is working to build support for bipartisan reforms at the federal level that would make it less costly for employers to sponsor retirement plans.

Regrettably, policymakers in many state capitals are taking a different approach—one fraught with risks for savers and taxpayers. Legislatures in California, Connecticut, Illinois, Maryland, and Oregon have enacted so-called Secure Choice laws to establish state-run retirement programs for private-sector workers whose employers do not offer retirement plans. If these plans continue to proliferate, employers and workers could confront a patchwork of savings programs lacking the strict federal protections mandated for private employers' retirement plans. Over the past year, ICI launched extensive efforts to help state and federal policymakers identify and understand these risks.

### WARNING AGAINST UNINTENDED CONSEQUENCES

For example, in March, ICI submitted extensive comments to the California Secure Choice Retirement Savings Investment Board outlining deep flaws in the state's feasibility analysis. ICI's research showed that California had likely overestimated participation and contributions while underestimating administrative costs—potentially exposing taxpayers to enormous costs.

In a separate letter to Governor Jerry Brown in August, ICI detailed the economic and legal risks posed by Secure Choice to the state. In addition to reiterating concerns raised in the March letter, ICI explained how the costs of complying with the Employee Retirement Income Security

Act of 1974 (ERISA), the tax code, and federal securities laws could run the program further into the red and expose the state government to significant liabilities. The Institute warned that savers automatically enrolled in the plan would see higher fees and fewer investment options than would be available with competitive plans in the private sector.

ICI warned of similar risks to Colorado in a letter to the Colorado House Finance Committee, saying that its plan may similarly fail to consider the range of likely events that could raise the program's costs and undermine its viability.

### WORKING TO PROTECT THE INVESTOR

Unfortunately, these state-based efforts gained support from the US Department of Labor, which in August adopted a rule to exempt such state-run plans from ERISA. Commenting on the proposal in January, ICI warned that a blanket ERISA exemption could lead to state programs that lack critical protections—including reporting to federal agencies, disclosures to participants and beneficiaries, and strict fiduciary standards—designed to prevent mismanagement and other abuses.

ICI will continue to raise awareness about the risks of state-run retirement proposals and to advocate for solutions at the national level that will create better savings opportunities for all Americans. Federal proposals for open multiple employer plans, for example, would lift current restrictions and enable unrelated small businesses to join together to form retirement plans. Another idea would allow creation of "Simpler" 401(k) plans that would include fewer rules than full 401(k) plans or SIMPLE individual retirement accounts—reducing red tape and eliminating matching requirements, making them less expensive to provide. \*



## Communicating the Benefits of Tax-Deferred Retirement Saving

Individual retirement accounts (IRAs) are the largest single component of Americans' resources for retirement, with \$7.5 trillion in assets in mid-2016. Still, ICI research shows that workers are not taking full advantage of the benefits of regular contributions to IRAs: fewer than one in 10 traditional IRA owners contributed to their accounts in tax year 2014. Instead, IRAs are largely funded through rollovers from qualified retirement distributions rather than through regular contributions.

To promote the benefits of IRAs, ICI and its educational affiliate, the ICI Education Foundation, launched a media campaign to encourage savers to make IRA contributions for the 2015 tax year. The promotion, which began in March and ran up to the tax-filing deadline on April 18, leveraged print and digital media to raise awareness of the tax advantages of IRAs, as well as the other benefits of using them to save for long-term goals.

The campaign used eye-catching graphics and engaging posts on social media to reach the followers of influential journalists and outlets in the retirement space, resulting in more than 350,000 views and 5,500 clicks for ICI's materials. In a parallel promotion, posts to the newly launched Facebook page for the ICI Education Foundation reached more than 14,000 people and garnered nearly 800 likes.



The campaign also included a column by Sarah Holden, ICI's senior director of retirement and investor research, that appeared in more than 1,000 web and print publications, including the *Boston Globe*, the *Arizona Republic*, the *Minneapolis Star Tribune*, the *Denver Post*, the *San Jose Mercury News*, and the *Milwaukee Journal Sentinel*. Holden also authored "Three Reasons Why You Should Consider an IRA," an *ICI Viewpoints* post explaining three key features that make IRAs a valuable tool for retirement savings:

- » access to tax incentives, regardless of income;
- » flexible structure, with traditional and Roth IRA options; and
- » ability to preserve the tax benefits of a 401(k) or other employer-sponsored retirement account, when these assets are rolled into an IRA.

Other communications efforts around retirement focused on creating digital content, including infographics, to share on social media and the ICI website. One of these infographics, the "Roadmap to Retirement" (see [www.ici.org/roadmap](http://www.ici.org/roadmap)), explores how different components—Social Security, employer-sponsored retirement plans, and IRAs—combine to create a strong retirement system. The infographic communicates four ways that policymakers can build on those strengths to expand access to retirement saving, and explains Americans' overwhelming support for tax-deferred retirement savings vehicles.

In the coming year, ICI will continue to find new and engaging ways to reach policymakers, regulators, academics, the media, and the public on retirement issues. \*



*"Traditional IRAs provide all workers—regardless of income—with access to tax incentives to save for retirement. Tax deferral can help you build a nest egg over time by putting off taxes until you retire. And the flexible structure of IRAs provides Americans with choices when it comes to their retirement savings."*

SARAH HOLDEN  
SENIOR DIRECTOR OF RETIREMENT AND INVESTOR RESEARCH  
INVESTMENT COMPANY INSTITUTE



## EXCHANGE-TRADED FUNDS



**JENNIFER CHOI**  
Associate General Counsel  
Investment Company Institute



**SHELLY ANTONIEWICZ**  
Senior Economist  
Investment Company Institute

### The Role of ETFs in Today's Markets

*A conversation with Jennifer Choi, associate general counsel, and Shelly Antoniewicz, senior economist, about exchange-traded funds (ETFs) and their role in today's markets.*

**ETFs have grown tremendously over the past decade. What is driving this growth?**

**ANTONIEWICZ:** Growth in ETFs has been remarkable—as of June 2016, nearly 1,700 US ETFs had \$2.2 trillion in assets. Fewer than 400 had \$423 billion in assets at the end of 2006. There are a number of reasons. Institutional investors are using ETFs more because they find them a convenient way to implement strategic and tactical investment approaches. Financial advisers increasingly prefer to be paid directly by clients and are using ETFs more because they fit well in this business model. The introduction of bond ETFs and so-called smart beta ETFs also has played a role—in the past five-plus years, investors have, on net, bought \$263 billion in shares of bond ETFs and \$262 billion in smart beta ETFs.

**What have we learned about the disruptions that occurred on August 24, 2015, when the prices of some equity ETFs diverged from their underlying securities?**

**CHOI:** Inconsistencies in market structure rules and in exchanges' opening and reopening processes contributed

to the morning's volatility, when more than 300 securities experienced nearly 1,300 trading halts.

Specifically, different limit up-limit down bands between the futures and cash equity markets, along with disparate opening and reopening processes across the primary exchanges after trading halts, and dissimilar parameters for clearly erroneous trades and limit up-limit down orders contributed to the uncertainty in the markets. Triggered stop-loss orders, and market orders—which demand liquidity at any price—also played a key role in pulling prices of some securities down below their fundamental or underlying values.

**ANTONIEWICZ:** All of the factors that Jennifer noted reduced price transparency and information flow—critical components of the ETF arbitrage mechanism—for a minority of domestic equity ETFs. Because the arbitrage mechanism was temporarily impaired for these ETFs, price declines—driven largely by sell-order flow—were far steeper than those of their underlying securities.

One thing is clear, however: the events of August 24 did not indicate a problem with the ETF structure itself.





## ETF Use Is a Worldwide Phenomenon

Global interest in ETFs during the last decade has been spurred by many of the same features that make ETFs attractive to investors in the United States—transparency, the ability to trade throughout the day, and access to specific markets or asset classes. Globally, there were nearly 4,700 ETFs with \$3.2 trillion in assets as of July 2016, up from 718 ETFs with \$573 billion at year-end 2006. Europe, which has the second-largest ETF marketplace, saw ETF assets grow from \$94 billion to \$511 billion in the past nine and a half years. In the Asia-Pacific region (excluding Japan, where central bank activity may have skewed the market), assets in ETFs increased from \$18 billion at year-end 2006 to \$119 billion as of July 2016. Canada’s ETF market also has expanded rapidly in recent years.\*

### GLOBAL ETF ASSETS BY REGION

Billions of dollars

	YEAR-END 2006	YEAR-END 2015	JULY 2016	AVERAGE ANNUAL GROWTH (2006–2015)
United States <sup>1</sup>	\$408	\$2,052	\$2,272	19.7%
Europe <sup>2</sup>	94	487	511	20.1
Asia-Pacific (ex. Japan) <sup>2</sup>	18	115	119	22.9
Japan <sup>2</sup>	35	134	182	16.1
Canada <sup>2</sup>	13	65	81	19.6
Latin America <sup>2</sup>	3	5	5	5.8
Middle East/Africa <sup>2</sup>	2	4	5	8.0

<sup>1</sup> ETFs registered under the Investment Company Act of 1940.

<sup>2</sup> ETFs with an open-end mutual fund structure, excluding exchange-traded products with grantor trust, partnership, notes, and depository receipt structures.

Sources: Investment Company Institute and ETFGI

Internationally focused ETFs, bond ETFs, and the majority of domestic equity ETFs traded without difficulties that morning.

### What’s currently being done about these market challenges, and what role is ICI playing?

**CHOI:** Work is being done on a variety of fronts, and changes are being made incrementally. Three major exchange groups recently announced plans to harmonize key functions of the US equity markets, including their reopening processes, to enable them to become more resilient during times of extreme volatility.

**ANTONIEWICZ:** Efforts also are being made to educate retail investors and their financial advisers about the risks of using market and stop-loss orders, which can expose investors to choppy markets and cause investors to absorb heavy losses—as was the case for some investors on August 24.

### ICI analysis of ETF trading in the aftermath of the United Kingdom’s vote to leave the European Union shows that prices of domestic ETFs stabilized quickly. What was the difference between the “Brexit” experience and August 24?

**ANTONIEWICZ:** Though the Brexit vote was a shock, US market participants reacted somewhat less negatively on June 24, 2016—the day after the UK voted to leave the EU—than they did on August 24, when they were faced with news of slowing GDP

growth in China. At the open on June 24, domestic equity and bond ETFs traded at modest discounts, reflecting some initial selling pressure. But these gaps closed rapidly as the arbitrage mechanism was able to function effectively. In contrast, multiple trading halts and disorderly reopenings on August 24 hampered the arbitrage function for some domestic equity ETFs.

**CHOI:** In addition, by June 24, exchanges had taken some steps to try to mitigate some of the factors that contributed to volatility on August 24. NYSE Arca, for example, loosened the “collars” in its reopening process, making ETFs less likely to experience trading halts.

### Some critics have claimed that bond ETFs offer an “illusion of liquidity.” Is there any evidence to support that?

**ANTONIEWICZ:** No. Critics continue to say that we are just one investor panic away from a bond ETF meltdown. They speculate that secondary market trading in bond ETFs will collapse, forcing redemptions of bond ETF shares and subsequent sales of underlying bonds—which, in turn, will trigger a vicious downward spiral in bond prices. Yet this theory has repeatedly been disproven—during the Taper Tantrum of 2013, during the turmoil in the high-yield bond market in late 2015, on August 24, and after the Brexit vote. In each of these instances, sellers of bond ETFs found willing buyers in the secondary market and there was no flood of redemption requests.\*





# Analyzing Regulatory Proposals in the Financial Markets

Because ICI members engage in the financial markets on behalf of millions of retail investors, they have a compelling interest in ensuring that regulations governing market structure are transparent, efficient, and fair. These overarching principles guided ICI's advocacy on a number of market-related initiatives throughout the past year.

The Securities and Exchange Commission (SEC), for instance, is considering improvements to the “maker-taker” system used by exchanges and other equity trading venues to encourage liquidity. Critics have charged that the current model—which offers brokers incentives to route orders to trading venues based on the fees and rebates at each venue—reduces price transparency, impairs the quality of execution of fund orders, and needlessly increases market complexity.

### IMPROVING THE SYSTEM

In its efforts to improve the maker-taker system, ICI in January pressed the SEC Equity Market Structure Advisory Committee to initiate a pilot program that would assess how the current fee model affects trading in the most highly liquid stocks. This would reveal how investors might benefit from a market structure that removes broker incentives, the Institute said.

ICI took action again in February, voicing strong support for an SEC proposal on the regulation of alternative trading systems (ATS) that offer trading in national market system (NMS) stocks, backing the idea of standardized disclosures, and recommending ways to improve transparency. The initiative, said ICI, would enhance funds' ability to determine whether a particular NMS stock ATS provides a fair market for funds' orders and thus would empower funds to make more informed routing decisions.

Improving how equity markets respond to unexpected volatility is another important effort for the buy-side. For example, severe price moves in hundreds of securities on August 24, 2015, were driven by a lack

of harmonization and coordination between trading venues, and overly complex rules. The Institute made several recommendations to the SEC to simplify the rules governing market halts and ensure that they are implemented consistently across different venues (see page 16).

ICI also offered support for an SEC proposal to improve transparency and efficiency in equities and options markets by creating a consolidated audit trail (CAT) for market trades. The Institute warned, however, that the Commission's proposal failed to provide adequate information security, potentially leaving funds' confidential information vulnerable to breach. ICI continues to work with the SEC to advocate for stringent data security standards, and is asking the Commission to give a range of industry participants—including fund advisers—a seat at the table in CAT governance discussions.

### IMPROVING TRANSPARENCY

ICI also has been working with stakeholders throughout the financial industry to improve transparency, which will help funds and their managers evaluate how broker-dealers route institutional orders. In July, the SEC proposed a rule to expand the requirements of retail order disclosures; ICI submitted supportive comments in September.

In the coming months, several proposals on the rulemaking agenda may still move forward. ICI expects the SEC to finalize work on amendments to Regulation ATS and proposals for order-handling rules, as well as implementation of the CAT. Institute staff expect the Commission to continue its evaluation of limit up-limit down orders, which, if poorly designed, can contribute to market volatility. The SEC and other regulators are expected to continue work on new requirements for the Treasury markets. ICI will monitor these and other developments closely, and continue to ensure that the buy-side perspective is well represented. \*



### Supporting the Growth of EU Capital Markets

One of the European Commission's economic goals is to foster stronger sustainable growth by diversifying funding sources and integrating the region's capital markets through its Capital Market Union (CMU) initiative. When realized, the CMU will present many benefits for funds and their investors, including a broader range of investment opportunities for US fund managers with global portfolios and more efficiencies in trading and investing in European stocks.

Two of the key priorities for the CMU are removing cross-border barriers to capital market development and increasing both institutional and retail investment. These priorities are especially relevant for funds, and ICI Global engaged on several related proposals, including a consultation on the cross-border distribution of funds across the European Union and a green paper on retail financial services.

In its response to the consultation, ICI Global recommended that the European Commission take four steps to make it easier to distribute funds across borders:

- » simplify and converge authorization and notification requirements for cross-border UCITS;

- » develop a harmonized marketing process for selling UCITS funds;
- » create a single pan-EU private placement regime to facilitate the distribution of securities to professional investors; and
- » adopt regulatory frameworks that encourage and accommodate the use of financial technology to distribute regulated funds.

In its reply to the European Commission's green paper on retail financial services, ICI Global made a number of recommendations to enhance retail investors' access to regulated funds, including removing barriers to the cross-distribution of funds, developing regulatory approaches that support investors' use of technology, changing tax regulations to achieve tax neutrality and enhanced tax relief for cross-border funds, and prioritizing the creation of a pan-European personal pension (PEPP) product.

This last suggestion is particularly important, because a well-designed PEPP would enable investors to access funds on a cross-border basis and help develop deeper capital markets.\*

### BRINGING MARKET PARTICIPANTS TOGETHER

Participants in securities markets around the world are facing a host of regulatory developments, structural changes, compliance issues, and other challenges. As in years past, ICI brought market participants together, in the United States and through ICI Global, to share information and examine trends.

In February, attendees of ICI's 16th annual Capital Markets Conference in New York engaged with regulators and industry leaders about how best to enhance the equity markets and address the challenges facing fixed-income markets. Stephen Luparello, director of the SEC's Division of Trading and Markets, and Robert Colby, chief legal officer for the Financial Industry Regulatory Authority, provided insights on these topics, while a range of breakout sessions gave participants a deeper look at structural changes affecting the buy-side.

In December, more than 100 senior leaders from all sectors of the financial industry convened in London for ICI Global's fourth annual Trading and Market Structure Conference. The conference provided a space to discuss the rapid globalization of the fund industry, the cross-border effects of rules governing trading and market structure, and the effects of global regulatory changes in the equity markets, the over-the-counter derivatives markets, and fixed-income markets.

During her keynote address, Susanne Bergstraesser, chair of the Standing Committee on Secondary Markets of the International Organization of Securities Commissions (IOSCO) and a senior director at Germany's Federal Financial Supervisory Authority, known as BaFIN, explained the evidence-based approach that IOSCO is taking as it approaches liquidity issues, particularly those involving bond funds.\*



## A Growing Need for Global Advocacy

The globalization of fund investing has accelerated in recent decades, as sweeping changes in technology and human society have enabled funds and their investors to take advantage of investment opportunities around the world. Today, the fund industry manages more than \$39 trillion in assets worldwide.

Regulation, too, has gone global. National regulators increasingly meet with their counterparts from other jurisdictions and regions, reacting to and following rules implemented in other parts of the world. In this environment, it is critical that funds have an effective advocate with a global perspective operating across borders—which is why ICI's Board of Governors launched ICI Global five years ago.

### PROVIDING EFFECTIVE ADVOCACY

Part of ICI Global's value lies in its ability to foster a multilateral exchange of information among regulators for the benefit of members worldwide. For example, this past year, ICI Global engaged with the International Organization of Securities Commissions (IOSCO) and national authorities in Asia and Europe on international discussions about fund liquidity, including implications of the liquidity risk management proposal put forth by the US Securities and Exchange Commission (SEC). At the same time, ICI Global helped the SEC better understand how some funds outside the United States use swing pricing, and why swing pricing would pose challenges for US funds (see page 6).

ICI Global's value also lies in its strong presence in the United States, Europe, and the Asia-Pacific region, which enables ICI to quickly grasp regional and international policy developments, help its members assess these policies, and advocate on their behalf. This presence also makes it easier for ICI Global to help members understand and navigate geopolitical events. For example, after the United Kingdom voted to leave the European Union, ICI Global quickly gauged the potential implications and responded by creating a task force that is helping members respond to the challenges—and opportunities—presented by Brexit.

Perhaps ICI Global's greatest value lies in its proven ability to tackle diverse issues that have emerged since its inception. For example, ICI Global:

- » secured equivalent treatment for regulated funds under both the Foreign Account Tax Compliance Act (FATCA) and the Volcker Rule, ensuring that these funds would not be hamstrung by unintended consequences of the statutes;
- » protected fund investors from adverse tax consequences by leading industry opposition to the European financial transaction tax (FTT), chairing the Business Advisory Group to the Organisation for Economic Co-operation and Development (OECD) on Global FATCA, securing industry-specific guidance in OECD Base Erosion and Profit Shifting (BEPS) action items, and helping members recover improperly withheld foreign taxes;
- » engaged forcefully in the global debate on the regulation of derivatives, including fighting for global mutual recognition of exchanges and for sensible margin arrangements;
- » helped persuade the Financial Stability Board (FSB), at least temporarily, to set aside work on methodologies to identify regulated funds and their managers for possible designation as global systemically important financial institutions, and instead focus on industry activities and practices, with increased leadership from capital markets regulators;
- » met with policymakers around the world to help them better understand fund and investor behavior during times of market stress and refute the misguided theory that fund investors can cause destabilizing outflows;
- » championed the global development of funds and defined contribution plans as alternative solutions for pensions and long-term savings challenges around the world, and developed a strong relationship with the OECD to position the fund industry as a thought leader on pension reform;
- » engaged with thought leaders in Asia about the design of retirement systems;



## Staying Ahead of the Curve

The nature of asset management is changing: funds' activities are becoming more global and policymakers' rules are extending beyond borders. To succeed in this increasingly international industry, "asset managers must commit to having a much higher level of knowledge and sophistication about the jurisdictions, transnational entities, and regulatory bodies that oversee them," said F. William McNabb III, chairman and CEO of Vanguard and chairman of ICI.

Speaking at the opening of ICI's 2016 General Membership Meeting in May, McNabb explained how an "alphabet soup of international regulatory agencies" is affecting funds and their investors. From provincial and national bodies to regional and global authorities, he said, regulators from different parts of the world are looking at similar issues—issues that matter to every ICI member, including derivatives, liquidity, taxes, and the nature of financial advice. Policymakers are discussing these issues in international bodies, and national regulators are being introduced to new ideas and approaches. He further explained that banking regulators often exercise great influence in these organizations—leading to proposals that may not take into account the unique features of asset management or regulated funds.

Fund companies need help to "navigate this global landscape," McNabb said—and, fortunately, no organization is better equipped than ICI to help them. This is due, he explained, to three of the Institute's unique features:

**History.** ICI has a 75-year track record of working collaboratively with regulators to ensure that fund regulations represent the best interests of mutual fund investors.

**Approach.** ICI has a well-earned reputation among regulators and policymakers for the breadth and depth of its research, for its fact-based policy analysis, and for addressing challenges through an active search for solutions.

**Resources.** ICI is already doing important work around the world through ICI Global.

- » supported the development of cross-border fund agreements between Asia-Pacific countries to deepen capital markets and provide more options to investors; and
- » led work with IOSCO on best practices for fighting cyberthreats in asset management.



Speaking at ICI's 2016 General Membership Meeting, ICI Chairman Bill McNabb, chairman and CEO of Vanguard, emphasized the value of ICI's global engagement with an "alphabet soup of international regulatory agencies."

From successfully advocating against financial transaction taxes in the European Union, to providing policy expertise on Asia-Pacific fund passport initiatives, to explaining why certain liquidity management tools are not appropriate for US funds, ICI Global has effectively responded to a wide range of issues important to all funds, no matter where they are based or where they operate, McNabb told the GMM attendees.

In a global environment, explained McNabb, it is critical that funds have access to ICI Global—a team of experts in London, Hong Kong, and Washington who can quickly grasp regional and international policy developments, help funds assess how those policies could affect them, and have the knowledge and access to be able to effectively advocate on behalf of funds early in the regulatory process.

The launch of ICI Global in 2011 came "at just the right time," McNabb said. "ICI has prospered—and helped its members—for 75 years by staying ahead of the curve. Now, that curve goes around the world—and ICI must, too." \*

With the industry's interests bound ever more tightly to global trends, funds must engage with policymakers on a global stage. ICI has long pursued an active international agenda to advance the interests of funds and their investors. ICI will pursue its international work through ICI Global and continue to effectively advocate on behalf of all of its members, worldwide, in the years to come. \*



### IDC Steps Up for Directors as New Challenges Loom

Strong governance has been a major factor in the modern fund industry's 75-plus years of success, and that governance has been driven by a key principle: management manages and directors oversee. Fund independent directors are best positioned to represent shareholder interests when they stay out of the on-the-ground, day-to-day work of fund management, and instead provide oversight and independent perspective.

Yet in recent years, regulatory trends have blurred that sharp distinction. A pair of recent Securities and Exchange Commission (SEC) rule proposals—one to reform how funds manage liquidity risk, and another to mandate how funds can use derivatives—have sparked debate about the appropriate responsibilities for fund boards. In theory, no one disputes that the board's role should be one of oversight, not management. But in practice, the Commission now appears to be interpreting that role differently than independent directors do.

#### SUPPORTING THE DIRECTOR PERSPECTIVE

At every turn in this debate, the Independent Directors Council (IDC) has advocated forcefully in support of the director perspective: both proposals inappropriately assign directors responsibilities that fall squarely in the realm of fund management.

**Liquidity risk management.** Concerned that the SEC's proposal in this area was asking directors to do too much, IDC asked the Commission to clarify that boards' oversight of its proposed liquidity risk management program would be no different than their oversight of other areas of portfolio management and fund operations. It also pushed the Commission to base any evaluation of board actions in overseeing such programs on a "reasonable business judgment" standard.

**Derivatives.** While expressing support for the SEC's call for boards to oversee funds' use of derivatives, IDC sought changes to ensure that the requirements don't place

responsibility on boards for management functions, or ask them to engage in deeper analysis than an oversight role allows.

IDC communicated to members about these efforts through educational webinars and held panels at its two premier events—the Fund Directors Conference and the Fund Directors Workshop—that examined how the new responsibilities could affect a board's relationship with its adviser.

#### BUILDING A COMMON UNDERSTANDING

Demonstrating the strength of its convictions, later in the year IDC wrote a supplemental letter to the SEC expressing the need for a common understanding of the types of responsibilities that fit with fund directors and management. IDC urged the Commission to hold a roundtable examining the issue, and outlined three factors that should be used as a starting point:

**Potential conflict of interest.** The Investment Company Act of 1940 requires that fund boards include independent directors primarily to oversee matters that could involve a potential conflict between the interests of the fund and those of the adviser. If the matter at hand does not present such a conflict, it does not warrant heightened independent scrutiny by a fund board.

**Fund compliance program.** New regulatory requirements already are subject to funds' compliance programs, which are diligently overseen by fund boards. If a fund's compliance program can adequately address the regulatory concern in question, the SEC should avoid imposing specific approval responsibilities on the fund's board.

**Director expertise.** Fund directors do not have the deep subject matter expertise that fund managers do. If a new regulatory responsibility would require directors to develop and maintain such expertise, it should not be imposed on them.



## IDC at Work Abroad

Fund governance issues hit the international stage in summer 2016, when the Central Bank of Ireland (CBI) proposed a new “location rule” designed to ensure it has adequate access to the key managers, directors, and records of fund management companies. The rule would require that at least two directors of every fund management company—or at least three if the CBI deems the company to be riskier—live in Ireland, and that at least two-thirds of every company’s directors and key managers live in the European Economic Area.

In a joint response, IDC and ICI Global urged the CBI not to adopt the proposal, explaining that the rule would not help the bank further its goal. The main reasons are simple:

- » Given today’s means of communicating and sharing data, the CBI can easily connect with any fund management company, no matter where its key managers and directors are physically located.

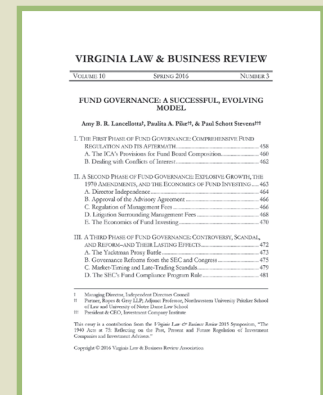
- » Limiting the pool of available directors and key managers could needlessly disqualify top candidates, harming fund investors.
- » Other leading fund jurisdictions, including the United States, have enjoyed tremendous success with far less prohibitive residency requirements.
- » The restrictions would hinder the global growth of Ireland’s fund industry, as well as efforts to enhance cross-border fund business.

IDC and ICI Global stand ready to work with the CBI as it considers the many responses to its consultation. After the consultation process is complete, fund management companies will have one year to comply with any new rules or guidance. \*

## FUND GOVERNANCE: A SUCCESSFUL, EVOLVING MODEL

The spring 2016 issue of the *Virginia Law & Business Review* contained a special article examining why the unique system of governance outlined in the Investment Company Act of 1940—though sometimes overlooked—has been one of the most important factors in the fund industry’s tremendous growth.

ICI’s Paul Schott Stevens and IDC’s Amy Lancellotta teamed with Paulita Pike, partner at Ropes & Gray, to tell the story of how fund governance has evolved over nearly a century, and then look ahead to today’s regulatory environment and how it could affect fund governance in the coming years. To read the full article, visit [www.ici.org/uva](http://www.ici.org/uva). \*



Drawing the oversight-management line correctly is crucial for the future of fund governance—and, ultimately, for the success of fund shareholders. Failure to do so could set directors up for failure and expose them to greater liability, alter the composition and dynamic of fund boards in a way that would make them less effective, and divert their focus from the areas where they add the most value.

The Commission’s final liquidity risk management rule, issued in October, included many of IDC’s recommendations. IDC remains hopeful that the final derivatives rule, expected soon, will do the same. Yet work in this area is by no means complete. A forthcoming SEC proposal on stress testing for funds, for example, could be one of many regulations to test the boundaries of directors’ oversight role in the year ahead. \*





## OPERATIONS



**MARTY BURNS**  
Chief Industry Operations Officer  
Investment Company Institute

### Doing What’s Best for the Industry, for the Benefit of Shareholders

*Chief Industry Operations Officer Marty Burns discusses the burgeoning regulatory requirements facing fund industry operations teams, and how ICI is bringing together disparate groups to overcome common challenges.*

Given the number of new proposals and regulations coming out of the Securities and Exchange Commission [SEC] and the Department of Labor [DOL], the operations teams at ICI member companies have a lot on their plates. Let’s start by looking at the efforts surrounding new regulations for money market funds, which came into effect in October.

This has been a huge, multiyear effort involving hundreds of people: member representatives on four working committees, staff from across the Institute in almost every discipline—operations, research, legal, government affairs, communications—and outside stakeholders, such as broker-dealers, service providers, and transfer agents.

This reform is a fundamental change to how money markets are administered and processed. Very broad in scope, it forced changes to how shareholders can invest in money funds, the systems used to manage the business, and the interaction with business partners—in essence,

it affected every aspect of the money market industry. And our efforts have extended beyond October 14, the compliance date—we’re continuing to monitor the situation and look for areas where we can improve practices and find further efficiencies.

**Speaking of complex and wide-ranging, the DOL’s fiduciary rule has an even more compressed implementation schedule. What are the challenges you’re facing there, and how are you confronting them?**

Yes, we’ve got some incredibly tight deadlines on this one. The first “effective date” is in April 2017, with the final effective date in January 2018. But April is the important month, because industry stakeholders have said we’ve got to have most policies and processes in place by then. So we’ve got a very short runway to get everything done.

We’re following an approach similar to what we did with money market funds. There are five working groups—four



## Meeting Global Cybersecurity Challenges Through Collaboration

The Internet spans the globe—and so too does cybercrime. With the asset management industry becoming ever more global and relying increasingly on technology to move information quickly, investment funds must remain vigilant against hackers and other criminals. To help asset managers better understand the evolving nature of cyberthreats and how they can protect themselves, ICI Global held a series of events in Tokyo, Hong Kong, and London.

**TOKYO.** On April 13, ICI Global and the Investment Trusts Association, Japan cohosted a half-day seminar featuring Yumi Manita, former assistant director of the cybercrime division at the National Police Agency of Japan, and Peter Salmon, senior director of operations and technology at ICI. Nearly 150 participants learned about the importance of developing sound incident-response plans and why strong relationships with national enforcement officers are a critical element of such plans.

**HONG KONG.** The latest trends in cyberthreats, defensive strategies, and ways to improve information security were the focus when ICI Global hosted a similar seminar on April 15. ICI’s Salmon also spoke at this event, as did Stephen Po, senior director of the intermediaries supervision department for the Securities and Futures Commission, and Joe Lai, executive director of technology and operations for J.P. Morgan Asset Management.

**LONDON.** Hacking trends took center stage at ICI Global’s second annual forum, which featured Phil Warren, head of operations for the information security division at the Bank of England. Also appearing was Tony Cole, vice president and global government chief technology officer of FireEye, who examined the evolution of cyberattacks, and Wolf Richter, a principal at McKinsey, who emphasized the importance of identifying key assets and protecting them before addressing other information security issues. ✨

topic-specific working groups, and one working group focusing on the changes that involve DTCC [Depository Trust & Clearing Corporation], because those changes permeate the work being done by the others. It’s a huge undertaking—more than 400 people across all of the groups, from all the same players I mentioned previously.

Two areas in particular are going to be the real sticking points. First of all, brokers or other intermediaries who advise retirement savers either will have to offer a Best Interest Contract or they will have to have “levelized” compensation—charging a flat fee, no matter what funds or other products they recommend. We don’t know which approach they’re going to choose, so we have to prepare for both.

Related to this are the product changes or adjustments that funds will need to make. Will funds create new share classes where the fund doesn’t collect sales charges, meaning it’s up to the broker to determine the fee structure for its services with its individual clients? Or will funds have to offer broker-specific share classes? If it’s not approached correctly, the latter approach could dramatically expand the number of share classes each fund will have to offer, making them more costly and more difficult for funds to manage.

Whatever is decided, this will create a huge need for data transmission, because more information will have to flow back and forth between brokers and funds, and be disclosed. The brokers are going to have to have it; the funds are going to have to have it; all

of this stuff has to interact. Operationally, this means you’ve got to manage new data flow, new products, and new share classes that come out, and figure out how to exchange information efficiently. And all of the systems to manage that essentially need to be up and running by April!

### Wow. So, that’s the first “sticking point” when it comes to the fiduciary rule—what about the second?

The other big area involves what are called orphaned accounts. Small accounts that currently are registered with the funds under the name of the broker-dealer could end up being “orphaned” because of the fiduciary responsibilities imposed by the DOL rule. Broker-dealers likely are going to find that the cost of compliance obligations will render many small accounts financially unviable.

Let’s say an individual retirement account owner holds five funds in a broker-dealer account, with less than \$2,000 in each fund, and the broker-dealer decides that it won’t continue to service accounts with less than \$10,000. At that point, the broker-dealer will say to the funds, “We’re signing off as the broker of record. They’re all yours.” Each fund will become the recordkeeper for the corresponding shareholder account, and the investor will now be dealing with five funds when before they dealt only with a single broker-dealer.

*continued on the next page*





## OPERATIONS

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There likely will be tens of thousands of such accounts once the fiduciary rule is implemented, with all kinds of customer-service, legal, regulatory, and compliance obligations that the funds will need to deal with.

Relatively few of these transfers happen now, so the current process is pretty manual. Given the volume we'll be looking at, that will have to change—so that's another challenge we're working on.

**On top of these two big regulations, there are other issues and initiatives that operational teams are dealing with, such as the initiative to shorten the settlement cycle to trade date plus two days, or T+2.**

Yes. Our target date for implementing that initiative is September 5, 2017, which is an ambitious goal, but we'll make it. ICI is cochairing the Industry Steering Committee with SIFMA [the Securities Industry and Financial Markets Association], and working closely with DTCC and other stakeholders to coordinate efforts. We're facilitating communications and addressing issues that are raised as funds and brokers start to put their own systems in place and make their changes. We're also working with the exchanges, of course.

And we're working with regulators. Because a shorter settlement cycle will enhance US market structure, improving safety and efficiency for investors, officials at the SEC have expressed their support for the move—in fact, they recently released a formal proposal to officially change the settlement date, so we'll be reviewing and commenting on that. We're also working with federal banking and commodities regulators, and with self-regulatory organizations, to make sure that all their pieces are aligned come next September. It's a lot of work, but I'm confident we'll get there.

**And of course, fund operations teams are constantly looking to improve processes, to become more efficient and effective for the benefit of shareholders. These trains have to run on time, no matter how many big initiatives are concurrently coming through.**

That's absolutely true. There are a lot of things on the horizon—for example, all the reporting and disclosure changes that will have to be implemented as the SEC releases the final rules coming out of Chair Mary Jo White's agenda for asset management. There are all the control and data-integration and sharing issues that come along with fund industry initiatives to help prevent elder abuse, initiatives to ensure that shareholders don't mistakenly have assets taken by states that suddenly consider these assets abandoned, and initiatives to create a rational, standardized approach to the many different registration fees that mutual funds have to pay to be sold in a particular state.

But, hey—this is just what we do in operations. It's what we've always done. All of these moving parts have to operate together or the system doesn't work. I'm constantly impressed by the hard work and innovation coming out of the operations teams at our member companies. They are a tenacious bunch.

And fortunately, they are willing to work together, through ICI, to share their expertise. If there's an issue out there, we get all of the necessary people to come together to work it out. The great thing is, they'll do it because they're comfortable with ICI. They know we're looking for an effective solution—trying to do what's best for the industry, to make it even more efficient. Though we're representing our members, what we're doing in the end is what's best for the shareholders. And that's really what works for everyone.\*



*"If there's an issue out there, we get all of the necessary people to come together to work it out. The great thing is, they'll do it because they're comfortable with ICI....Though we're representing our members, what we're doing in the end is what's best for the shareholders. And that's really what works for everyone."*

MARTY BURNS  
CHIEF INDUSTRY OPERATIONS OFFICER  
INVESTMENT COMPANY INSTITUTE



## Creating Connections to Better Protect Shareholders

Over the course of several decades, information technology has brought enormous growth in efficiency and productivity to almost every industry, including asset management. But this increasing interconnection also has brought risks. Because of the information and assets it manages, the fund industry has long been a target of cybercriminals—which is why ICI has a long history of working with members to ensure that their information security practices are robust.

Though ICI's Technology Committee has made cybersecurity part of its agenda for two decades, ICI expanded its focus two years ago by creating a separate Chief Information Security Officer Advisory Committee (CISOAC), following that with the formation of the ICI Global Information Security Officer Committee a year later. The committees have been hard at work gathering data through surveys, helping members build relationships with law enforcement agencies, coordinating efforts with cybersecurity-focused organizations, and enabling members to share the latest intelligence through private meetings and public forums.

**Unique surveys.** The committees have conducted a number of surveys designed exclusively for ICI members, enabling member firms of all sizes to see how their information security programs compare to fund industry practices. Because no one else conducts surveys like this, they provide a unique tool for senior management

and boards to assess how resources are directed and to ensure that their cybersecurity program is appropriate for their size and risk profile. Results of the latest survey will be distributed to members by December.

**Connecting with law enforcement.** The committees have initiated open houses and other events around the world where member firms have been able to form a relationship with agencies such as the Federal Bureau of Investigation and Secret Service in the United States, the City of London Police and National Crime Agency in the United Kingdom, and the National Policy Agency and Cybercrime Control Center in Japan. This helps members build more robust incident-response plans, as they learn about the agencies' forensics capabilities, their expectations and needs during an investigation, and the members of their emergency-response teams. Equally important, it helps members educate agents about the important role that asset managers play in the financial system.

**Partnering with other organizations.** ICI and its technology-related committees have worked for a number of years with the Financial Services Information Sharing and Analysis Center (FS-ISAC). This year, the Institute forged a new information-sharing agreement with the National Cyber-Forensics and Training Alliance (NCFTA), a sophisticated threat- and vulnerability-analysis enterprise based in Pittsburgh that works with law enforcement agents from around the world.

**Bringing stakeholders together.** ICI also brought together a wide range of members and other stakeholders through committee meetings and popular public forums focusing on cybersecurity. The committee meetings are a "tremendous opportunity for members—especially medium- and smaller-sized members—to interact with a trusted network of peers," says Peter Salmon, ICI's senior director of operations and technology. He adds that the Institute also plans to expand its successful series of forums—which last year were held in London, Hong Kong, Tokyo, and Washington, DC—to new countries, building on the partnerships that ICI has already created. "Borders don't exist in cyberspace," explains Salmon. "The connections we're creating help everyone involved better protect their shareholders. The more members are involved, the better we all do." \*



Ellen Rinaldi, chief information security officer for Vanguard, welcomes attendees to ICI's 2015 Cybersecurity Forum. The event was one of many cyber-related gatherings held worldwide by the Institute during the year.



## GENERAL MEMBERSHIP MEETING

### Embracing Change

In May, ICI convened fund industry leaders, regulators, and policymakers for its 58th annual General Membership Meeting (GMM), fostering wide-ranging discussions about policy, politics, and the global regulatory environment. GMM also enabled attendees to sample a diverse offering of sessions from the Operations and Technology Conference, the Mutual Fund Compliance Programs Conference, and the Fund Directors Workshop, each running concurrently with GMM.

#### GLOBAL EXPANSION AND EVOLUTION

In his opening remarks, Thomas Faust, chairman of the GMM Planning Committee and chairman and CEO of Eaton Vance Corp., said that despite the disruptive change facing attendees, he remained confident that the industry and ICI are ready and able to deal with whatever comes: “Why this industry has been so successful through the decades is pretty simple—a nimbleness in responding to changing markets and regulatory conditions, the willing embrace of innovation and technology, and a relentless focus on doing what’s best for the investors we serve.”

F. William McNabb III, ICI chairman and Vanguard chairman and CEO, began his speech by saying, “My message is simple. What we do must be global in scope.” Trends decades in the making, he said, have created a world that is more interconnected than ever before. “To navigate that world,” McNabb explained, “ICI is going to need to grow and evolve. The good news is that no organization anywhere is better equipped to lead the effort than ICI” because of the Institute’s long track record of success, its collaborative and fact-based approach, and its successful and wide-ranging work through its international subsidiary, ICI Global.

For the annual GMM Policy Forum, ICI President and CEO Paul Schott Stevens led a question-and-answer session with Michael R. Bloomberg, founder of Bloomberg LP and three-term mayor of New York City. After reviewing the growth of his company, which he attributed to its dedication to customers and their needs, Bloomberg responded to questions about the economy, arguing that the influence of a rapidly changing world is being felt throughout the United States. Tensions over immigration and job displacement, for example, mean that some Americans are being drawn to populist political platforms that promise “equal results” rather than “equal opportunity.” These are “solvable problems,” he said, but Congress will need to look beyond partisan interests to focus on the needs of the population, and work together to create “rational fiscal and tax policies.”

#### DISRUPTION OR OPPORTUNITY?

One of the panels taking up the topic of change was “Investment Insights and Strategies,” featuring Krishna Memani, chief investment officer at OppenheimerFunds, and Liz Ann Sonders, senior vice president and chief investment strategist at Charles Schwab & Co., and moderated by Tyler Mathisen, coanchor of CNBC’s *Power Lunch* and *Nightly Business Report*. One of the elements of change they discussed was the demographic transition facing the industry—as Millennials get older, they will invest more, and have different expectations for investment advice. “The Millennials are a higher-tech generation,” Sonders said. “They don’t need a personal relationship, but they want answers immediately.”

At the GMM luncheon, Walter Isaacson, noted author and biographer, discussed technology in a wide-ranging discussion with William F. “Ted” Truscott, CEO of Columbia



*SEC Chair Mary Jo White called on GMM attendees to foster a culture in their organizations that “prioritizes responsibility and fairness, and asks first—and last—what is in the best interest of investors.”*

Threadneedle Investments. Isaacson, who wrote a best-selling biography of Steve Jobs as well as a book on the invention of the computer and the Internet, said that the fund industry should use technology to become more efficient—but also should be careful not to rely too much on equations and software. Investing, he argued, needs “human relationships and intuitive judgment that cannot be entirely replaced by an algorithm or crowdsourcing.”

Mary Jo White, chair of the Securities and Exchange Commission (SEC), spoke on the final day of GMM about her tenure at the SEC, the ambitious regulatory agenda she set in December 2014, and what the future might hold. She described what she saw as some of

the current regulatory challenges facing the fund industry, involving risk management, disclosure, exchange-traded funds (ETFs), cybersecurity, and portfolio pricing. White assured the capacity crowd that the SEC appreciated the “constructive suggestions” it had received from the industry and others on its proposed rules, and welcomed further input, calling on asset management executives to foster a culture in their organizations that “prioritizes responsibility and fairness, and asks first—and last—what is in the best interest of investors.” \*

*For more highlights from the meeting, visit [gmm.ici.org](http://gmm.ici.org).*



Michael Bloomberg, founder of Bloomberg LP and three-term mayor of New York City, answers a question posed by ICI President and CEO Paul Schott Stevens during the GMM Policy Forum.



SEC Chair Mary Jo White's comments during her fourth annual appearance at GMM generated intense media interest, as shown by the group of reporters waiting for her after her remarks.



At the GMM luncheon, noted author and best-selling biographer Walter Isaacson discussed trends in technology with William F. “Ted” Truscott, CEO of Columbia Threadneedle Investments.



Brian Langstraat (right), CEO of Parametric, moderates “Facing the Future: Fresh Perspectives,” with (from left) Leslie Walstrom, head of US marketing for Columbia Threadneedle Investments; Shundrawn A. Thomas, executive vice president for Northern Trust Asset Management; and Andrea L. Lisher, managing director of JPMorgan Asset Management.





### Increasing Engagement on Capitol Hill

ICI's Government Affairs program represents the interests of funds and their shareholders on a wide range of legislative issues—from tax and pension matters to potential changes to securities laws and cybersecurity policy. Institute staff provide elected policymakers and their aides with analysis of issues that are supported by ICI's unique research findings, legal assessment, and fund operations expertise.

Since 1985, ICI's political action committee (ICI PAC) has been a key component of the Institute's efforts to increase awareness among key lawmakers of fund-related issues, and to demonstrate the fund industry's support for elected officials who most closely work on issues that affect fund investing.

ICI's political program offers a number of ways for members to support elected officials. Employees of member companies 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 support from the employees of ICI member companies, by the end of August, ICI's political program had raised \$2.63 million for the 2016 election cycle.

Contributions in the 2016 cycle supported almost 200 legislators who hold positions on leading panels, including the Senate Finance Committee, the Senate Banking Committee, the House Ways and Means Committee, and the House Financial Services Committee.

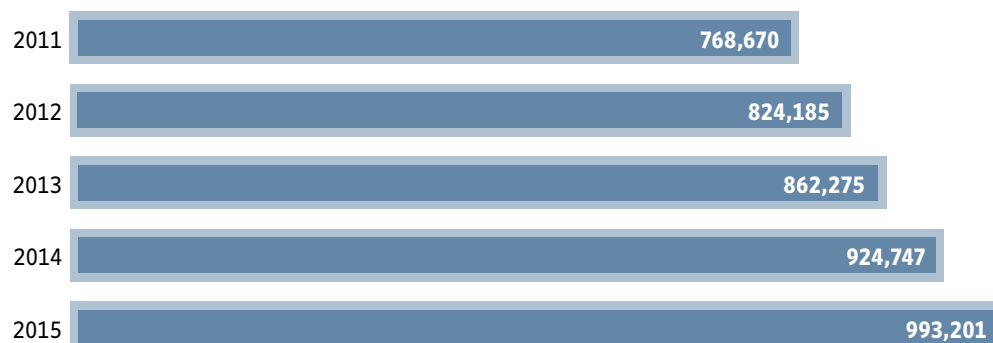
ICI also encourages member engagement on Capitol Hill by inviting fund industry practitioners to Washington, DC, to meet with policymakers. In May, members of the Institute's Board of Governors and other industry executives met with 40 leaders from both houses of Congress and both parties to discuss topical matters, such as the Department of Labor's fiduciary proposal, tax reform, financial stability, and other fund-related issues.

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. "Ted" Truscott, CEO of Columbia Threadneedle Investments, led the ICI PAC Board from May 2014 to October 2016. ICI Political Affairs Officer George F. Shevlin IV manages the day-to-day work. \*

*For questions about the ICI PAC Board or ICI PAC, contact George Shevlin at [george.shevlin@ici.org](mailto:george.shevlin@ici.org) or 202-326-5892.*

### ICI PAC Fundraising Grew Every Year over 2011-2015

2011-2015, DOLLARS





House Majority Whip Steve Scalise (R-LA) talks with Lloyd Wennlund (right), executive vice president of Northern Trust Global Investment, at an event held in Scalise's honor.



Kelly King Dibble of Northern Trust (left) and Joyce Brayboy of Goldman Sachs (right) stand with Representative Joyce Beatty (D-OH) at an ICI reception held in her honor.



Senator Heidi Heitkamp (D-ND) briefs attendees at a 2016 reception, while Paul Schott Stevens, ICI president and CEO (left), and Allen Huffman, ICI director for retirement security and tax policy, listen.



Representative Peter Roskam (R-IL) speaks with attendees at a 2016 event held in his honor.



Senator Richard Shelby (R-AL), chairman of the Senate Committee on Banking, Housing, and Urban Affairs, speaks with attendees at a 2016 event.



Robert Reynolds, president and CEO of Putnam Investments (left), speaks with (from left to right) Representative Richard Neal (D-MA); James Segel, former special counsel of the House Financial Services Committee; and Representative Ed Perlmutter (D-CO) at an ICI congressional reception.

## Governance and Finances

### GOVERNANCE

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 in the United States, similar funds offered to investors in jurisdictions worldwide, and their investment advisers and principal underwriters. The ICI president and staff report to the Institute's Board of Governors, which is responsible for overseeing the business affairs of ICI and determining the Institute's positions on public policy matters (see Appendix C, page 36).

ICI's Board of Governors is composed of 51 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 to 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 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 (see page 30). The ICI PAC Board includes nine governors, the treasurer of ICI PAC, and the Institute's president (ex officio). The Institute employs a staff of approximately 180 (see Appendix B, page 35).

ICI addresses the needs of investment company independent directors through the Independent Directors Council (see Appendix E, page 39). 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.

Eighteen standing committees, bringing together more than 1,800 industry professionals, guide the Institute's policy work. ICI standing committees perform a number of important roles, including assisting with formulation of policy positions, and gathering and disseminating information on industry practices (see Appendix D, page 38). In addition, 31 industry advisory committees, task forces, forums, and working groups with more than 2,600 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

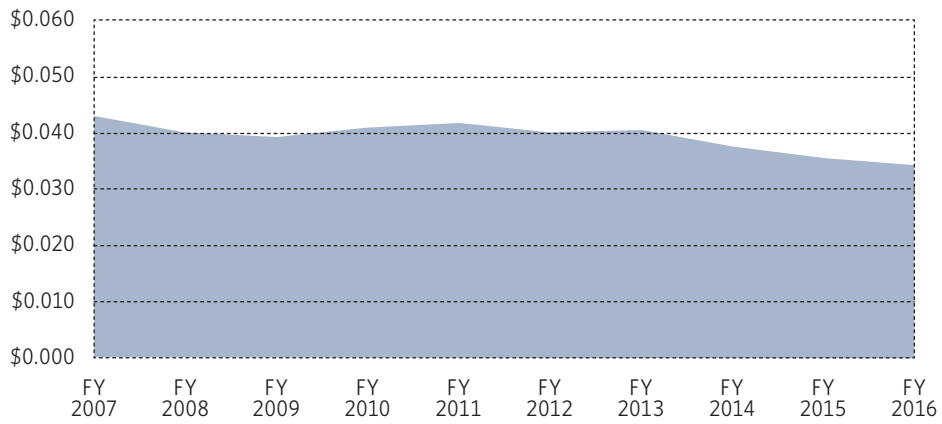
Throughout its history, the Institute has sought to prudently manage its financial affairs in a manner deemed appropriate by the Board of Governors, which is responsible for approving ICI's annual budget and its member net dues rate. The Board of Governors considers both the Institute's core and self-funded 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 to seek alternative sources of revenues, such as sales of publications, and strive to keep the level of dues relatively flat when compared to industry assets under management (see Figure 1). The significant majority of ICI's total revenues, 91 percent, comes from dues, investment income, royalties, and miscellaneous program sources. Similarly, by design, 93 percent of the Institute's total resources are devoted to core activities (see Figure 2).

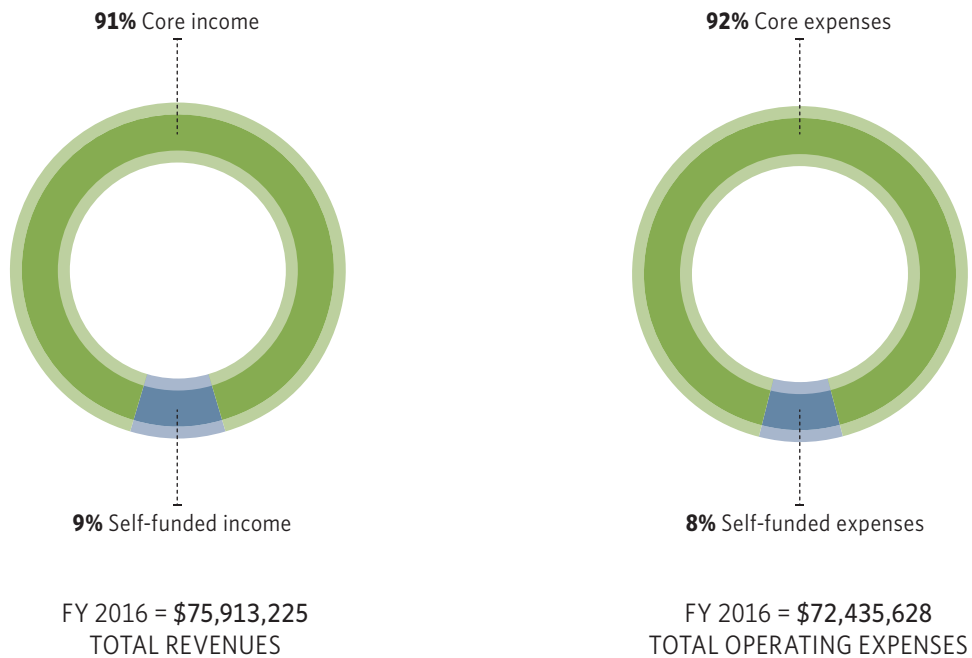
Core expenses support the wide range of initiatives described in this report. Self-funded activities (e.g., conferences, special surveys) are supported by separate fees paid by companies and individuals who participate in these activities. The financial goal for self-funded activities is that fees should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



**FIGURE 1**  
**Member Dues Relative to AUM Have Declined**  
 DUES PER \$10,000 OF ASSETS UNDER MANAGEMENT (AUM)



**FIGURE 2**  
**Member Dues Support Significant Majority of Core Activities at ICI**



# ICI Unaudited Financial Statements

## Statement of Financial Position

AS OF SEPTEMBER 30, 2016

### ASSETS

Cash and cash equivalents	\$1,226,252
Investments, at market value	60,431,019
Accounts receivable	969,927
Prepaid expenses	2,452,940
Other assets	1,019,485
Furniture, equipment, and leasehold improvements, net (less accumulated depreciation of \$12,165,516)	<u>4,591,436</u>
Total assets	<u>\$70,691,059</u>

### LIABILITIES AND NET ASSETS

#### LIABILITIES

Payroll and related charges accrued and withheld	4,708,990
Accrued pension liability	8,229,567
Accrued postretirement liability	15,023,953
Accounts payable and accrued expenses	3,710,869
Deferred revenue	838,186
Rent credit	2,996,323
Deferred rent	<u>4,788,822</u>
Total liabilities	<u>40,296,710</u>

#### NET ASSETS

Undesignated net assets	29,394,349
Board designated net assets	<u>1,000,000</u>
Total net assets	<u>30,394,349</u>
Total liabilities and net assets	<u>\$70,691,059</u>

## Statement of Activities and Changes in Net Assets

FOR THE YEAR ENDED SEPTEMBER 30, 2016

### CORE INCOME

Membership dues—US	\$62,711,805
Membership dues—ICI Global	3,398,286
Investment income	937,604
Royalty income	883,272
Program income	<u>1,338,604</u>
Total core income	<u>69,269,571</u>

### CORE EXPENSES

Administrative expenses	50,520,007
Program expenses	6,974,639
ICI Global expenses	5,993,975
Depreciation and lobby proxy tax	<u>3,235,489</u>
Total core expenses	<u>66,724,110</u>

Change in net assets—core	<u>2,545,461</u>
---------------------------	------------------

### SELF-FUNDED INCOME

Conferences	5,770,348
Other self-funded income	<u>873,306</u>
Total self-funded income	<u>6,643,654</u>

### SELF-FUNDED EXPENSES

Conferences	5,292,937
Other self-funded expenses	<u>418,581</u>
Total self-funded expenses	5,711,518

Change in net assets—self-funded	<u>932,136</u>
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Change in net assets from operations	3,477,597
Loss on currency conversion	(67,579)

Actuarial pension/postretirement plan loss	<u>(6,318,003)</u>
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Change in net assets	(2,907,985)
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Net assets, beginning of year	<u>33,302,334</u>
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Net assets, end of year	<u>\$30,394,349</u>
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These financial statements are preliminary unaudited statements as of September 30, 2016. Audited financial statements for the fiscal year ended September 30, 2016, will be available after February 1, 2017. To receive copies of the audited statements, please contact Mark Delcoco at 202-326-5974.

## APPENDIX B

# ICI Staff Leadership and Management

AS OF SEPTEMBER 30, 2016

### EXECUTIVE OFFICE

**Paul Schott Stevens**<sup>1,2,5</sup>  
President and CEO

**Peter H. Gallary**<sup>3</sup>  
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

### LAW

**David W. Blass**  
General Counsel

**Dorothy M. Donohue**  
Deputy General Counsel,  
Securities Regulation

**Sarah A. Bessin**  
Associate General Counsel

**Jennifer S. Choi**  
Associate General Counsel

**Kenneth C. Fang**  
Assistant General Counsel

**Linda M. French**  
Counsel

**George G. Gilbert**  
Counsel

**Rachel H. Graham**  
Associate General Counsel

**Jane G. Heinrichs**  
Associate General Counsel

**Tamara K. Salmon**  
Associate General Counsel

**Frances M. Stadler**  
Associate General Counsel and  
Corporate Secretary

**J. Matthew Thornton**  
Assistant General Counsel

**David M. Abbey**  
Deputy General Counsel,  
Retirement Policy

**Elena B. Chism**  
Associate General Counsel

**Shannon N. Salinas**  
Assistant General Counsel

**Keith D. Lawson**<sup>4</sup>  
Deputy General Counsel, Tax Law

**Karen L. Gibian**  
Associate General Counsel

### OPERATIONS

**Martin A. Burns**  
Chief Industry Operations Officer

**Linda J. Brenner**  
Director, Distribution Management  
and Operations

**Ahmed M. Elghazaly**  
Director, Securities Operations

**Joanne M. Kane**  
Director, Transfer Agency  
and Operations

**Jeffrey A. Naylor**  
Director, Operations and Distribution

**John F. Randall**  
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

**Matthew J. Beck**  
Senior Director, Media Relations

**Rachel W. McTague**  
Director, Media Relations

**Michael D. Morosi Jr.**  
Director, Media Relations

**Stephanie M. Ortals-Tibbs**  
Director, Media Relations

**Todd Bernhardt**  
Senior Director, Policy Writing  
and Editorial

**Miriam E. Bridges**  
Director, Editorial

**Christina M. Kilroy**  
Manager, Digital Communications,  
and Vice President, ICI Education  
Foundation

**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

**Sean S. Collins**  
Senior Director, Industry and  
Financial Analysis

**Rochelle L. Antoniewicz**  
Senior Economist

**Judith A. Steenstra**  
Senior Director, Statistical Research

**Sheila M. McDonald**  
Director, Statistical Research

### ADMINISTRATION

**Christopher E. Boyland**  
Senior Director and Information  
Technology Officer

**Vincent D. Banfi**  
Director, Systems Support  
and Operations

**Ramesh Bhargava**  
Director, Information Technology

**Paul R. Camarata**  
Director, Electronic Data Collection

**Mark A. Delcoco**  
Controller/Treasurer

**Patricia L. Conley**  
Director, Accounting

**Laurie A. Cipriano**  
Senior Director, Conferences

**Mary D. Kramer**  
Chief Human Resources Officer

**Suzanne N. Rand**  
Senior Director, Human Resources

**Anne S. Vandegriff**  
Director, Benefits

**Sheila F. Moore**  
Director, Office Services

**Michelle M. Kretsch**  
Senior Director, Membership

**Brent E. Newton**  
Director, Subscription Programs  
and Membership

### ICI GLOBAL

**Daniel F. Waters**  
Managing Director

**Qiumei Yang**  
CEO, Asia Pacific

**Patrice Bergé-Vincent**  
Managing Director, Europe

**Susan M. Olson**  
Chief Counsel

**Anna A. Driggs**  
Associate Chief Counsel,  
Retirement Policy

**Eva M. Mykolenko**  
Associate Chief Counsel,  
Securities Regulation

**Giles S. Swan**  
Director, Global Funds Policy

### INDEPENDENT DIRECTORS COUNCIL

**Amy B. R. Lancellotta**  
Managing Director

**Annette M. Capretta**  
Deputy Managing Director

**Lisa C. Hamman**  
Senior Associate Counsel

<sup>1</sup> Executive Committee of ICI's Board  
of Governors

<sup>2</sup> ICI PAC Board (ex officio)

<sup>3</sup> ICI PAC Board and Treasurer to ICI PAC

<sup>4</sup> Secretary to ICI PAC Board, Assistant  
Treasurer to ICI PAC, Political Compliance  
Counsel

<sup>5</sup> ICI Education Foundation Board



## Board of Governors

AS OF SEPTEMBER 30, 2016

**F. William McNabb III**<sup>2, 3, 4, 6, 7</sup>

ICI Chairman  
Chairman and CEO  
Vanguard

**Gregory E. Johnson**<sup>2, 7</sup>

ICI Vice Chairman  
Chairman and CEO  
Franklin Resources, Inc.

**Andrew Arnott**

President and CEO, John Hancock Investments  
John Hancock Financial Services, Inc.

**Ashok N. Bakhru**

Independent Director  
Goldman Sachs Funds

**Edward C. Bernard**<sup>1, 2, 6, 7</sup>

Vice Chairman  
T. Rowe Price Group, Inc.

**Dorothy A. Berry**<sup>2</sup>

Independent Director  
Professionally Managed Portfolios  
and PNC Funds

**David G. Booth**<sup>2</sup>

Chairman and Co-Chief Executive Officer  
Dimensional Fund Advisors LP

**Leonard P. Brennan**<sup>1</sup>

Chief Executive Officer  
Russell Investments

**Marie A. Chandoha**<sup>2</sup>

President and CEO  
Charles Schwab Investment Management, Inc.

**Robert Conti**<sup>1, 3</sup>

President  
Neuberger Berman Management LLC

**James E. Davey**<sup>1</sup>

President  
The Hartford Mutual Funds

**Thomas R. Donahue**

Chief Financial Officer and Treasurer  
Federated Investors, Inc.

**Kenneth C. Eich**

Chief Operating Officer  
Davis Selected Advisers, L.P.

**Nora M. Everett**<sup>1</sup>

President, Retirement and Income Solutions,  
and Chairman, Principal Funds  
The Principal Financial Group

**Thomas E. Faust Jr.**<sup>1, 2, 4</sup>

Chairman and CEO  
Eaton Vance Corp.

**Martin L. Flanagan**<sup>2</sup>

President and CEO  
Invesco Ltd.

**Paul K. Freeman**<sup>2, 5</sup>

Independent Director  
Deutsche Funds

**George C. W. Gatch**<sup>2, 3, 6</sup>

CEO, Global Funds Management  
and Institutional  
J.P. Morgan Asset Management

**William J. Hackett**<sup>1</sup>

Chief Executive Officer  
Matthews International Capital  
Management, LLC

**Brent R. Harris**<sup>4, 6</sup>

Chairman  
PIMCO Funds

**Diana P. Herrmann**

President and CEO  
Aquila Investment Management LLC

**Melody Hobson**<sup>2, 6</sup>

President  
Ariel Investments, LLC

**James A. Jessee**

President  
MFS Fund Distributors, Inc.

**Lisa M. Jones**

President and CEO  
Pioneer Investment Management USA Inc.

**Lawrence H. Kaplan**

Partner, General Counsel  
Lord Abbett & Co. LLC

**Alain Karaoglan**

Chief Operating Officer  
Voya Financial

**Robert M. Keith**

Head of Global Client Group  
AB

**Marie L. Knowles**

Independent Director  
Fidelity Fixed Income and Asset  
Allocation Funds

**Susan C. Livingston**<sup>1, 6</sup>

Partner  
Brown Brothers Harriman & Co.

**Shawn Lytle**

President  
Delaware Investments

**Susan B. McGee**

President and General Counsel  
U.S. Global Investors, Inc.

**James A. McNamara**<sup>2</sup>

President and CEO  
Goldman Sachs Mutual Funds

**Thomas M. Mistele**<sup>1, 2</sup>

Chief Operating Officer  
Dodge & Cox

**Charlie S. Morrison**<sup>2</sup>

President, Asset Management  
Fidelity Investments

**Mark D. Nerud**<sup>1</sup>

President and CEO  
Jackson National Asset Management LLC

**Barbara Novick**<sup>2</sup>

Vice Chairman  
BlackRock, Inc.

**Steven J. Paggioli**

Independent Director  
AMG Funds and Professionally  
Managed Portfolios

**Stuart S. Parker**

President  
PGIM Investments

**Karla M. Rabusch**

President  
Wells Fargo Funds Management, LLC

**Robert L. Reynolds**

President and CEO  
Putnam Investments

**James E. Ross**

Senior Managing Director and Global  
Head of ETFs  
State Street Global Advisors

## 2016 ICI Executive Committee



From left to right: Marie A. Chandoha, George C. W. Gatch, Lloyd A. Wennlund, Paul K. Freeman, Dorothy A. Berry, Thomas E. Faust Jr., Edward C. Bernard, William F. Truscott, Paul Schott Stevens, Charlie S. Morrison, F. William McNabb III, Mellody Hobson, James A. McNamara, David G. Booth, Thomas M. Mistele, Gregory E. Johnson, Barbara Novick, Martin L. Flanagan

**Laura T. Starks**<sup>1</sup>  
Independent Director  
TIAA-CREF Funds

**Arthur Steinmetz**  
Chairman, CEO, and President  
OppenheimerFunds, Inc.

**Joseph A. Sullivan**  
Chairman and CEO  
Legg Mason, Inc.

**Jonathan S. Thomas**  
President and CEO  
American Century Investments

**Garrett Thornburg**<sup>6</sup>  
Chairman  
Thornburg Investment Management, Inc.

**William F. Truscott**<sup>2, 4, 6</sup>  
Chief Executive Officer  
Columbia Threadneedle Investments

**Ralph F. Verni**  
Independent Director  
Eaton Vance Funds

**Bradley J. Vogt**  
Chairman  
Capital Research Company, Inc.

**Lloyd A. Wennlund**<sup>2, 6</sup>  
Executive Vice President and Managing Director  
Northern Trust Global Investments

**Jonathan F. Zeschin**  
Independent Director  
Matthews Asia Funds

<sup>1</sup> Governor on sabbatical

<sup>2</sup> Executive Committee member

<sup>3</sup> Audit Committee member

<sup>4</sup> Investment Committee member

<sup>5</sup> Chairman of the Independent Directors Council

<sup>6</sup> ICI PAC Board member

<sup>7</sup> ICI Education Foundation Board member

## APPENDIX D

### ICI Committees

AS OF SEPTEMBER 30, 2016

#### ICI STANDING COMMITTEES AND CHAIRS

##### ACCOUNTING/TREASURERS

**Toai Chin**  
Director of Fund Accounting Policy  
Vanguard

##### CHIEF COMPLIANCE OFFICER

**Nancy M. Morris**  
Chief Compliance Officer  
Wellington Management Company, LLP

##### CHIEF RISK OFFICER

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

##### CLOSED-END INVESTMENT COMPANY

**William Renahan**  
Senior Counsel  
Virtus Investment Partners

##### ETF (EXCHANGE-TRADED FUNDS)

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

##### INTERNAL AUDIT

**Kathleen Ives**  
Senior Vice President and Director  
of Internal Audit  
OppenheimerFunds

##### INTERNATIONAL

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

##### INVESTMENT ADVISERS

##### OPERATIONS

**Basil Fox**  
President  
Franklin Templeton Investor  
Services LLC

##### PENSION

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

##### PUBLIC COMMUNICATIONS

**Kristin Chambers**  
Global Head of Media Relations  
J.P. Morgan Investment  
Management, Inc.

##### RESEARCH

**Paul D. Schaeffer**  
Chief Curator  
IndexIQ ETF Trust

##### SALES AND MARKETING

**James A. Jessee**  
President  
MFS Fund Distributors, Inc.

##### SEC RULES

**John M. Zerr**  
Managing Director and  
General Counsel  
Invesco Advisers, Inc.

##### SMALL FUNDS

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

##### TAX

**Gregory K. Hinkle**  
Chief Financial Officer  
Dimensional Fund Advisors LP

##### TECHNOLOGY

**Joe Boerio**  
Senior Vice President and Chief  
Technology Officer  
Franklin Templeton Investments

##### UNIT INVESTMENT TRUST

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

#### ICI ADVISORY COMMITTEES AND CHAIRS

##### ABLE ACT WORKING GROUP

##### ACCOUNTING POLICY SUBCOMMITTEE

**Michael Hebert**  
Vice President and Director  
of Fund Oversight  
Eaton Vance Management

##### ADVERTISING COMPLIANCE ADVISORY

##### AML COMPLIANCE WORKING GROUP

##### BANK, TRUST, AND RETIREMENT ADVISORY

**James B. Waters**  
Vice President  
Goldman Sachs & Co.

##### BROKER/DEALER ADVISORY

**Scot P. Hawthorne**  
Managing Director  
J.P. Morgan Asset Management

##### CCO ADVISORY ISSUES SUBCOMMITTEE

**Francis V. Knox**  
Chief Compliance Officer,  
John Hancock Funds  
John Hancock Financial Services, Inc.

##### CHIEF INFORMATION SECURITY OFFICER ADVISORY

**Ellen Rinaldi**  
Principal, Enterprise Security  
Vanguard

##### COMPLIANCE ADVISORY

**Thomas Mistele**  
Chief Operating Officer  
Dodge & Cox

##### DERIVATIVES MARKETS ADVISORY

**William C. Thum**  
Principal  
Vanguard

##### END OF DAY PRICING FORUM

**Curt Ruoff**  
Managing Director, Global Head  
of Pricing  
BlackRock, Inc.

##### EQUITY MARKETS ADVISORY

**Matt D. Lyons**  
Senior Vice President and  
Global Trading Manager  
Capital Research & Management  
Company

##### ETF ADVISORY

##### 529 PLAN ADVISORY

##### FIXED INCOME ADVISORY

##### INTERNAL SALES MANAGERS ROUNDTABLE

##### INTERNATIONAL INVESTING SUBCOMMITTEE

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

##### INTERNATIONAL OPERATIONS ADVISORY

**Bilal Nasreddine**  
Senior Manager, Client Support  
Putnam Investments

##### MANAGEMENT COMPANY TAX SUBCOMMITTEE

##### MONEY MARKET FUNDS ADVISORY

**Peter Yi**  
Senior Vice President and Director  
of Short Duration Fixed Income  
Northern Trust Asset Management

##### MUNICIPAL SECURITIES ADVISORY

**Hugh D. McGuirk**  
Vice President  
T. Rowe Price Associates, Inc.

##### PENSION OPERATIONS ADVISORY

##### PRINCIPAL UNDERWRITERS WORKING GROUP

##### PRIVACY ISSUES WORKING GROUP

##### REGISTERED FUND CPO ADVISORY

**Tara W. Tilbury**  
Vice President and Chief Counsel,  
Asset Management  
Ameriprise Financial, Inc.

##### RISK ADVISORY

##### SECURITIES OPERATIONS ADVISORY

**Louis Rosato**  
Director, Investment Operations  
BlackRock, Inc.

##### TRANSFER AGENT ADVISORY

**Cary Fuchs**  
Senior Vice President  
Principal Funds

##### VARIABLE ANNUITY INSURANCE PRODUCTS ADVISORY

**Michael Mazza**  
Assistant General Counsel  
Northwestern Mutual



## APPENDIX E

### IDC Governing Council Members

AS OF SEPTEMBER 30, 2016

**Paul K. Freeman\***

IDC Chair  
Independent Director  
Deutsche Funds

**Julie Allecta**

Independent Director  
Forward Funds

**Ashok N. Bakhru\***

Independent Director  
Goldman Sachs Funds

**Kathleen T. Barr**

Independent Director  
William Blair Funds

**Dorothy A. Berry\***

Independent Director  
Professionally Managed Portfolios  
and PNC Funds

**James H. Bodurtha**

Independent Director  
BlackRock Funds

**Donald C. Burke**

Independent Director  
Duff & Phelps Funds

**David H. Chow**

Independent Director  
Market Vectors ETF Trust

**Bruce L. Crockett**

Independent Director  
Invesco Funds

**Diana M. Daniels**

Independent Director  
Goldman Sachs Funds

**Susan C. Gause**

Independent Director  
HSBC Funds  
MetLife Funds

**Keith F. Hartstein**

Independent Director  
Prudential Retail Funds

**Cynthia Hostetler**

Independent Director  
Aberdeen Investment Funds

**Leonade D. Jones**

Independent Director  
American Funds

**John P. Kavanaugh**

Independent Director  
MFS Funds

**Marie L. Knowles\***

Independent Director  
Fidelity Fixed Income and  
Asset Allocation Funds

**Thomas P. Lemke**

Independent Director  
AXA Premier VIP Trust  
J.P. Morgan Exchange-Traded Fund Trust  
SEI Funds

**Joseph Mauriello**

Independent Director  
Fidelity Equity & High Income Funds

**Joanne Pace**

Independent Director  
Oppenheimer Funds

**Steven J. Paggioli\***

Independent Director  
AMG Funds and Professionally Managed Portfolios

**Sheryl K. Pressler**

Independent Director  
Voya Funds

**Davey S. Scoon**

Independent Director  
Allianz Funds

**Erik R. Sirri**

Independent Director  
Natixis Funds

**Laura T. Starks\***

Independent Director  
TIAA-CREF Funds

**Ronald E. Toupin Jr.**

Independent Director  
Guggenheim Funds

**Ralph F. Verni\***

Independent Director  
Eaton Vance Funds

**Dawn M. Vroegop**

Independent Director  
MetLife Funds  
Driehaus Funds

**Jonathan F. Zeschin\***

Independent Director  
Matthews Asia Funds

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\* On ICI Board of Governors

## APPENDIX F

# ICI Global Steering Committee

AS OF SEPTEMBER 30, 2016

**Campbell Fleming**

ICI Global Steering Committee Chairman  
Global Head of Distribution  
Aberdeen Asset Management PLC

**Mark Armour**

Chairman of EMEA  
Invesco Perpetual

**Angela M. Billick**

Assistant Vice President and Head  
of Offshore Funds  
John Hancock Investments

**Richard Bisson**

President  
Nomura Asset Management UK Limited

**Clive Brown**

CEO, International  
RBC Global Asset Management

**Eddie Chang**

Chief Executive Officer  
China International Fund  
Management Co., Ltd.

**Chen Ding**

Chief Executive Officer  
CSOP Asset Management Limited

**Jan-Peter Dolf**

Managing Director  
Comgest

**Jiunn-Shyony Duh**

Chairman  
Fuh Hwa Securities Investment  
Trust Co. Ltd.

**Gregory P. Dulski**

Senior Corporate Counsel  
Federated Investors, Inc.

**Jing Feng**

Senior Advisor  
Bosera Asset Management Co., Ltd.

**Mark Flaherty**

Chief Investment Officer, UK  
Fidelity Management & Research  
Company, UK

**Hamish Forsyth**

President, Europe  
Capital Group Companies Global

**Toby E. Goold**

Managing Director  
Dodge & Cox Worldwide Investments Ltd.

**Massimo Greco**

Head of European Fund Business  
J.P. Morgan Asset Management (UK)  
Limited

**James S. Hamman**

Managing Director, Corporate  
Development/Legal  
Artisan Partners Limited Partnership

**Jamie Hammond**

UK CEO and Managing Director  
AllianceBernstein, Ltd.

**Meekal Hashmi**

Senior Global Counsel  
Affiliated Managers Group Limited

**Robert Higginbotham**

President, Global Investment Services  
T. Rowe Price International Ltd.

**Arnie Hochman**

Vice President, Legal  
TD Bank Financial Group

**Gaohui Huang**

Chief Executive Officer  
E Fund Management (HK) Co. Ltd.

**James D. Hughes**

Senior Counsel  
Waddell & Reed, Inc.

**Terry Johnson**

Head, International Sales  
Legg Mason Investments (Europe)  
Limited

**Dominik Kremer**

Head of EMEA and Latin America  
Distribution  
Columbia Threadneedle Investments

**Wen Li**

Chairman  
China Universal Asset Management  
Co., Ltd.

**Peter Lindqvist**

Chief Executive Officer  
Harvest Global Investments (UK) Limited

**Zhang Lixin**

Chief Executive Officer  
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

**John McCarthy**

Executive Vice President, Secretary,  
and General Counsel  
Nuveen Investments

**Lina Medeiros**

President of Distribution for UCITS  
MFS International (UK) Limited

**Bryan Melville**

Managing Director  
Coronation International Limited

**David Morley**

Business Development Director  
Eaton Vance Management (International)  
Limited

**James M. Norris**

Managing Director, International  
Operations  
Vanguard Asset Management Limited

**Andy Olding**

Head of EMEA Fund Administration  
Neuberger Berman Europe Limited

**Nicholas Phillips**

Head of EMEA Third Party Distribution  
Goldman Sachs Asset Management  
International

**Jed Plafker**

Executive Managing Director  
Franklin Templeton Investments

**Karla M. Rabusch**

President  
Wells Fargo Funds Management, LLC

**JungHo Rhee**

Chief Executive Officer  
Mirae Asset Global Investments  
(HK) Limited

**Tom Rice**

Chief Legal Officer  
PIMCO Europe Ltd.

**Elizabeth Samson**

Head of Product Development  
PGIM Investments

**Jonathan Schuman**

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

**Roger Thompson**

Chief Financial Officer  
Henderson Group plc

**Lodewijk van Setten**

Managing Director  
Morgan Stanley Investment  
Management Limited

**Liz Ward**

Chief Risk Officer, Global  
Asset Management and Group  
Managing Director  
UBS Asset Management (UK)

**Hidetoshi Yanagihara**

Chief Executive Officer  
Asset Management One International Ltd.

**Ben Y. B. Zhang**

Managing Director  
Hai Tong Asset Management (HK)  
Limited

**Xiaoling Zhang**

Chief Executive Officer  
China Asset Management (Hong Kong)  
Limited

## APPENDIX G

### ICI, IDC, and ICI Global Events

October 26–28, 2015	Fund Directors Conference <sup>1</sup>	Chicago
November 4, 2015	Closed-End Fund Conference	New York
November 5, 2015	ICI Cybersecurity Forum	Washington, DC
December 8, 2015	Global Trading and Market Structure Conference <sup>2</sup>	London
December 16, 2015	Securities Law Developments Conference <sup>3</sup>	Washington, DC
February 9, 2016	Capital Markets Conference	New York
March 13–16, 2016	Mutual Funds and Investment Management Conference <sup>4</sup>	Orlando
April 22, 2016	International Private Pension Systems Conference: Law and Practice <sup>5</sup>	Beijing
May 10, 2016	Assessing the New DOL Fiduciary Rule: Policy and Practical Challenges	Washington, DC
May 18–20, 2016	General Membership Meeting	Washington, DC
May 18–20, 2016	Operations and Technology Conference	Washington, DC
May 19, 2016	Fund Directors Workshop <sup>1</sup>	Washington, DC
May 19–20, 2016	Mutual Fund Compliance Programs Conference	Washington, DC
June 14, 2016	ICI Global Cybersecurity Forum	London
September 25–28, 2016	Tax and Accounting Conference	Palm Desert

<sup>1</sup> Sponsored by IDC

<sup>2</sup> Cosponsored by ICI and ICI Global

<sup>3</sup> Sponsored by the ICI Education Foundation

<sup>4</sup> Cosponsored by ICI and the Federal Bar Association

<sup>5</sup> Cosponsored by ICI Global, the Asset Management Association of China, and the Centre for International Social Security Studies at the Chinese Academy of Social Sciences (CISS CASS)



# Publications and Statistical Releases

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](http://www.ici.org/research). Participant-funded studies are not listed.

## Papers

### INDUSTRY AND FINANCIAL ANALYSIS

- » The Closed-End Fund Market, 2015, *ICI Research Perspective*, April 2016

### INVESTOR RESEARCH

- » Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2015, *ICI Research Perspective*, November 2015
- » Characteristics of Mutual Fund Investors, 2015, *ICI Research Perspective*, November 2015
- » Defined Contribution Plan Participants' Activities, First Half 2015, *ICI Research Report*, November 2015
- » Defined Contribution Plan Participants' Activities, First Three Quarters of 2015, *ICI Research Report*, February 2016
- » American Views on Defined Contribution Plan Saving, 2015, *ICI Research Report*, February 2016
- » Profile of Mutual Fund Shareholders, 2015, *ICI Research Report*, March 2016
- » 401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2014, *ICI Research Perspective*, April 2016
- » Defined Contribution Plan Participants' Activities, 2015, *ICI Research Report*, June 2016
- » The IRA Investor Profile: Roth IRA Investors' Activity, 2007-2014, *ICI Research Report*, August 2016
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- » Defined Contribution Plan Participants' Activities, First Quarter 2016, *ICI Research Report*, August 2016
- » What Does Consistent Participation in 401(k) Plans Generate? Changes in 401(k) Account Balances, 2010-2014, *ICI Research Perspective*, September 2016

### RETIREMENT RESEARCH

- » Who Benefits from the US Retirement System, *ICI Research Perspective*, November 2015
- » *The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans, 2013*, December 2015
- » The Role of IRAs in US Households' Saving for Retirement, 2015, *ICI Research Perspective*, February 2016
- » *The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at ERISA 403(b) Plans 2013*, May 2016
- » The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2015, *ICI Research Perspective*, July 2016

### INDEPENDENT DIRECTORS COUNCIL

- » *Overview of Fund Governance Practices, 1994-2014*, October 2015
- » *Fund Governance: A Successful, Evolving Model*, June 2016

### ICI GLOBAL

- » *Insights from the 2015 Global Retirement Savings Summit*, October 2015
- » *Insights from the 2015 Global Retirement Savings Conference*, February 2016

## Books

ICI's annual data and analysis resource, *2016 Investment Company Fact Book: A Review of Trends and Activities in the US Investment Company Industry*, provides current information and historical trends for US-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](http://www.icifactbook.org). The HTML version provides downloadable data for all charts and tables.

In *How America Supports Retirement: Challenging the Conventional Wisdom on Who Benefits*, ICI Senior Economist Peter J. Brady dispels myths about tax deferral and details how the current structure of the US retirement system is progressive and provides benefits to all American workers. Brady's innovative work was highly praised and its findings bear directly on today's pressing policy debates. The book and related materials are available at [www.ici.org/whobenefits](http://www.ici.org/whobenefits). For more information, see page 13.

## ICI Viewpoints

At *ICI Viewpoints*, ICI publishes analysis and commentary from Institute experts in economics, law, fund operations, and government affairs on the key issues facing funds, their shareholders, directors, and investment advisers. *ICI Viewpoints*, available on the Institute's website at [www.ici.org/viewpoints](http://www.ici.org/viewpoints), also offers short recaps of select ICI comment letters, as well as notes on ICI news and events.

## Statistical Releases

The most recent ICI statistics and an archive of statistical releases are available at [www.ici.org/research/stats](http://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.

### » ESTIMATED ETF FLOWS

A weekly report that provides aggregate estimates of net issuance of equity, hybrid, bond, and commodity 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 REGULATED OPEN-END FUND DATA

A quarterly report that includes assets, net sales, and number of regulated open-end funds in countries worldwide.

### » TAXABLE MONEY MARKET FUND PORTFOLIO (N-MFP) DATA

A monthly report aggregating taxable money market fund data from the SEC's Form N-MFP that includes holdings by type of fund, type of security, and home country of issuer. It also includes weighted average maturities, weighted average lives, and daily and weekly liquid assets.

## 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. ICIEF, which focuses on initiatives in the greater Washington, DC, area, has granted funding for teacher training in personal finance, as

well as funding for adult and youth investment-education programs online, on public television, and in workplaces, public libraries, and job-training programs. ICIEF also participates in nationwide coalitions, conferences, and government events devoted to financial education.



The ICI Education Foundation's "Investing Road Trip" is an educational exhibit—with an accompanying interactive scavenger hunt—for middle school students in Junior Achievement's Finance Park program. The program reaches approximately 23,000 students per year in Prince George's County, Maryland, and Fairfax County, Virginia.

ICIEF has long been a sponsor of a Junior Achievement program in Fairfax County, Virginia, known as Finance Park. The program provides a unique experience for middle school students to learn about personal finance topics, including budgeting and investing. This year, the foundation expanded its partnership with Junior Achievement in two key ways: by integrating ICIEF investor-education materials more seamlessly into the Finance Park program and by expanding into a location in Prince George's County, Maryland.

ICIEF's new contribution to Finance Park is its "Investing Road Trip," an educational exhibit and scavenger hunt that provides an engaging and interactive way for students to learn investing concepts. Students learn that investing requires planning and may involve risks, but is the best way to achieve long-term financial goals, such as paying for college, buying a home, and saving for retirement. \*

## APPENDIX J

### ICI Mutual Insurance Company

ICI Mutual Insurance Company, RRG, 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 ICI Mutual. \*



# ICI by the Numbers

AS OF SEPTEMBER 30, 2016

**21,000+**

PEOPLE REACHED BY  
*ICI DAILY* EACH DAY

**536**

ICI MEMORANDA  
ISSUED TO MEMBERS

**20**

RESEARCH  
PUBLICATIONS  
PUBLISHED

**305**

STATISTICAL  
RELEASES POSTED

**59**

STATEMENTS, NEWS  
RELEASES, AND  
EDITORIALS ISSUED

**111**

COMMENT LETTERS  
SUBMITTED TO  
REGULATORS

**5,000+**

ATTENDEES  
AT ICI EVENTS

**156,000+**

PAGE VIEWS FOR ICI'S  
*INVESTMENT COMPANY*  
*FACT BOOK*

**57,000+**

DOWNLOADS OF ICI  
STATISTICAL DATA FILES

**59**

*ICI VIEWPOINTS*  
PUBLISHED

**893,000+**

UNIQUE VISITS TO  
WWW.ICI.ORG

**2.24**  
MILLION

PAGE VIEWS ON  
WWW.ICI.ORG



## FINANCIAL MARKETS

**CAT NMS Plan:** In May 2016, the SEC proposed a national market system (NMS) plan to implement a consolidated audit trail (CAT) to track all order and trade information in the listed equities and options markets. The CAT would provide the SEC and self-regulatory organizations with comprehensive and timely data necessary to help them oversee the markets and ensure their fair, efficient, and orderly operation.

*ICI submitted a comment letter in July supporting the SEC's efforts, urging it to enhance the information security measures of the plan to ensure adequate protection of fund data, and urging it to include managers of registered funds on the committee that will operate the new plan.*

**Enhancing Equity Market Transparency:** The SEC proposed two rules that have the potential to increase equity market transparency. In November 2015, it proposed a rule that would require alternative trading systems for stocks to make public standardized and comprehensive disclosures, and in July 2016, it proposed changing its rules to require broker-dealers to disclose information about their institutional order handling practices.

*ICI supported these proposals. The first would greatly increase transparency into the relationships that broker-dealers have with these systems and the operations of these trading systems. The second would enhance funds' ability to evaluate the performance of trading venues and broker-dealers.*

**Pilot Program on Maker-Taker Fees:** Trading venues that employ the maker-taker fee model (prevalent in today's equity markets) typically pay a liquidity rebate to market participants who "make" liquidity by posting limit orders, and charge an access fee to market participants who "take" liquidity through market orders. Although this system is widely used, critics say it reduces price transparency and creates incentives that potentially conflict with broker-dealers' best execution obligation.

*In January, ICI submitted a comment letter to the SEC's Equity Market Structure Advisory Committee expressing these concerns and urging the committee to recommend that the SEC implement a pilot program to determine how maker-taker fees affect investors, including funds. In July, the committee recommended that the SEC conduct a pilot program closely resembling ICI's recommendation.*

**Reforming Single Security Trading Halts:** On August 24, 2015, US equity markets experienced extraordinary market volatility after a sell-off in Asian equities spread to other markets. Severe price moves in hundreds of securities—including exchange-traded products (ETPs)—triggered more than 1,300 trading halts. In some cases, these halts occurred within a minute of the start or reopening of trading.

*In November 2015, ICI submitted a letter urging the SEC to promote greater harmonization of the processes that exchanges use to reopen trading after a halt, reconsider the operation of its rules on clearly erroneous trades, and work with other regulators to ensure that trading halts are implemented consistently across markets, including the futures markets.*

## FUND REGULATION

**Abandoned Property:** ICI continued to express its concern about aggressive escheatment practices, in which states can prematurely seize shareholder accounts by claiming they have been abandoned.

*Thanks to ICI efforts, provisions that will better protect mutual fund investors from premature escheatment of their accounts were included in the Uniform Law Commission's 2016 rewrite of the Uniform Unclaimed Property Act. ICI plans to work with states to enact favorable provisions from the act.*

**Advertising:** The CFA Institute issued draft guidance that would require registered funds' offering documents and marketing material to include specified disclosures if those funds are part of firms that claim compliance with Global Investment Performance Standards. Separately, FINRA proposed—and the SEC approved—amendments that would reduce filing burdens on FINRA member firms when they communicate with the public.

*ICI's comment letter opposed the CFA Institute's draft guidance, objecting to how the proposed standards would complicate compliance with already-robust fund performance reporting and disclosure requirements, and explaining that the draft guidance would be burdensome and costly for firms to implement. ICI strongly supported the FINRA proposal, and recommended additional modifications that would reduce FINRA filing burdens further without diminishing investor protection.*

**Anti-Money Laundering (AML) Programs:** The Financial Crimes Enforcement Network (FinCEN) proposed rules requiring SEC-registered investment advisers to establish AML programs and report suspicious activity to FinCEN.

*Though supporting the need to protect the US financial system from money laundering and terrorist financing activities, ICI's comment letter recommended ways to accomplish this while avoiding duplicative regulation (mutual funds already are subject to similar requirements).*

**CCO Resource Page:** Since the SEC first mandated in 2003 that all mutual funds and all fund advisers appoint a chief compliance officer (CCO), ICI has focused on supporting CCOs.

*ICI has continued to refine and supplement the information we provide to members of ICI's Chief Compliance Officer Committee through a dedicated resource page on ICI's website. This page gives CCOs access to document requests that the SEC uses in conducting its routine and specialized examinations, including, for example, a Brexit review that was conducted in the wake of this summer's referendum. It also includes members' compliance policies and procedures in a variety of substantive areas, including 12b-1 and cybersecurity. The resource page is available to members on the Chief Compliance Officer Committee page.*

**State Blue Sky Fees:** Mutual funds are required by state law to pay "blue sky" fees to each state before selling mutual fund shares in the state. Because Texas has no cap on its fees, the fees that mutual funds pay there are some of the highest in the nation.

*Years ago, ICI was successful in getting Texas to reduce the fees it imposes on money market funds. However, the SEC's recent reforms to money market fund rules put this fee reduction in jeopardy. ICI convinced Texas to revise its fee schedule for money market funds, to preserve reduced fees for these funds. ICI's advocacy is expected to save money market funds—and, thus, shareholders—millions of dollars.*

**Transfer Agent Rule Reform:** Because the SEC's rules regulating transfer agents were last amended almost 40 years ago, the SEC in December 2015 sought input on how to modernize these rules.

*ICI filed a letter with the SEC asking that it adopt a separate rule set for mutual fund transfer agents that reflects the unique nature of their business. The Institute also recommended updates to various SEC rules to better align them with today's business needs and operations.*

## INTERNATIONAL

**Asia Region Funds Passport (ARFP):** In June 2016, a Memorandum of Cooperation (MoC) on the establishment and implementation of the

ARFP came into effect. Representatives from Australia, Japan, Korea, New Zealand, and Thailand signed the MoC; activation of the ARFP will occur after any two participating economies complete the implementation of domestic arrangements.

*ICI Global urged participating economies to ensure tax neutrality and certainty, supported an increase in the number of participating economies, and encouraged coordination of requirements for passported funds.*

**EU Remuneration Guidelines:** European Union (EU) regulators adopted guidelines on remuneration policies under the fourth iteration of the Capital Requirements Directive (CRD IV) and UCITS V. The provisions on proportionality and application of multiple directives to corporate groups continue to raise significant concerns for members.

*In meetings with various EU and Member State policymakers, as well as in multiple EU consultations, ICI Global continued to advocate against a restrictive interpretation of proportionality and inflexible application of the CRD IV remuneration requirements to entities within a group.*

## OPERATIONS

**PCAOB Auditor Reporting Model Reproposal:** In August 2013, the Public Company Accounting Oversight Board (PCAOB) issued a proposal to make sweeping changes to the auditor's report, intended to make it more informative to investors. Among other things, the proposal would require auditors to report "critical audit matters," which are especially challenging, subjective, or complex matters addressed in the audit of the company's financial statements. Under the proposal, the auditor's report would identify each critical audit matter, describe the considerations that led the auditor to conclude the matter was critical, and refer to the relevant financial statement accounts and disclosures.

*In December 2013, ICI and IDC filed a joint comment letter arguing against application of critical audit matter reporting to audits of investment company financial statements, given the extensive disclosures that funds already provide in their prospectus and shareholder reports. In May 2016, the PCAOB issued a revised proposal exempting investment companies from critical audit matter reporting, consistent with ICI and IDC's recommendation. In August 2016, ICI and IDC filed a second comment letter supporting the decision to exempt investment company audits from critical audit matter reporting.*

**Shortened Settlement Cycle:** The financial services industry has been working for several years to shorten the settlement cycle to trade date plus 2 days (T+2)—a vision now scheduled to be realized in September 2017.

*In December 2015, the Industry Steering Committee, led by cochairs ICI and the Securities Industry and Financial Markets Association, released a comprehensive implementation guide and timeline for industry stakeholders. In September 2016, the SEC issued its proposal to amend the applicable rule for shortening the settlement cycle, as recommended by ICI and others. This rule, the linchpin to other regulatory action, provides regulatory certainty for continuing industry efforts to achieve T+2 settlement.*

## RETIREMENT

**Retirement Plan Reform:** Congressional leaders on both sides of the aisle have indicated a strong interest in making improvements to defined contribution (DC) plans and the retirement system as a whole.

*ICI continued to advocate for a set of targeted proposals to improve the already successful DC plan system and better equip workers with the tools needed to build a secure retirement. The proposals would expand coverage, participation, and savings rates in DC plans and individual*

*retirement accounts; improve the delivery and quality of information to plan participants and sponsors; enhance flexibility in determining how and when to tap retirement savings; and eliminate unnecessary burdens in plan administration, enabling plans to function more effectively.*

## TAX

**Financial Transaction Taxes (FTTs):** Proposals in Europe and the United States to tax financial transactions would harm fund investors and reduce market efficiency.

*ICI and ICI Global have strongly opposed FTT-related proposals in the United States, as well as the FTT being considered by 10 EU countries. Efforts to educate policymakers and others about the drawbacks of such taxes have led to a marked slowdown in the adoption process; ICI will continue to push back against related proposals.*

**OECD Initiatives:** Three Organisation for Economic Co-operation and Development (OECD) initiatives—the Common Reporting Standard (CRS), Base Erosion and Profit Shifting (BEPS), and Treaty Relief and Compliance Enhancement (TRACE)—will affect funds significantly. Proposals in Europe for public disclosure of the OECD's country-by-country (CBC) reports would harm managers.

*ICI Global continues to chair an OECD business advisory group, working closely with governments to implement the CRS's effective globalization of the US Foreign Account Tax Compliance Act (FATCA) reporting regime and to provide investors with the benefits of TRACE. Several CRS concerns for US funds have been resolved favorably. Extensive comments submitted by ICI Global have been reflected in several BEPS "tax fairness" papers. ICI Global has met with tax authorities and others to oppose the public disclosure of managers' CBC reports.*

**Money Market Fund Reform Tax Issues:** The Internal Revenue Service (IRS) and the Treasury Department issued several important pieces of guidance regarding the tax implications of the SEC's money market fund rule for investors and funds.

*The guidance responds to several requests made by ICI. First, the IRS provided an alternative diversification requirement for variable insurance product funds that become government money market funds, alleviating concerns that such funds would not be able to satisfy existing tax requirements. Second, the IRS issued guidance addressing the tax treatment of adviser contributions made to money market funds in preparation for compliance with the new money market fund rule. Third, the IRS and Treasury finalized regulations on use of a simplified method of tax accounting, called the net asset value (NAV) method, by investors in floating NAV money market funds. The final regulations also include several other changes recommended by ICI, including extending the NAV method to investors in stable NAV funds that charge a liquidity fee and clarifying the use of the NAV method by regulated investment companies for excise tax purposes.*

**Tax Reclaims:** US funds are seeking to recover several billion dollars of taxes withheld in violation of European law (through illegal restrictions on the free movement of capital) or countries' tax treaties with the United States (through insurmountable documentation requirements).

*ICI Global has actively supported members' efforts to recover these taxes in France, Germany, the Netherlands, Poland, Spain, and Sweden (on free-movement grounds), and in Switzerland (on treaty grounds). ICI Global's efforts have included meeting with government officials, preparing supporting materials, testifying in court, and coordinating with members' counsel. Substantial amounts have been recovered.*



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The Investment Company Institute (ICI) is a leading global association of regulated funds, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) 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.