

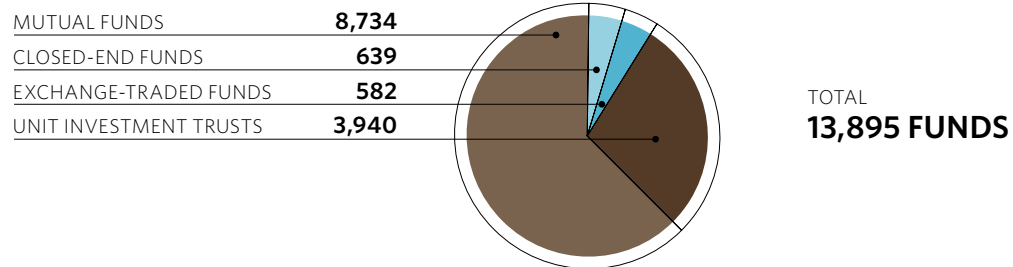
# 2009 Annual Report to Members

INVESTMENT COMPANY INSTITUTE

## WHO DOES ICI REPRESENT?

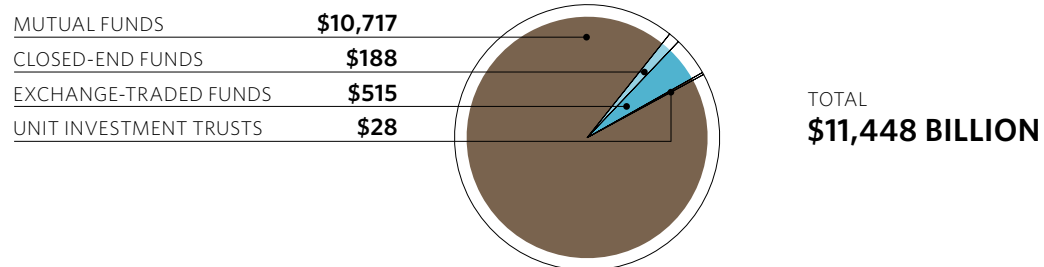
### More than 13,000 funds\*

Number of investment companies by type



### With more than \$11 trillion in assets\*

Investment company assets, billions of dollars



### Serving almost 90 million shareholders

Ownership of funds offered by investment companies, 2009

<b>43.7 PERCENT</b>	OF U.S. HOUSEHOLDS OWN FUNDS
<b>51.2 MILLION</b>	U.S. HOUSEHOLDS OWN FUNDS
<b>88.5 MILLION</b>	INDIVIDUALS OWN FUNDS

\*Data for mutual funds and ETFs are as of September 2009. Data for closed-end funds are as of June 2009. Data for UITs are as of December 2008.

Source: Investment Company Institute

# Table of Contents

<b>To Our Members: Paul Schott Stevens, President and CEO</b> .....	2
<b>Q&amp;A: John V. Murphy, Chairman, 2008-2009</b> .....	4
<b>Confronting Crisis and Its Aftermath with a Firm Foundation</b> .....	8
Timeline: Leading the Way in the Wake of Crisis.....	10
Taking Action to Build New Strength into Money Market Funds.....	14
Advocating Reforms to Fill the Gaps in Regulation of Financial Services .....	16
Standing Up for America’s Retirement System in the Face of Challenges.....	18
Case Study: Supporting Innovation for Savers in Target Retirement Date Funds .....	20
<b>Q&amp;A: Dean R. Sackett III and Donald C. Auerbach, Government Affairs</b> .....	22
<b>Case Study: Years of Work on Summary Prospectus Pay Off for Investors, Funds</b> .....	26
<b>Q&amp;A: Peter H. Gallary, Chief Operating Officer</b> .....	28
<b>Case Study: Working for Transparency Through Clear Accounting Standards for Funds</b> .....	32
<b>Q&amp;A: Roundtable on the Independent Directors Council</b> .....	34
<b>51st Annual ICI General Membership Meeting</b> .....	38
<b>ICI Education Foundation Launches New Grants for Financial Literacy</b> .....	42
<b>Q&amp;A: John W. McGonigle and James R. Hart, Chairman’s Council</b> .....	44
<b>Appendices</b>	
Appendix A: ICI Organization and Finances.....	49
Appendix B: Board of Governors.....	52
Appendix C: Governing Council of the Independent Directors Council .....	53
Appendix D: ICI Standing Committees and Chairs.....	53
Appendix E: ICI Staff .....	55
Appendix F: Publications and Releases.....	56
Appendix G: ICI and IDC Events.....	57
Appendix H: ICI Mutual Insurance Company .....	57
<b>Leading the Way on Policy Issues</b> .....	Inside Back Cover

# To Our Members



Paul Schott Stevens

PRESIDENT AND CEO  
INVESTMENT COMPANY INSTITUTE

“Crisis” is a word of Greek origin and in its oldest meaning refers to a turning point, a break, or separation. Surely, in that sense, we are coming through a true crisis for our nation, financial markets, industry, and investors. Now, the worst of the damage appears to be behind us, but we cannot say for certain what lies ahead. We know well what we have turned from, but only dimly what we are turning to. More than anything, the last two years have shown us that our world is now far less predictable than we thought. We cannot tell when we will be back on a steady course that we can refer to as “normal.”

How do institutions cope in a world with such uncertainty? ICI confronted that question well before the current financial tumult began. When I rejoined the Institute as President and CEO in June 2004, the fund industry was emerging from scandal, and the landscape for our industry was changing in unpredictable ways. With a renewed commitment to our long-standing mission and values, we set out to build a better organization—one that could represent even more effectively a large, diverse industry central to the needs of American investors and the financial system.

The results of that effort are evident today. ICI’s law department continues to build upon its great tradition as a unique center of legal expertise. We have built a world-class research organization with unsurpassed depth on retirement, fund industry economics, and investor behavior. Our operations

staff similarly has expanded its remarkable record of service to the industry in creating efficiencies that benefit shareholders.

The industry enjoys deep and constructive relationships with policymakers on Capitol Hill and in the Administration. We have developed our capabilities to inform the public on crucial policy issues. We have expanded the resources and support available to fund directors through the Independent Directors Council. In all of these areas, we have sought to strengthen our relationship with members.

Those capabilities have now been put to the test. Throughout this turbulent period, ICI has served as a crucial resource for members and policymakers alike. In a host of areas, from money market funds to accounting policy, the Institute has organized the collective expertise of our members to help ensure that policy actions are both effective and responsive to shareholders’ needs. And we have strived to be good stewards of our resources. As our agenda ballooned while revenues declined, we have found ways to accomplish more with less.

When we set out to reinvigorate ICI, did we know what our next test would be? Of course not. We knew only that a test would come—and we built accordingly. I hope that you will regard the results, as chronicled here, with satisfaction and pride. And I pledge to you that the Institute will continue to seek to deliver the same strong performance. We look forward to your continued involvement and teamwork as we face the unpredictable world that lies ahead.



# Question & Answer



John V. Murphy

CHAIRMAN, 2008-2009  
INVESTMENT COMPANY INSTITUTE

**YOUR TERM AS CHAIRMAN WILL BE REMEMBERED FOR THE FINANCIAL CRISIS. HOW DO YOU RATE THE FUND INDUSTRY'S RESPONSE?**

When I started as Chairman in 2007, I was feeling a fairly light load. I remember going to the December [2007] Board meeting right after we'd gotten the Summary Prospectus proposal and joking, here I've been on the job just three months and this big advance was already done. But then things started to get busy—and they got a lot busier.

The industry's response to the financial crisis was outstanding. I think it is the role and purpose of ICI to take the leadership in situations like that—to pull the industry together, get out in front of issues, and try to get them resolved to the betterment of fund investors. Our companies compete every single day for market share, and we go at it every day for outstanding investment performance. But when we come together at ICI, it's all about how to make the industry better and how to make the experience for shareholders better.

**FOR MUTUAL FUNDS, THE CRISIS HIT HOME IN SEPTEMBER 2008, WHEN A MONEY MARKET FUND BROKE THE DOLLAR. WHAT WERE THOSE DAYS LIKE?**

It was just incredible, the speed at which things happened. We'd all be glued to our televisions on Sunday nights waiting for the next shoe to drop before the Asian markets opened. The fall of Lehman Brothers, the acquisition of Merrill Lynch, the bailout of AIG—any one of those things by itself you would think was incredible. But they all came together.

*“Investors may have suffered a shock, but the investing culture of America hasn't gone away. The fundamental strengths of funds will still have great appeal to U.S. investors, whether they're saving for retirement or some other financial goal.”*

JOHN MURPHY

The Institute got word that the Lehman bankruptcy had put severe pressure on one money market fund. So we got the Executive Committee together on what was to become the first of many conference calls, and discussed what needed to be done. And when the Reserve Primary Fund broke the dollar, we formed a working group, led by [Vanguard Chairman] Jack Brennan, and they worked with the Treasury Department and Fed [Federal Reserve Board] on the guarantee program for money market funds. We wanted to make the program as effective as possible. That was why we proposed to limit the guarantee to money market fund accounts that were already in place, because we knew that an open-ended guarantee for money market funds would just disrupt the market more. That guarantee program ended in September [2009] without a single claim filed, against more than \$1 billion in premiums paid—so it turned out well for the government, the funds, and their investors.

Trading in municipal bonds completely froze up in that same time period, so we had to do a lot of work to help free up liquidity in that marketplace as well.



We were all shouldering the wheel, but I want to emphasize the high quality of ICI staff and what they accomplished. Whatever number of hours in the day or days in the week it took, they worked as a team to resolve all the issues. Every department, every person who was called upon got the job done, and did it to the highest standards. I can't say enough about the work of the ICI staff.

Those few weeks—it was certainly a rewarding and memorable experience, but I hope my successor doesn't have to live through anything like it.

#### **WHAT WAS THE MOTIVATION FOR FORMING THE MONEY MARKET WORKING GROUP?**

After those events, it was clear that there would be long-term changes in regulation for money market funds. We wanted to get in front and exercise leadership because we had the expertise and the knowledge that would be needed to enhance the regulation and make money market funds more resilient for the next crisis. So in November, we took Jack's working group, which had remained very active, and created a formal group to study the problems and suggest enhancements for the future.

They came back with an outstanding report, as you can tell from the fact that they anticipated almost all the changes that the SEC [Securities and Exchange Commission] proposed in June. Credit quality, liquidity, maturity, client risk—right down the line. And we called upon all of our money market fund members to adopt these recommendations, even before the regulations were enacted, to give our

investors more confidence in these funds. I think the money market fund work we did is the finest piece of work ICI has ever done. That may be a selfish comment, but I'll stand by it.

#### **IT ALSO BECAME CLEAR THAT THE CRISIS WOULD HIT ICI'S OWN FINANCES. HOW DID YOU ADDRESS THAT?**

The leadership of the Executive Committee recognized early on that the drop in industry assets under management was going to affect ICI's revenues. All of our companies were feeling that strain, and ICI is reflective of our industry.

We worked out a plan so that ICI could break even over three years, knowing 2009 was going to have strong revenues, 2010 was going to be difficult, and 2011 would be a wild card. Paul [Schott Stevens] and Peter [Gallary] came in with budget cuts and a hiring freeze, and we all worked together to come up with a plan so that we could make savings in 2009 to tide the Institute through 2010. They told us, "We're being asked to do more than ever and with far less resources"—but that's true in our member companies as well. The main thing is, we identified the budget issue early, and the staff was very willing to make the necessary cuts.

#### **YOU MENTIONED THE SUMMARY PROSPECTUS RULE. WHAT DOES THAT MEAN FOR FUNDS AND INVESTORS?**

The reception has been good. Lots of funds are adopting the Summary Prospectus. It's a struggle to get all the important information into four pages, so we've got more work to do. But it will be good for investors. I hope investors will read it. I don't think they're reading the 60-page or the 90-page

prospectus now, so something that's visually appealing, with all the important information summarized and highlighted, should serve their needs much better.

**RETIREMENT POLICY WAS ANOTHER THEME OF YOUR TERM AS CHAIRMAN. WHAT ROLE WILL FUNDS PLAY IN THE FUTURE OF RETIREMENT?**

Mutual funds have been a strong foundation for the growth of Americans' retirement savings, whether through 401(k) or individual retirement accounts. People who attack 401(k)s, I don't think they have a clue what retirement savings in this country would be without 401(k)s. Yes, those accounts did take a hit in the latest crisis, when the prices of virtually all assets were down, and yes, we can improve disclosure and make 401(k)s easier to offer. But it's important to ask, what would retirement savings have been if Americans didn't have 401(k)s? The 401(k) has become the bedrock of financial security for millions of people.

**DURING THE CRISIS, YOU EMPHASIZED YOUR OPTIMISM ABOUT LONG-TERM INVESTING. WHAT ARE THE OPPORTUNITIES FOR FUNDS IN TODAY'S CLIMATE?**

Funds offer investors great advantages: a wide range of choices, professional management, and the strongest regulatory framework of any investment product. The key to our future is to continue to innovate. There will be a continuing evolution of new products to meet new investor needs and desires. The use of the fund of funds concept will continue to grow. I also look forward to the

*“The industry's response to the financial crisis was outstanding. I think it is the role and purpose of ICI to take the leadership in situations like that—to pull the industry together, get out in front of issues, and try to get them resolved to the betterment of fund investors.”*

JOHN MURPHY

maturity of ETFs [exchange-traded funds] and a greater understanding among financial advisers on appropriate use of ETFs.

Investors may have suffered a shock, but the investing culture of America hasn't gone away. The fundamental strengths of funds will still have great appeal to U.S. investors, whether they're saving for retirement or some other financial goal.

*John V. Murphy is Chairman of OppenheimerFunds Inc. and served as Chairman of the Investment Company Institute for fiscal years 2008 and 2009.*



# Confronting Crisis and Its Aftermath With a Firm Foundation



Andrew J. Donohue (far right), Director of the Securities and Exchange Commission's Division of Investment Management, discusses the future of money market funds at a May 2009 forum in Washington, DC.

The global financial crisis that began in 2007 brought about an unprecedented string of financial failures and government interventions. What began as difficulties in a corner of the American housing market became a worldwide squeeze on credit, a bear market in equities, and a deep and long recession. Virtually no one was left unscathed.

American fund investors were well served by the solid regulatory framework that surrounds funds. This regime, a valuable legacy of the last great financial crisis in the 1930s, protects the interests of fund investors with daily pricing, separate custody of fund assets, limits on leverage, extensive disclosure, and strong, independent governance. Those safeguards have held firm.

Nonetheless, the crisis posed many challenges for funds, and the Institute and leaders of the fund industry rose to meet them.

When one money market fund failed to maintain its \$1.00 net asset value, ICI coordinated a broad-based industry effort to support the U.S. government's emergency response. The fund industry then took the lead in proposing—and imposing on itself—regulatory changes to increase the resiliency of money market funds against future crises.

Critics of the retirement system used losses in workers' accounts to clamor for radical changes. Using original research, ICI stood up to defend 401(k) plans, while calling for reforms to strengthen retirement security.

As policymakers began filling gaps in America's financial regulation, ICI offered one of the first comprehensive reform plans in the wake of the crisis.

On these and a host of other issues, ICI marshaled economic research, legal acumen, and the deep expertise of industry professionals to protect the interests of fund investors through a once-in-a-lifetime financial cataclysm.



# Leading the Way in the Wake of Crisis

KEY DEVELOPMENTS AND ICI ACTIONS, SEPTEMBER 2008–FEBRUARY 2009

## MARKET EVENTS

**SEP 7:** Fannie Mae and Freddie Mac are placed in federal conservatorship.

**SEP 15:** Lehman Brothers Holdings Inc. declares bankruptcy.

**SEP 16:** Reserve Primary Fund breaks the dollar. Government takes 80 percent equity stake in AIG.

**SEP 19:** Treasury announces Temporary Guarantee Program for Money Market Funds and proposes a \$700 billion Troubled Asset Recovery Program (TARP). Fed announces liquidity facility for commercial paper.

**SEP 30:** Mutual funds' total net assets: \$10.7 trillion.

**OCT 3:** Congress passes and President George W. Bush signs the Emergency Economic Stabilization Act of 2008.

**OCT 7:** Large fund complexes announce their money market funds will enroll in the Treasury Guarantee Program.

**OCT 14:** The SEC issues final rules to address short selling abuses.

**OCT 21:** Fed establishes Money Market Investor Funding Facility (MMIFF) to fund private-sector initiative to buy assets from money market funds.

**NOV 24:** Treasury announces extension of Temporary Guarantee Program until April 30, 2009.

## SEPTEMBER

## OCTOBER

## NOVEMBER

## ICI ACTIONS

**SEP 7:** ICI works with members and regulators to gauge impact of Fannie and Freddie takeover on money market funds.

**SEP 19–20:** ICI works with regulators to limit the reach of the Treasury Guarantee for Money Market Funds, urging that the guarantee not be open-ended.

**SEP 25:** At ICI's request, SEC issues no-action letter allowing banks to use the Fed's facility to purchase commercial paper from affiliated money market funds.

**OCT 3:** ICI Board of Governors conducts comprehensive review of crisis activities, discussing credit market conditions and ICI response to government actions.

**OCT 10:** SEC staff issues a no-action letter to ICI allowing money market funds to "shadow price" securities using amortized cost rather than market value quotations until January 12, 2009.

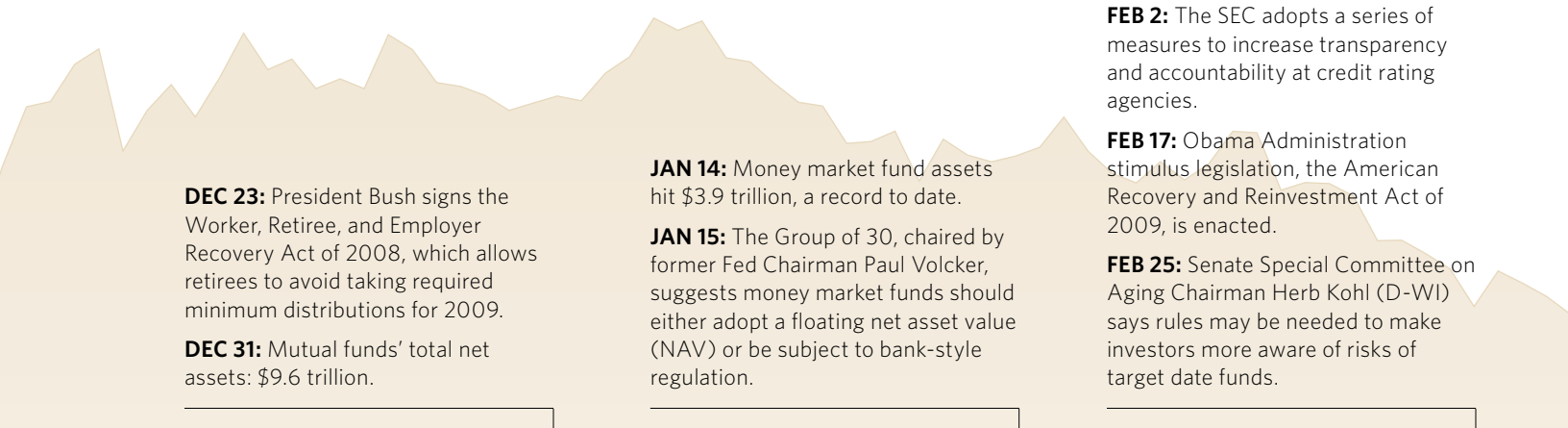
**OCT 21:** In written testimony to House Education and Labor Committee, ICI argues that it would be a "grave mistake" to use recent market events as an excuse to dismantle current retirement system.

**OCT 21:** ICI issues a statement welcoming Fed's MMIFF and private-sector liquidity initiative.

**NOV 4:** ICI establishes Money Market Working Group to recommend changes to help strengthen the money market and improve the operation and regulation of money market funds.



DOW JONES INDUSTRIAL AVERAGE—DAILY CLOSES  
AUGUST 1, 2008—FEBRUARY 27, 2009



**DEC 23:** President Bush signs the Worker, Retiree, and Employer Recovery Act of 2008, which allows retirees to avoid taking required minimum distributions for 2009.

**DEC 31:** Mutual funds' total net assets: \$9.6 trillion.

DECEMBER

**DEC 19:** In a news conference at the National Press Club, ICI President and CEO Paul Schott Stevens presents research showing continued public support for defined contribution plans and outlines reform agenda for U.S. retirement system.



**JAN 14:** Money market fund assets hit \$3.9 trillion, a record to date.

**JAN 15:** The Group of 30, chaired by former Fed Chairman Paul Volcker, suggests money market funds should either adopt a floating net asset value (NAV) or be subject to bank-style regulation.

JANUARY

**JAN 5:** In a letter to independent directors, Stevens sets out ICI's 2009 policy priorities: regulatory reform, affirmation of 401(k), strengthening money market funds, and equitable tax treatment for funds and investors.



**JAN 27:** ICI launches new weekly data series on net new cash flow for long-term mutual funds and revamps weekly report on money market fund assets.

**FEB 2:** The SEC adopts a series of measures to increase transparency and accountability at credit rating agencies.

**FEB 17:** Obama Administration stimulus legislation, the American Recovery and Reinvestment Act of 2009, is enacted.

**FEB 25:** Senate Special Committee on Aging Chairman Herb Kohl (D-WI) says rules may be needed to make investors more aware of risks of target date funds.

FEBRUARY

**FEB 24:** Stevens testifies on improving 401(k)s and U.S. retirement system at House Education and Labor Committee.

# Leading the Way in the Wake of Crisis

KEY DEVELOPMENTS AND ICI ACTIONS, MARCH 2009–OCTOBER 2009



MARKET EVENTS

**MAR 9:** Dow Jones Industrial Average closes at 12-year low of 6547.05.

**MAR 26:** Treasury outlines framework for regulatory reform. Secretary Geithner calls for “comprehensive reform—not modest repairs at the margin.”

**MAR 31:** Treasury announces final extension of Temporary Guarantee Program to September 18, 2009.

**MAR 31:** Mutual funds’ total net assets: \$9.2 trillion.

**APR 8:** Morningstar.com reports that expense ratios could climb 2 to 4 basis points in 2009.

**APR 8:** The U.S. Eighth Circuit Court of Appeals reverses dismissal of excessive fee case, *Gallus v. Ameriprise Financial*.

**APR 10:** SEC proposes several approaches to imposing price restrictions on short selling.

**APR 19:** *60 Minutes* airs segment, “Retirement Dreams Disappear with 401(k)s.”

**JUN 17:** Obama Administration white paper outlines proposals to promote robust supervision and regulation of financial firms. ICI calls blueprint “more significant and far-reaching than any since the New Deal.”

**JUN 24:** The SEC unanimously votes to propose changes to the rules governing money market funds. The agency’s proposal includes new standards in such key areas as credit quality, liquidity, and maturity.

**JUN 30:** Mutual funds’ total net assets: \$10.0 trillion.

**MAY 20:** GROWTH Act introduced in the U.S. Senate. Bill would defer taxation of mutual fund capital gain distributions that are automatically reinvested until shareholders actually sell their funds.

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MARCH

APRIL

MAY

JUNE

ICI ACTIONS

**MAR 3:** ICI releases white paper outlining ways to modernize and strengthen regulatory oversight of the U.S. financial industry.

**MAR 5:** ICI hosts Retirement Savings Summit with six other trade groups.

**MAR 10:** Stevens presents ICI ideas for financial services regulatory reform to Senate Banking Committee.

**MAR 17:** Money Market Working Group submits its report to ICI Board, recommending new standards for credit quality, liquidity, and maturity. Board endorses report and calls upon money market funds to implement proposals voluntarily.

**MAR 26:** ICI tells SEC that investors need increased disclosure from credit ratings agencies and issuers.



**APR 14:** ICI and Deloitte Consulting release study on fees in 401(k) and other defined contribution plans.

**APR 15:** At SEC roundtable, Stevens calls for improved disclosure on credit ratings and a more transparent ratings process.

**APR 17:** ICI publishes “10 Myths About 401(k)s—and the Facts” to dispel myths that savers are widely abandoning 401(k) plans.

**MAY 5:** At AEI forum, ICI Chief Economist Brian Reid argues against floating net asset value for money market funds.

**MAY 8:** At ICI’s 51st General Membership Meeting, SEC Chairman Schapiro names regulatory reform as her top priority and says the SEC should be the capital markets regulator.

**JUN 18:** ICI General Counsel Karrie McMillan releases *Principles to Enhance Understanding of Target Date Funds* at joint SEC-Department of Labor hearing.

**JUN 24:** ICI welcomes SEC’s proposed money market fund reforms.

**JUN 24:** ICI registers objections to H.R. 2989, a 401(k) disclosure bill passed by the House Education and Labor Committee.

DOW JONES INDUSTRIAL AVERAGE—DAILY CLOSES  
MARCH 2, 2009—OCTOBER 14, 2009



**OCT 1:** Fed Chairman Ben S. Bernanke tells lawmakers that responsibility for monitoring systemic financial risks should go to a council of regulators.

**OCT 14:** Dow Jones Industrial Average closes above 10,000 for the first time since October 2008.

**SEP 17:** SEC votes unanimously to bolster oversight of credit ratings agencies by enhancing disclosure and improving the quality of credit ratings.

**SEP 18:** Treasury Temporary Guarantee Program for Money Market Funds expires.

**SEP 30:** Mutual funds' total net assets: \$10.8 trillion.

**JUL 8:** Treasury taps nine investment managers to operate funds that will buy toxic securities from financial institutions.

**JUL 27:** The SEC announces final rules aimed at protecting investors against abusive short sales and providing more short sale information to the public.

**AUG 11:** Obama Administration details a plan to more closely oversee the derivatives market by requiring many derivatives products to trade on regulated exchanges or electronic venues and be processed through clearinghouses.

JULY

AUGUST

SEPTEMBER

OCTOBER

**JUL 9:** In an *Ignites* commentary, Stevens says Congress can improve upon H.R. 2989.

**JUL 16:** ICI submits recommendations to Department of Labor on Obama Administration retirement security agenda.

**JUL 17:** Before House Financial Services Committee, Stevens recommends a stronger SEC and an effective Systemic Risk Council.

**JUL 23:** Stevens discusses his vision of a Systemic Risk Council before Senate Banking Committee.



**SEP 3:** ICI and the Independent Directors Council file *amicus curiae* briefs with the U.S. Supreme Court in support of Harris Associates in *Jones v. Harris Associates L.P.*

**SEP 8:** ICI expresses its support for the SEC's proposed changes to money market fund regulation but rejects requiring funds to use a floating NAV.

**SEP 8:** ICI comment letter calls for enhanced disclosure of information to investors regarding municipal securities.

**SEP 28:** ICI holds a workshop for regulators and retirement experts on enhancing understanding of target retirement date funds.



**OCT 1:** ICI urges policies to expand access to investment advice for 401(k) and IRA savers in statement to House Ways and Means Committee hearing.

# Taking Action to Build New Strength Into Money Market Funds

In the summer of 2007, problems in the subprime mortgage market began to spill over into credit markets around the world. First to feel the effect were investment pools that held subprime mortgage or mortgage-based instruments, such as asset-backed commercial paper. Unregistered cash pools—mistakenly described by the media as “money market funds”—and local government liquidity pools experienced failures. Money market mutual funds, in contrast, received a strong investor vote of confidence: over the 13 months ending in August 2008, money market funds absorbed more than \$800 billion in new cash, boosting the size of these funds by more than one-third.

By September 2008, however, the crisis came home for money market funds. After a long sequence of failures by major financial firms, the bankruptcy of Lehman Brothers Holdings Inc. triggered a drop in the net asset value (NAV) of the Reserve Primary Fund, making it the second U.S. money market fund in history to “break the dollar.” In response, the Federal Reserve and the Department of the Treasury took several actions to shore up the money market in general and to calm money market fund investors in particular.

The Institute engaged fully in efforts to restore liquidity and support fund investors. Even before the events of September, ICI created an informal working group of industry leaders, led by Vanguard Chairman John J. Brennan, to monitor the money

markets and promote solutions. In the tense and perilous week following Lehman’s bankruptcy, this group, supported by ICI staff, worked with Treasury and the Fed to ensure that government actions would be as effective as possible. For example, the Treasury Temporary Guarantee Program for Money Market Funds was limited to existing money market account balances to reduce the potential for destabilizing flows into and out of money market funds when the guarantee was implemented and eventually removed.

These events, however painful, raised legitimate questions about how the money market operates and how money market funds should be regulated within that market. In November 2008, the Executive Committee of ICI’s Board of Governors formally charged the Money Market Working Group with developing recommendations to make the money market and money market funds more resilient in the face of any future financial crisis. Under Brennan’s energetic leadership, the Working Group reached out to investors, issuers, regulators, and other participants in U.S. and global money markets in an intensive five-month examination.

*The Report of the Money Market Working Group*, released in March 2009, provided a blueprint for the future of this vital product. The Working Group recommended new, tighter regulatory standards for the credit quality and maturity of money market fund assets under Rule 2a-7 of the Investment

Company Act of 1940. It suggested imposing for the first time daily and weekly minimum liquidity requirements and “know your client” procedures to better prepare funds for potential redemption pressure. To ensure fair treatment of all investors in a redemption crisis, the Working Group proposed empowering a fund’s board to suspend redemptions while working out a plan for liquidation.

The Working Group also carefully analyzed other regulatory proposals—such as applying bank-style regulation or requiring funds to abandon their fixed \$1.00 NAV—that would fundamentally alter the nature of money market funds. In each case, the group concluded that these changes were impracticable, would not effectively mitigate risks to the financial system, and would have significant adverse impacts on investors and the capital markets.

Receiving the *Report*, the ICI Board of Governors called upon all money market fund complexes to adopt promptly those recommendations that did not require prior regulatory action. The industry was widely praised for taking voluntary action.

To a large degree, the Working Group’s recommendations anticipated regulatory proposals on money market funds put forward by the Securities and Exchange Commission in June 2009. In its comment letter, ICI strongly supported the thrust of the SEC’s proposals.

***“Money market funds are a key component of the money market, relied upon by individuals and institutions alike. We strongly believe that taken as a whole, these recommendations will greatly increase the resiliency of money market funds to the benefit of both investors and markets.”***

JOHN BRENNAN

The Institute spoke out strongly, however, against the concept of a floating NAV for money market funds, arguing that such a requirement would drive investors toward less-regulated funds while reducing the supply of short-term credit for corporate America and municipalities. “Forcing funds to adopt a floating NAV would introduce new and significant risks to the financial system without any offsetting gains,” said ICI President and CEO Paul Schott Stevens.

Final action by the SEC on its Rule 2a-7 reform proposals is expected by the end of 2009. The Obama Administration has also charged the President’s Working Group on Financial Markets to conduct a separate study of money market funds, including the question of floating NAVs. That report is expected before the end of the year.

*For more information on ICI’s activities on money market funds, see [www.ici.org/mmfs](http://www.ici.org/mmfs).*



# Advocating Reforms to Fill the Gaps In Regulation of Financial Services

Well before most Americans felt the impact of the financial crisis, many policymakers and commentators were calling for reform of the financial services regulatory system, reflecting general agreement that the current oversight structure is insufficient to address modern financial markets. The crisis put into much sharper focus the inadequacies of the current system and the many important linkages that exist among U.S. financial markets and markets of other developed nations.

Yet the market turmoil and resulting economic damage also offered an important opportunity: the chance to have a frank and robust public dialogue about how best to regulate financial services and avert future crises. Throughout these discussions, ICI has sought and gained a key role as a thought leader and advocate for sound reform that emphasizes investor interests and financial stability.

As the Obama Administration was taking shape, ICI engaged with transition leaders and incoming officeholders to offer insights and expertise on vital regulatory issues. In March 2009, the Institute offered one of the first comprehensive white papers outlining priorities for regulatory reform in the wake of the financial crisis. *Financial Services Regulatory Reform: Discussion and Recommendations* challenged lawmakers to create a framework that would enhance regulatory efficiency, limit duplication, close regulatory gaps, and emphasize the national character of the financial services industry.

Specifically, it called for a:

- » Capital Markets Regulator, dedicated to investor protection and law enforcement, as the first line of defense against risks to the capital markets. ICI called for specific reforms to strengthen any Capital Markets Regulator, enhance its effectiveness, and empower it to address regulatory gaps and harmonize legal standards for investment advisers and broker-dealers. The Capital Markets Regulator would serve as the regulatory standard-setter for registered investment companies, including money market funds.
- » Systemic Risk Regulator to help ensure greater overall stability for the financial system as a whole. This agency or council of regulators would identify practices that threaten the health of the financial system at large and would act in concert with functional regulators to mitigate these risks.

The Institute undertook a concerted effort to promote these ideas in the public dialogue. One week after the white paper's release, ICI President and CEO Paul Schott Stevens outlined ICI's proposals in testimony before the Senate Banking Committee. In July, Stevens appeared before the House Financial Services Committee to offer recommendations to strengthen the Securities and Exchange Commission, which would have ongoing jurisdiction over funds. Noting that fund investors had enjoyed significant protections under the SEC regime—including daily pricing, separate custody of fund assets, tight restrictions

on leverage, extensive disclosure, and strong, independent governance—Stevens told the panel: “Recent experience suggests that policymakers should consider extending some of these same disciplines to other marketplace participants.”

Significantly, the Obama Administration’s blueprint for regulatory reform, released in June 2009, maintained the SEC’s regulatory authority over funds, even as the Administration supported creating a new Consumer Financial Protection Agency to oversee other financial products. In addition, ICI’s early advocacy for entrusting systemic risk oversight to a council of regulators, rather than any single agency, gained substantial momentum on Capitol Hill. Stevens returned to the Senate Banking Committee in July 2009 to offer a detailed framework for a Systemic Risk Council that would draw upon the expertise and front-line experience of functional regulators to anticipate and address emerging risks without stifling innovation, impeding competition, or imposing needless inefficiencies.

Financial services regulatory reform is progressing on Capitol Hill, and the outcome on several fronts remains uncertain. As the debate has evolved, ICI has been widely cited in the press for its intellectual contributions. The Institute’s Government Affairs, Law, and Research departments continue to work vigorously to ensure that the interests of funds, retirement plans, and investors are represented.

*For more information on ICI’s activities on regulatory reform, see [www.ici.org/reg\\_reform](http://www.ici.org/reg_reform).*



ICI PRESIDENT AND CEO PAUL SCHOTT STEVENS MAKES THE CASE FOR A SYSTEMIC RISK COUNCIL DURING A HEARING ON REGULATORY REFORM EFFORTS BEFORE THE SENATE BANKING COMMITTEE IN JULY 2009.

# Standing Up for America's Retirement System in the Face of Challenges

In December 2008, Americans could find little that was positive in the public dialogue about retirement. Months of falling stock prices had taken a toll on balances in 401(k) and other employer-based plan accounts. Press accounts highlighted anecdotal evidence of a flight from 401(k) plans by hard-pressed workers halting contributions, taking hardship withdrawals, or radically adjusting asset allocations. Critics rose to denounce 401(k) plans and called for sweeping changes in America's retirement system.

In this volatile environment, ICI stepped up to take a strong stance in support of 401(k)s. With solid data from account records covering more than 22 million plan participants and from household surveys, the Institute demonstrated that workers were not panicking and that Americans backed key features of today's retirement system. Fewer than 4 percent of participants stopped contributing to their plans in 2008, and more than 70 percent of households supported the tax incentives for savings designed into 401(k)s and similar plans. "Americans are staying the course," ICI President and CEO Paul Schott Stevens declared in a speech at the National Press Club in Washington, DC. "They are not reacting out of panic. And workers want to keep the basic strengths of 401(k)s: tax-favored savings, individual choice in investing, and personal control of these retirement assets."

The Institute, too, has stayed the course, with a concerted campaign to affirm and strengthen America's retirement system. With expertise firmly grounded in research and member firms' deep knowledge of how retirement plans operate, ICI advocates sound policies that will help Americans build retirement security for current and future generations of workers.

In February 2009, Stevens presented a comprehensive retirement reform agenda in testimony before the House Education and Labor Committee. Stevens called for better disclosure on fees and other key investment information, lower barriers for employees seeking to diversify out of company stock, greater use of automatic enrollment and automatic savings escalation, simpler ways for employers to offer retirement plans, and improved financial education—all atop a commitment to ensure a sound financial footing for Social Security. In March, the Institute continued the dialogue in partnership with six other trade groups, organizing a retirement savings summit to discuss how lawmakers and regulators can build on the considerable strengths of today's retirement plans.

In April, ICI enhanced its already formidable stock of retirement-related research by releasing the *Defined Contribution/401(k) Fee Study*, conducted by Deloitte Consulting LLP. The study illuminated the

range of fees and the plan factors associated with fees, finding that lower fees can be found in larger plans, those that have higher contribution rates by employers and employees, and those that make use of automatic enrollment. "Competition in this vital market has kept fees low, even as plans offer higher levels of service," Stevens said. ICI's Public Communications, Research, Legal, and Government Affairs departments worked actively to ensure this research informed the debate about fees in 401(k) plans.

On Capitol Hill, the Institute continues to work closely with a number of members of Congress who are considering legislation on 401(k) disclosure. ICI has strongly supported efforts by the Department of Labor and Congress to ensure employers and participants receive the information they need to make the decisions charged to them in 401(k) plans. At the same time, ICI has raised serious questions about H.R. 2989, a bill passed by the House Education and Labor panel, because its disclosures fall short of providing the clear, concise, and usable information that employers and workers need. H.R. 2989 would also distort a vibrant competitive market and would bring government into the task of picking investment options for plans. ICI continues to urge Congress to consider more comprehensive and workable disclosure legislation instead.

The Institute also continues to engage with regulators on issues central to Americans' retirement security. Pursuing a long-time goal of widening the sources of investment advice available to plan participants and owners of individual retirement accounts, ICI has urged the Department of Labor to adopt policies that promote the provision of investment advice and preserve existing advice and education programs on which many plans now rely.

Financial markets' recovery from the lows of the crisis has brightened the retirement outlook. These issues, however, will continue to challenge the fund industry in the years ahead. ICI will strive to maintain a central role in debates on retirement security on behalf of its members and the providers, employers, and workers who are building a vibrant, innovative, and growing private retirement system.

*For more information on ICI's activities on 401(k) issues, see [www.ici.org/401k](http://www.ici.org/401k).*



# Supporting Innovation for Savers In Target Retirement Date Funds

Target retirement date funds are one of the most significant recent innovations in retirement savings. These funds, also known as lifecycle funds, provide a convenient way for an investor to purchase a mix of asset classes within a single fund that rebalances its asset allocation and becomes more conservative as the investor ages. Just as important, target date funds allow investors to avoid extreme asset allocations. Research shows that asset allocation is one of the most important factors in long-term portfolio performance.

The market turmoil in the last year, however, took a significant toll on retirement assets of all types—and target retirement date funds were not immune. Losses in these funds focused public and policymaker attention on their investment approach, disclosure, and investor understanding. Policymakers and the press questioned the funds' asset allocations, particularly the level of equity investment in funds approaching their target retirement date.

The Institute moved aggressively to address these challenges, in part by forming the Target Date Fund Disclosure Working Group. This group, composed of ICI members representing more than 90 percent of target date mutual fund assets, consulted with a broad range of industry participants to develop *Principles to Enhance Understanding of Target Date*

*Funds*. The five principles call upon target retirement date funds to prominently disclose the relevance of the target retirement date used in a fund's name; the fund's assumptions about the investor's withdrawal intentions at and after the target date; the age group for whom the fund is designed; an illustration of the asset allocation path, or glide path, that the fund follows to reduce its equity exposure and become more conservative over time, as well as a description of the flexibility, if any, the manager has to deviate from the glide path; and a statement that there are investment risks associated with target date funds, including the risk of loss at or near the target date, and that the fund offers no guarantee it will provide adequate income at and throughout retirement. The Working Group also prepared a sample disclosure document embodying the principles.

ICI General Counsel Karrie McMillan unveiled the *Principles* and the sample disclosure in June 2009 at a joint hearing of the Department of Labor and the Securities and Exchange Commission. In her testimony, she discouraged regulators from mandating changes in the names of these funds. The weight of testimony offered by a wide range of witnesses, including ICI, also made a strong case against regulation that would take the unprecedented step of trying to standardize asset allocations of target retirement date funds.

In September 2009, the Institute continued its mission by hosting a workshop for ICI members, plan sponsors, regulators, and other retirement experts on how to enhance understanding of target retirement date funds. The workshop focused on issues relating to the type and quality of information about target retirement date funds available to both employers and plan participants, and how that disclosure might be improved.

ICI is committed to continue working with regulators and lawmakers to enhance understanding of target retirement date funds among plan sponsors, investors, and policymakers.

*For more information on ICI's activities on target retirement date funds, see [www.ici.org/trdf](http://www.ici.org/trdf).*



ICI GENERAL COUNSEL KARRIE MCMILLAN UNVEILED *PRINCIPLES TO ENHANCE UNDERSTANDING OF TARGET DATE FUNDS*, DEVELOPED BY AN ICI TASK FORCE, AT A JOINT SEC-DEPARTMENT OF LABOR HEARING.

# Question & Answer



Dean R. Sackett III

CHIEF GOVERNMENT AFFAIRS OFFICER  
AND CO-HEAD  
INVESTMENT COMPANY INSTITUTE

Donald C. Auerbach

CHIEF GOVERNMENT AFFAIRS OFFICER  
AND CO-HEAD  
INVESTMENT COMPANY INSTITUTE

IN MARCH YOU WERE APPOINTED AS CO-HEADS OF GOVERNMENT AFFAIRS. WHAT IS YOUR WORKING RELATIONSHIP?

**Auerbach:** Collaboration and mutual respect are key. Working together as the financial services team, Dean and I have had a collaborative relationship for a long time. More importantly, we recognize that we're the public face on Capitol Hill for a team effort that enlists the energy and expertise of ICI from every corner of the building, including the Law, Research, Operations, and Public Communications departments.

**Sackett:** We've integrated more of ICI's experts into our day-to-day work to enhance what we take to the Hill. There's just a more unified organization, not only within ICI, but also within the Government Affairs Department in bringing together the resources of our staff to work on the issues.

WHAT SHAPES ICI'S STANDING ON CAPITOL HILL, AND HOW DOES THE INDUSTRY BENEFIT FROM IT?

**Sackett:** Our approach is to be fact-based, well-researched, and to go to great lengths to educate and present all sides of an issue. We are also able to bring remarkable resources to bear on the debate with the great synthesis of ICI's intellectual capital. We have a fully developed and professional research staff, extensive legal capabilities, active member companies that are well-respected, and we represent almost 90 million shareholders. All of that allows us to go to the Hill as really strong, honest brokers. Members of Congress and their staff welcome our views and the fact-based information we provide. We are a part of the conversation and the recognized voice for the industry.

*“Our approach is to be fact-based, well-researched, and to go to great lengths to educate and present all sides of an issue....All of that allows us to go to the Hill as really strong, honest brokers. Members of Congress and their staff welcome our views and the fact-based information we provide. We are a part of the conversation and a recognized voice for the industry.”*

DEAN SACKETT

*“It goes to the long-term relationships the Institute has, the credibility of the information we provide over time, and the reputation of the industry. All of those things go into our success...”*

DON AUERBACH

HOW DOES GOVERNMENT AFFAIRS WORK WITH MEMBERS?

**Auerbach:** Well, in a number of ways. Through our organization, we work to coordinate with our member companies on their messages and try to produce a unified stance on the Hill. And more directly, we work and coordinate with our member companies' government affairs representatives when we're bringing messages to Capitol Hill. We also take ICI members to the Hill on a fairly frequent basis.

**Sackett:** Remember, whether it's the Board or Executive Committee making a policy decision, or our members working through the committee process with Law or Operations, our members are helping set policy at ICI. We then carry those policies to the Hill, either on our own or with them as partners in lobbying efforts.



DEAN, YOU'RE A REPUBLICAN, AND DON, YOU'RE A DEMOCRAT. HOW DOES THAT WORK?

**Sackett:** We bring our own perspectives and backgrounds, but we share the goal of bringing positive results for the industry. We know that Republicans and Democrats sometimes start in different places on policy, so we take that into account as we work to build consensus. But at the end of the day, our mission is to represent the interests of mutual funds and their shareholders, and we work with coalitions and guide them to that end, irrespective of party affiliation.

**Auerbach:** While we may hail from different parties, it doesn't really matter for our objective. Our job is to represent the mutual fund industry and to work on strategies that bring positive results for mutual funds and their shareholders. So while we may bring tonal differences to our approach on the Hill, our mission is the same.

WHEN YOU TOOK YOUR NEW POSITIONS, THERE WAS A NEW ADMINISTRATION AND A NEW WORLD ON THE HILL. HOW HAS THIS AFFECTED ICI?

**Auerbach:** Whenever there's a new Congress or a new Administration, especially one that campaigned on change, you're going to have a lot of new energy. But we've had long relationships with people on both sides of the aisle and with the leaders of the key committees.

**Sackett:** Of course, we're sensitive to the changes in leadership, but we approach things around building majorities for our issues. And the changes in the Administration and Congress don't result in a change of our philosophy because we've always taken a bipartisan, shareholder-focused approach.

**Auerbach:** Exactly. It goes to the long-term relationships the Institute has, the credibility of the information we provide over time, and the reputation of the industry. All of those things go into our success and our ability to advocate on behalf of the industry.

WHAT HAS ICI'S ROLE BEEN IN THE DEBATE ON FINANCIAL SERVICES REGULATORY REFORM?

**Auerbach:** We were up on the Hill early. As the crisis accelerated in September [2008], we were there educating committees on the mutual fund perspective. We signaled what we as an industry were going to do, to help not only mutual funds, but the capital markets. One of our key goals was to slow a rush to judgment that would lead to a dismantling of the regulatory structure for mutual funds. As the Hill moves forward, it's important that policymakers understand that mutual fund investors were served well by the '40 Acts.

**Sackett:** We recognized early that this was going to be a significant issue in this Congress and we took a proactive approach. Our role has been that of a table-setter for the intellectual contributions we brought to bear, such as the *Report of the Money Market Working Group* and ICI's white paper on regulatory reform. We carried the message that we were bringing thoughtful positions to the debate and laid the groundwork for their reception. Once the papers were released, we took them to the Hill. And we were asked to testify three times, which is a noteworthy and real example of the high regard the Hill has for our views. ICI promoted early in the debate an innovative approach—the Systemic Risk Council—that has really resonated on the Hill. We were viewed as a thought leader in this area.

**THE CRISIS CERTAINLY HAS INTENSIFIED SCRUTINY OF ALL ELEMENTS OF THE FINANCIAL SERVICES INDUSTRY. HOW HAS THIS AFFECTED ICI'S WORK?**

**Auerbach:** There is a perception that the finance industry has been bailed out because of TARP, and there's great public anger at any business that's thought to be a part of "Wall Street." So there's more sentiment against financial services than probably any other time in recent history. But the fund industry's model has demonstrated its soundness. Our regulatory structure was formed after the Great Depression and has continually evolved and strengthened in the decades since. Mutual funds have kept their reputation intact through the current crisis, and so we've been able to have a positive impact on the debate in the aftermath.

**WHAT SHOULD MEMBERS KNOW ABOUT ICI'S WORK ON STRENGTHENING THE 401(k) SYSTEM?**

**Auerbach:** We face formidable headwinds in the debate about the proper role of the defined contribution retirement system. Our research-based education effort is as important as ever. Part of that mission is to educate about the great efficacy of 401(k)s as a retirement vehicle, along with the increasingly important role of IRAs [individual retirement accounts] in the U.S. retirement savings system. Another part is to continue ICI's long advocacy for making the Social Security system financially sound. 401(k)s are incredibly successful savings plans, and we advocate for them extensively, but we want policymakers to understand that they have to be viewed as part of a system—along with Social Security and personal savings.

**Sackett:** Much of the 401(k) debate has focused around fee disclosure, which ICI has long supported, and we are engaged with members of Congress who are considering 401(k) disclosure legislation. Some of the legislative proposals concern us, even as we share the stated goal of enhanced disclosure. We are working hard to ensure that Congress and the Department of Labor get disclosure right so that it is meaningful and easily understood for plan sponsors and participants. ICI members and their lobbyists have been full partners in our endeavors to realize meaningful, concise disclosure for 401(k) participants.

**LOOKING FORWARD, WHAT DO YOU SEE AS ICI'S BIGGEST LEGISLATIVE PRIORITIES IN THE COMING YEAR?**

**Auerbach:** In 2010, a new Congress and Administration will get their first report card from the voters—so they'll want to show results. Our goal is to make sure that whatever the outcomes are for financial services regulatory reform or the retirement system, they serve the interests of our investors. The new challenge in 2010 will be a large tax bill that will need to move because of expiring provisions. As Congress tackles that legislation, we'll be fighting for pro-investor provisions there as well.

*Donald C. Auerbach joined ICI in 2004 and has been Chief Government Affairs Officer and Co-Head since March 2009.*

*Dean R. Sackett III joined ICI in 2000 and has been Chief Government Affairs Officer and Co-Head since March 2009.*



# Years of Work on Summary Prospectus Pay Off for Investors, Funds

The Securities and Exchange Commission turned a crucial corner in its quest to provide simpler, clearer information to mutual fund investors with its adoption of rules for a new disclosure framework, including a Summary Prospectus, in January 2009.

The new framework is designed to highlight the most important information for investors while preserving easy access to more detailed information for those who desire it. First proposed in 2007, the rules require that funds provide a streamlined, standardized presentation of key information—written in plain English and covering investment objectives, fees, and other essentials—at the front of the traditional prospectus. Funds can elect to send their investors a stand-alone Summary Prospectus containing the same key information, with the longer statutory prospectus and other information available on the Internet and on paper by request.

“This is a great result for investors, particularly in today’s financial environment,” when people need clear and concise disclosure more than ever, Paul Schott Stevens told nearly 1,000 listeners during a February 2009 ICI webinar on the Summary Prospectus. “The final rule represents a collaboration of the highest order among the SEC, investors, and the industry.”

That result was a long time in the making. Over the years, as financial products and markets grew more complex, efforts to provide comprehensive

disclosure information began to undermine effective communication of key information investors want and need. Mutual fund prospectuses were often complicated and difficult to use. Two previous attempts to solve the problem—creation in 1983 of the two-part disclosure system (prospectus and Statement of Additional Information) and the 1998 adoption of the fund profile—fell short.

But the SEC, ICI, and others did not give up, and new insights into investor behavior aided their efforts. For one, the impact and growth of the Internet became clearer, particularly in the context of fund investing. Stevens and other participants at the June 2006 SEC roundtable on the topic agreed that increasing fund disclosure via the Internet had the potential to boost comparison shopping and get investors the information they are looking for.

Research also showed the impressive extent of Internet usage among investors. In October 2006, ICI released research revealing that more than 90 percent of U.S. households that owned mutual funds had Internet access. Furthermore, the evidence remained overwhelming on investor preference for a concise document. An August 2006 study from ICI revealed that nearly nine in 10 recent fund investors would prefer to receive a summary of key information, either by itself or along with a detailed document, prior to buying shares in a fund.

With these findings from ICI and others, a broad consensus formed around the Summary Prospectus approach. In 2007, the SEC proposed its new framework. The Commission modified that proposal to reflect the input of 155 commenters, including ICI, who generally supported the new framework.

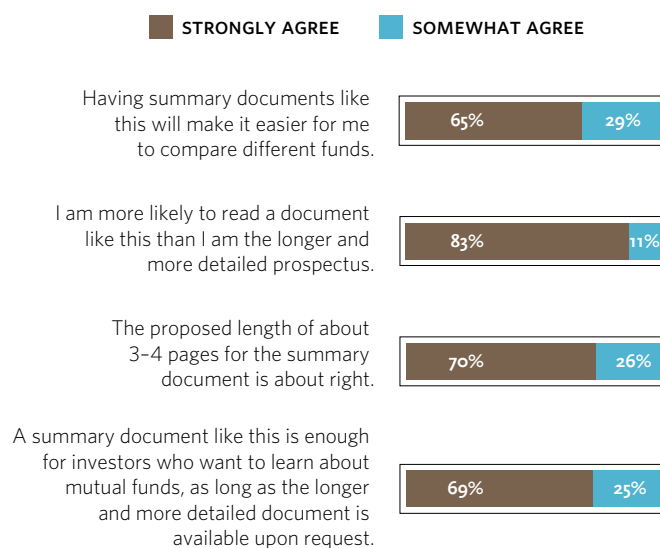
“The disclosure framework that we are adopting has the potential to revolutionize the provision of information to the millions of investors who rely on mutual funds for their most basic financial needs,” said the adopting release last January.

With the SEC’s adoption of the rules, ICI turned its attention to helping with implementation of the Summary Prospectus and related disclosure amendments, offering the webinar and other forums for members to consider the issues and share experiences. In October 2009, ICI held a conference call to give Institute members and others a chance to ask questions of senior staff from the SEC’s Division of Investment Management. Nearly 650 participants signed up to get the SEC staff perspective on Summary Prospectus content, technology issues, and the filing and review process, among other topics. Even as implementation challenges remain, the adoption of the Summary Prospectus represents a significant step forward for investors.

*For more information, see [www.ici.org/policy#fund\\_regulation](http://www.ici.org/policy#fund_regulation).*

### Investors are receptive to the idea of a shorter prospectus

*Percent of respondents*



A SOLID MAJORITY OF 500 FUND BUYERS EXPRESSED ENTHUSIASM FOR A SIMPLE AND CONCISE DISCLOSURE DOCUMENT AFTER THEY SAW A SAMPLE VERSION OF THE SEC’S SUMMARY PROSPECTUS IN A 2008 ICI SURVEY.

# Question & Answer



Peter H. Gallyary

CHIEF OPERATING OFFICER  
INVESTMENT COMPANY INSTITUTE

**AS ICI'S CHIEF OPERATING OFFICER, YOU'RE MANAGING THE BUDGET DURING A TIME OF SEVERE FINANCIAL STRESS. HOW IS THE INSTITUTE COPING?**

When the markets went down in the fall of 2008, we could see that our members would be under a great deal of revenue pressure. We knew that same pressure would be reflected in our dues and other income. So we determined to take a lean organization and squeeze out significant additional cost savings. We had great direction from our chairman, John Murphy, the Compensation Committee, and the Executive Committee of the Board in setting a three-year planning horizon, so we could take savings in 2009 to build a cushion against 2010, which will be the hardest year in terms of our budget.

At the same time, these market events were unprecedented, and the policy agenda is longer and meatier than it ever has been. To serve our members, we're just doing more with less. Everybody is pulling the wagon. We have two fewer lobbyists, for example, but the Government Affairs effort has never been more intense—or effective. The crisis has brought the Institute—as an organization—even closer together. From the Executive Committee to the professional staff to our support staff, which are covering more areas than ever before—we're all working together.

**WERE THERE OTHER INITIATIVES UNDERWAY THAT HELPED ICI REACT QUICKLY?**

Absolutely. When I joined ICI in October 2006, my top priorities were to partner with Paul [Schott Stevens, President and CEO] to carry out the strategic objectives of the organization and to

*“The policy agenda is longer and meatier than it ever has been. To serve our members, we're just doing more with less....The crisis has brought the Institute—as an organization—even closer together.”*

PETER GALLERY

collaborate with the rest of the senior management team to ensure that ICI was operating efficiently, effectively, and accountably. So we reviewed our infrastructure and identified areas where we could make improvements. In technology, for example, we upgraded our business continuity site so that it could serve as a real, live backup facility. Given the nature of our business and our proximity to the White House, we need such a facility. We also upgraded our time and expense and payroll systems, and we installed a new telephone system that uses today's voice-over-IP technology.

The other key improvement was development of the Management Committee. This is a way of engaging ICI's senior management team in strategic business and management issues—matters other than public policy. We meet weekly to discuss financial planning, budgeting, expense control, technology, human resources, and so on. The Management Committee gives us a way to help foster teamwork and, at the same time, solve business problems. During this crisis, the Management Committee has been an invaluable resource, and through that mechanism, if you will, we've been able to creatively respond to the financial challenges faced by the Institute.



#### HOW MUCH WILL DUES FALL, AND WHAT DO YOU ANTICIPATE FOR THE BUDGET?

What we foresee and have budgeted for in fiscal 2010 is a \$6.3 million shortfall in dues revenue, which is about 13 percent from the previous year. Our objective for the three-year plan was to work toward a level of financial reserves that would be consistent with guidelines established by our Board of Governors. We looked at every line item in the budget—from personnel and benefits to staff travel to use of outside resources—and identified potential cost savings. We put in place an immediate hiring freeze, and, to date, haven't had to go beyond that with layoffs. In fact, through attrition, our head count today is at its lowest point since 1996. We reduced travel and other operational expenses, and we cut back on outside counsel and other resources. We were already in the process of renegotiating our lease, which will save us \$1 million a year. In the employee benefits area, we looked at everything and made some significant savings there. Both Mark Delcoco [ICI's Treasurer] and Mary Kramer [ICI's Vice President, Human Resources] were instrumental in this process.

Through our aggressive cost-cutting, we expect to finish the three-year period within the guidelines set by the Board of Governors, assuming member assets will be flat from where they were in June 2009 through September 2010, which we think is a conservative estimate—with no change in the dues rate and without any layoffs.

#### ICI'S CONFERENCE PROGRAM HAS ALSO BEEN HIT BY THE RECESSION. WHAT ARE YOU DOING THERE?

In every industry, conferences have been hurt by travel restrictions. Our members have certainly cut staff travel, and ICI's conferences have suffered a sharp reduction in attendance. One central policy, set by our Board many years ago, is that ICI's conferences should be self-funding so that all member dues go toward the core activities of shaping and influencing public policy. The track record here at the Institute was that conferences made money. With the financial crisis, that changed.

To fix that, we're putting a lot of planning into the major meetings for next year. One great result of our planning is that we'll merge several meetings with the General Membership Meeting next May: the Compliance Conference, the Operations and Technology Conference, and the Investment Company Directors Workshop, along with Board activities and several committee meetings. This will allow us to deliver a really strong, appealing program while we leverage economies of scale. It will be "funds week" in Washington, DC.

For the longer term, with the advent of technology, we took a step back and did a strategic review of other ways we could communicate with our members. ICI hosted a number of webinars last year, and we'll be looking to increase those types of conferences. In our lease negotiations, we were able to get significant allowances that will be used for technological upgrades for our conference rooms at no cost to us, so that will help us use more advanced technology to reach members.

**THIS TOUCHES ON THE MEMBER COMMUNICATIONS PROJECT, WHICH YOU HAVE HELPED LEAD. AFTER THE REDESIGNED WEBSITE, WHAT ELSE IS ON TAP?**

Before, we had eight different websites, including a public website and a member site that were technically incompatible. The new website is one unified site that serves the public, members, and independent directors, with firewalls to protect member and committee materials. We're now enhancing that site with video and multimedia resources.

We also found that our memo delivery system was flawed. We use registered memos to provide our members with critical information about Securities and Exchange Commission activity, rulemaking proposals, legislation, committee meetings—the full range of ICI activities. But each memo went out as an individual email and members would receive multiple emails throughout the day. Now, we've implemented a new memo delivery system that combines an industry news roundup with memo notifications once a day, with memos organized for each member by committee assignments and interests.

We've also looked at committee meetings as a form of member communications and are implementing best practices to make them more productive. The meetings have become far more interactive and we hope more beneficial.

**ON THE POLICY SIDE, YOU ARE STAFF LIAISON TO THE INSTITUTE'S NEWEST STANDING COMMITTEE, THE EXCHANGE-TRADED FUNDS COMMITTEE. WHAT DO YOU HOPE THAT COMMITTEE WILL ACHIEVE?**

We set up the ETF Committee in direct response to changes in the marketplace, as ETFs had become a big part of the industry and our member activities almost overnight. The committee, which is chaired by Bruce Bond [President and CEO, Invesco PowerShares Capital Management LLC], is the only ETF-focused forum that brings together the senior business executives of ETF providers. They regularly have spirited discussions about the growth and development of ETFs and the impact of market events on them. The committee also provides guidance to the Institute's legal staff on our approaches to regulatory matters and market structure issues. For example, they advised us on possible reforms to short sale rules and the SEC's pending ETF rule proposal. And they're helping guide our Research Department on data collection for ETFs.

**YOU CAME TO ICI WITH A UNIQUE AND WIDE-RANGING PERSPECTIVE ON THE FUND INDUSTRY, AS A CONSULTANT AND AN OPERATING EXECUTIVE. WHAT HAVE YOU LEARNED SINCE YOU GOT HERE?**

My first reaction was that the Institute was the best-kept secret in the industry. The breadth and depth of resources available to our members was far greater than I had ever realized. The financial crisis has only made that feeling stronger. It's the greatest challenge we've ever had, but we've pulled together and addressed it in ways that serve our members and fund shareholders.

*Peter H. Gallary has been Chief Operating Officer of ICI since 2006.*



# Working for Transparency Through Clear Accounting Standards for Funds

One of the hallmarks of mutual fund investing is transparency, embodied in the industry's strict disclosure requirements and daily pricing of portfolio securities. Working with industry operations professionals, ICI's Operations and Continuing Education Department addressed two important matters affecting the transparency of funds during the financial tumult of fiscal year 2009: regulatory proposals affecting fair value accounting and implementation of recently adopted derivative disclosure requirements.

The role of derivatives in the financial markets has proven a particularly contentious topic recently, and steps have been taken to improve clarity around these instruments. In March 2008, the Financial Accounting Standards Board (FASB) released FASB Statement No. 161 (FAS 161), Disclosures about Derivative Instruments and Hedging Activities. The standard, which applies to all entities preparing financial statements under U.S. Generally Accepted Accounting Principles (GAAP), required new disclosures to help investors understand how and why an entity uses derivatives, how derivatives are accounted for, and how derivatives affect an entity's results of operations and financial position. Within FAS 161's scope fell an array of instruments such as options, futures, and credit default swaps.

To help ICI members implement the new standard, ICI's Accounting Policy Subcommittee published "FAS No. 161: Implementation Considerations for Investment Companies" in February 2009. The

paper, a guide for industry accounting professionals, described the effect of FAS 161 on existing disclosure rules and provided an implementation schedule for differing fiscal year ends. It also classified derivative contract types by risk exposure category as required under FAS 161, and provided sample financial statement presentations and text for footnotes.

Fair value, or "mark-to-market," accounting, has similarly been a source of controversy. While the fund industry has had well-developed securities valuation processes for many years, GAAP contained different definitions of fair value and provided limited guidance for applying those definitions. In September 2006, FASB issued FASB Statement No. 157 (FAS 157), Fair Value Measurements. Meant to improve the consistency and comparability of fair value measurements, FAS 157 codified the overarching principle that fair value measurement means estimating the price at which a financial instrument would trade in an orderly transaction based on current information and conditions.

As the credit crisis deepened in the spring of 2008, critics increasingly complained that the framework established by FAS 157 was too strict and "procyclical," and thus exacerbated the losses being posted by banks and other financial services entities. In response, the Emergency Economic Stabilization Act of 2008, signed in October of that year, gave the Securities and Exchange Commission

the authority to suspend fair value accounting if the SEC deemed it necessary. The law also required the SEC to perform a study of fair value accounting and submit a report to Congress within 90 days.

In November 2008, ICI rose in defense of fair value accounting. “Any suspension of fair value accounting would reduce transparency and could cause investors to lose confidence in financial reporting,” ICI President and CEO Paul Schott Stevens wrote in a letter to the SEC. Two months later, the SEC agreed, recommending retaining fair value accounting. “Abruptly removing it would erode investor confidence,” said the study, which also concluded that fair value accounting likely did not cause the turmoil experienced in the financial services sector.

With markets still in disarray, however, FASB remained under substantial pressure to clarify the rules on fair value accounting, particularly on how to determine whether a market is active or inactive, and what constitutes a distressed transaction. In March 2009, FASB released a proposal to address those questions. The proposal presumed that inactive markets are distressed, absent evidence to the contrary. As structured, the proposal would likely have precluded funds from using traditional sources, such as external pricing vendors, for fixed-income valuations. Consistent with an ICI recommendation, FASB eliminated the proposed presumption of distress for transactions from inactive markets in the final statement.

Fair valuing of securities, of course, has also been the topic of extensive guidance from the SEC and its staff since 1940. To aid its members, ICI published an easily searchable compendium, *SEC Valuation and Liquidity Guidance for Registered Investment Companies*, in July 2009. The 700-page work comprises two volumes: the first pertaining to registered investment companies generally and the second dealing with money market funds.

ICI will continue to respond to regulatory proposals affecting accounting and operational matters and will provide implementation guidance for newly adopted regulatory requirements where appropriate.

*For more information on ICI's activities in operations and continuing education, see [www.ici.org/policy/regulation/operations](http://www.ici.org/policy/regulation/operations).*

*For SEC Valuation and Liquidity Guidance for Registered Investment Companies, see [www.ici.org/pdf/pub\\_09\\_valuation\\_volume1.pdf](http://www.ici.org/pdf/pub_09_valuation_volume1.pdf) and [www.ici.org/pdf/pub\\_09\\_valuation\\_volume2.pdf](http://www.ici.org/pdf/pub_09_valuation_volume2.pdf).*



# Question & Answer



## Roundtable on the Independent Directors Council

Anthony W. Deering, Dawn-Marie Driscoll, Susan B. Kerley, Alfred E. Osborne Jr., and Patricia K. Woolf

IDC PROMOTES ITS MISSIONS OF EDUCATING DIRECTORS AND ENHANCING COMMUNICATIONS BY BRINGING INDEPENDENT DIRECTORS INTO CONTACT WITH POLICYMAKERS, INCLUDING REP. JIM HIMES (D-CT) (ABOVE).

The Independent Directors Council (IDC) was launched in May 2004. IDC regularly provides insight and guidance on specific issues of interest to fund directors through its publications, its comments on regulatory proposals, and its conferences. The Institute asked directors who have been active in IDC and its predecessor organization (ICI's Directors Services Committee) and who have served on ICI's Board of Governors to reflect on the role of directors and how IDC supports the director community.

#### HOW HAS THE ROLE OF DIRECTORS CHANGED, AND HOW HAS IDC HELPED DIRECTORS COPE WITH THE CHALLENGES OF THESE CHANGES?

**Anthony W. Deering, Independent Director, T. Rowe Price Funds:** I think the level of responsibility of independent directors has increased significantly during the past five years, so the job has become more complicated. IDC has been critical to preparing directors for those challenges so they can address them, find out what the useful practices are, and most particularly, share experiences with each other.

**Susan B. Kerley, Independent Director, MainStay Funds and Legg Mason Partners Funds:** As is widely recognized by the industry and regulators, a big concern and challenge are the many mandates imposed upon boards that may be more appropriately fulfilled by a fund's chief compliance officer or other advisory personnel. IDC's role has been important because it has pushed, in a respectful way, to clarify appropriate lines of board responsibility.

**Alfred E. Osborne Jr., Independent Director, FPA Funds:** I think one of the biggest challenges going forward is

*“Since IDC was launched in 2004, it has come quite a distance. This is a tribute to the vision and leadership of the independent directors who have been at the forefront of this undertaking.”*

PAUL SCHOTT STEVENS

how we cooperate through the inevitable disruptions that occur in a turbulent world. How will IDC serve as the voice of mutual fund directors and the voice of reason in oversight? We must remember the delicate balance that brought the 1940 Act into place.

#### WHAT IS THE RELATIONSHIP BETWEEN ICI AND IDC? HOW DOES THIS RELATIONSHIP BENEFIT IDC?

**Patricia K. Woolf, Independent Director, American Funds:** Having the talented staff and the research capability of ICI at our disposal is a real advantage, and helps advance the mission of IDC. Matt Fink [ICI President, 1991-2004] was tremendously supportive during the development of IDC, and [current ICI President and CEO] Paul Stevens shows his strong commitment by maintaining an open dialogue with directors—listening carefully and answering questions candidly.

**Deering:** There is a cross-fertilization between ICI and IDC on common industrywide issues that face all funds, but IDC also has access to ICI's perspective, which has been helpful for understanding industry positions. Having said that, directors who have served on ICI's Board of Governors have represented the role and perspective of independent directors in a very effective way.

#### WHAT ROLE DO DIRECTORS HAVE ON ICI'S BOARD OF GOVERNORS?

**Dawn-Marie Driscoll, Independent Director, DWS**

**Funds:** Participation of independent directors on the ICI Board allows senior management executives—who perhaps only know independent directors through their own board—to hear, see, and get to know independent directors from other boards.

**Kerley:** The primary role of independent directors on the Board is to provide our perspective on certain issues where ICI is trying to flesh out the whole perspective, the whole position.

**Osborne:** The independent directors keep the channels of communication between ICI's and IDC's governing bodies open. We're all here to produce value, performance, and oversight for fund shareholders—that's our rock, that's our ultimate mission—and maintaining collegial and open communication makes it easier to work out differences that arise.

#### TALK ABOUT HOW IDC HAS FULFILLED ITS THREE MISSIONS: PROMOTING INTERACTION AND COMMUNICATION AMONG FUND DIRECTORS, ADVANCING DIRECTOR EDUCATION, AND ASSISTING IN THE FORMULATION OF POLICY POSITIONS.

**Osborne:** IDC brings a group of isolated fiduciaries of mutual fund organizations together in forums that provide the opportunity for directors to talk with and learn from each other in settings that are conducive to openness and honest and fair dialogue, which is of enormous value. Speaking more specifically, IDC has done a marvelous job in fulfilling its education mission. When I consider the high quality of the *Compendium of IDC Publications*, I'm astounded.

**Kerley:** The regional chapter meetings have been a tremendous addition because they provide a time and place for directors to meet one another in a semi-structured format. I'm also really excited about the new IDC website. There's tremendous potential there for director education and support as well as for enhanced modes for communicating with directors.

#### HOW IS IDC HELPFUL TO ALL FUNDS, REGARDLESS OF SIZE?

**Driscoll:** I think every board is struggling with many of the same issues. The number one mission of all independent directors is to represent the interests of shareholders, no matter if they're a small shareholder of a small fund or a big shareholder of a big fund.

**Deering:** Having independent directors from different organizations, large and small, sharing experiences, thoughts, and perspectives has been very helpful. This interaction is an important part of education for all fund directors, regardless of the size of the fund complex, and helps independent directors perform better, understand their responsibilities better, and understand issues facing the industry and boards better.

#### HOW HAS THE LEADERSHIP OF IDC AFFECTED ITS DEVELOPMENT?

**Woolf:** It is difficult to overestimate the contributions of the leadership. [Directors Services Committee Chairman] Dawn-Marie Driscoll and Jim Bodurtha [IDC's first chairman] were steering a ship while it was still being built. The leaders and deep thinkers of ICI also were helpful. In situations where ICI didn't necessarily agree with what the independent directors wanted, there was a rational forum for

figuring it out and a recognition of common goals in how the two organizations could help each other in furthering the interests of fund shareholders. And Amy Lancellotta [Managing Director of IDC], her predecessor, Marguerite Bateman, and IDC's staff have been tremendously successful in enhancing IDC's programs and responding to the needs of the director community.

**Deering:** The leadership has been terrific so far. Our first chair, Jim Bodurtha, is widely regarded as an expert on policy issues. [Current IDC Chairman] Mike Scofield is certainly very thorough in his approach to policy issues as well. And Bob Uek [IDC Chairman from 2006 to 2008] brought to bear 30 years of experience from the public accounting world, and so he understood terrifically well the reporting and monitoring issues that affect directors.

**IDC FILED ITS BRIEF IN THE JONES V. HARRIS SUPREME COURT CASE AND HAS SUBMITTED A COMMENT LETTER FOR THE SEC'S MONEY MARKET REFORMS. HOW IS THIS TYPICAL OF IDC'S ROLE IN THE BIG ISSUES OF THE DAY?**

**Driscoll:** Well, I think it is just that: typical. One thing that has always impressed me about the independent directors that I've been associated with over the years—through both ICI and IDC—is their great interest in legislative and regulatory policies. After all, independent directors have the burden of overseeing new regulations that are promulgated. As a result, independent directors have always been, in my experience, very interested in educating themselves and then communicating their opinions about policy issues.

**Woolf:** As a result of IDC's excellent work promoting interaction among the director community, independent directors learn a lot more about the challenges that other directors are facing and about the industry, as well as about the developments in the regulatory atmosphere. IDC has served as a strong voice for independent directors—through task force papers, white papers, the *Harris* brief, and the various forums they run. The very name of IDC states it best—independent directors are independent, and IDC has provided a forum for divergent points of view.

*For more information about IDC and its activities, see [www.idc.org](http://www.idc.org).*



# 51st Annual ICI General Membership Meeting



F. William McNabb III, Chairman, General Membership Meeting Planning Committee, and President and CEO, Vanguard, welcomes attendees to the 51st General Membership Meeting.

With the global economy poised between financial crisis and the first signs of recovery, ICI's 51st General Membership Meeting, held in May 2009, echoed the fund industry's dedication to investors with the theme "Extraordinary Times—Steadfast Commitment."

A panel of investment experts, led by Martin L. Flanagan, President and CEO of Invesco Ltd., agreed that the U.S. economy was positioned for a recovery. While acknowledging that the climb out of a deep recession could be protracted, the panelists saw promising economic signs and said that China's economic influence will play an important role in shaping the recovery.

As the government released the first reports on "stress tests" for major U.S. banks, keynote speaker Richard K. Davis, Chairman, President, and CEO of U.S. Bancorp, urged the financial industry to move away from the thinking and actions of the past and to examine the lessons of the financial crisis carefully. To serve the investors of the future, Davis said, firms must understand how attitudes and confidence have been affected by the recent turmoil in markets. A panel of fund industry leaders, moderated by Paul G. Haaga Jr., Vice Chairman of Capital Research and Management Company, agreed that the next 10 years could bring the best growth period yet for funds.

GMM attendees also heard from Securities and Exchange Commission Chairman Mary L. Schapiro,

***"Commitment is what sets our industry apart from the rest of the troubled financial sector. We are committed to the best interests of our shareholders not only by code, but by culture.... It remains our great strength."***

BILL McNABB

who made her first official report to the fund industry and provided her vision of the shape and future of SEC regulation. In a luncheon keynote, Michael Lewis—journalist and author of *Liar's Poker* and *Moneyball*—shared his ideas about the causes of the financial crisis and suggested that the market crisis will lead to greater transparency, more emphasis on financial education, and demand for simpler financial products.

The 52nd Annual ICI General Membership Meeting, scheduled for May 5–7, 2010, will simultaneously offer three other major ICI conferences. Attendees at the Operations and Technology Conference, the Mutual Funds Compliance Programs Conference, and the Investment Company Directors Workshop will enjoy both specialized programming and the panoramic perspective of the GMM program. The 2010 GMM promises to draw together the most diverse and wide-ranging audience of industry professionals and independent directors ever invited to a single industry event.

*For more on the 2009 GMM, see <http://gmm.ici.org/09highlights.jsp>  
For advance information on the 2010 GMM, see <http://gmm.ici.org>.*



## 51st Annual ICI General Membership Meeting



RICHARD K. DAVIS,  
CHAIRMAN, PRESIDENT,  
AND CEO, U.S. BANCORP,  
DELIVERS A KEYNOTE  
ADDRESS ON THE FUTURE  
OF FINANCIAL SERVICES.

SECURITIES AND EXCHANGE  
COMMISSION CHAIRMAN  
MARY L. SCHAPIRO  
PROVIDES HER VIEWS ON  
BUILDING A STABLE AND  
EFFICIENT FINANCIAL  
SYSTEM.





INVESCO LTD. PRESIDENT AND CEO MARTIN L. FLANAGAN (FAR RIGHT) MODERATES A GENERAL SESSION PANEL ON THE MARKET OUTLOOK WITH ABBY JOSEPH COHEN, SENIOR INVESTMENT STRATEGIST AND PRESIDENT OF THE GLOBAL MARKETS INSTITUTE, GOLDMAN, SACHS & CO. (LEFT); BILL MILLER, CHAIRMAN AND CHIEF INVESTMENT OFFICER, LEGG MASON CAPITAL MANAGEMENT, INC.; AND JAMES ANDERSON, CHIEF INVESTMENT OFFICER, BAILLIE GIFFORD.

PAUL G. HAAGA JR., FORMER ICI CHAIRMAN AND VICE CHAIRMAN, CAPITAL RESEARCH AND MANAGEMENT COMPANY (LEFT), DISCUSSES THE FUND INDUSTRY'S STEADFAST COMMITMENT TO SHAREHOLDERS WITH EDWARD BERNARD, VICE CHAIRMAN, T. ROWE PRICE GROUP; MARK S. CASADY, CHAIRMAN AND CEO, LPL FINANCIAL; MARK R. FETTING, CHAIRMAN AND CEO, LEGG MASON, INC.; AND ROBERT L. REYNOLDS, PRESIDENT AND CEO, PUTNAM INVESTMENTS.



JES STALEY, CEO, J.P. MORGAN INVESTMENT BANK, AND ROGER W. FERGUSON JR., PRESIDENT AND CEO, TIAA-CREF, CONTEMPLATE THE SHAPE OF THE FUND INDUSTRY'S FUTURE.

# ICI Education Foundation Launches New Grants for Financial Literacy

The ICI Education Foundation supports ICI's policy agenda. Since its formation in 1989, ICIEF has pursued the overarching objective of advocating and supporting financial literacy, and in that way building visibility and goodwill for the Institute and its members. To do so, it has planned, sponsored, and promoted investment education programs that benefit Institute members, fund shareholders, and the investing public.

ICIEF has partnered with government agencies and other nonprofit organizations to develop and deliver investment education programs to specific audiences such as journalists, college and secondary-school teachers and students, and underserved populations, including African-American and Hispanic investors. To advance its policy objective, ICIEF has become a well-known participant in a variety of advocacy coalitions, conferences, and initiatives that promote financial education, saving, and investment nationwide. The Foundation has engaged with many organizations including the Securities and Exchange Commission, North American Securities Administrators Association, Financial Industry Regulatory Authority, Department of the Treasury, Department of Labor, and the Congressional Black Caucus Foundation and Hispanic Caucus Foundation.

ICIEF focuses its efforts in areas that do not compete with ICI members' programs and that offer the opportunity for maximum impact with limited resources.

## Investor Education Microgrants

During fiscal year 2009, ICIEF introduced a microgrant program to advance investor education in the greater Washington, DC, area. The program awards grants of up to \$25,000 each to schools and other nonprofit organizations within the metropolitan area for the purpose of adding or expanding investor education in existing financial education programs.

The first three grants were awarded in September 2009 to:

- » STRIVE DC, a job-readiness training and placement program for chronically unemployed Washington, DC, residents. STRIVE DC teaches inner-city residents the skills they need to get a job; assists them in finding a job; and provides post-placement supportive services for two years. Long- and short-term financial planning skills are critical to the success of STRIVE clients. Since 2003, STRIVE has partnered with the Women's Institute for a Secure Retirement to include basic money management practices in ongoing job training programs. The ICIEF grant of \$24,990 will enable these programs to incorporate investor education, including information about investing for retirement, over a one-year period.
- » The Arlington County Office of Virginia Cooperative Extension, a service of Virginia Tech and Virginia State University, which offers educational programs and one-on-one

financial counseling to residents of Arlington and Alexandria, VA. The ICIEF grant of \$13,585 will allow the development and delivery of a five-week series of investment lessons for adults at Northern Virginia libraries and for students at four Northern Virginia schools, culminating with an investment simulation at each school.

- » Junior Achievement (JA) of the National Capital Area, an organization that educates and inspires young people to value free enterprise, business, and economics to improve the quality of their lives. “JA Finance Park” is a financial planning curriculum designed for all Fairfax County (VA) eighth graders, which concludes with a personal budgeting simulation at Finance Park, currently under construction at the campus of W. T. Woodson High School and Frost Middle School. Each “storefront” in Finance Park will correspond to one of the students’ 18 budget line items, such as housing, utilities, transportation, groceries, and clothing. The ICIEF grant of \$25,000 will sponsor an investment storefront where students will set budgets for investing in education and retirement, among other goals. In addition, through summer camps and evening and weekend programs, JA expects to offer the Finance Park simulation to targeted adult populations and students of other school systems throughout the Washington, DC, area.

*“We are pleased to launch this grant program at such a crucial time in our country’s economic history, when the need for investor education has never been more apparent or widespread. Our objective is to identify, inspire, or replicate best practices in investor education that build knowledge and create confidence, starting in the national capital region.”*

PAUL SCHOTT STEVENS

*Grant applications are accepted on a rolling quarterly basis. For more information, see [www.icief.org](http://www.icief.org).*



# Question & Answer



John W. McGonigle

CHAIRMAN  
ICI CHAIRMAN'S COUNCIL  
VICE CHAIRMAN  
FEDERATED INVESTORS, INC.

James R. Hart

POLITICAL AFFAIRS OFFICER  
INVESTMENT COMPANY INSTITUTE

#### HOW DOES THE CHAIRMAN'S COUNCIL FIT INTO ICI'S MISSION?

**McGonigle:** ICI is a great organization for representing its members before policymakers both in Congress and within the regulatory agencies. We're a fountain of information for these organizations, and we provide a perspective on issues that we deliver articulately and rapidly with a synthesis of facts and law.

Shareholders' interests are affected by the debates and decisions on Capitol Hill. We need to be there. This is the way democracy works. The fund industry also needs to be involved in the political process by helping to reelect those members of Congress who understand funds and support policies that benefit our shareholders.

To me, it's a three-pronged way of doing things. The Chairman's Council is one way. Member participation on Capitol Hill is another. That's critically important because all politics is local. If, say, ICI wants to deliver a message to U.S. senators from Pennsylvania, then ICI members in Pennsylvania ought to help deliver that message. Members of Congress then recognize that our member companies have shareholders and employees around the country, in their states and districts, who care about issues that come before Congress. The last prong is the expertise and quality of the work product that ICI produces for Capitol Hill. Ours is a very comprehensive approach to government relations.

*"Shareholders' interests are affected by the debates and decisions on Capitol Hill. We need to be there. This is the way democracy works."*

JOHN MCGONIGLE

*"We strive to support members of Congress from both parties who demonstrate an interest in our issues and are receptive to open dialogue on them."*

JIM HART

#### HOW DOES THE CHAIRMAN'S COUNCIL WORK?

**Hart:** Each year, the ICI Board of Governors appoints several Governors to the Chairman's Council to oversee the ICI political program, including our political action committee, ICI PAC.

At the beginning of the year, the Chairman's Council sets its fundraising goals and approves a list of members of Congress who will be supported with ICI PAC fundraisers. The Chairman's Council also approves a list of "recommended candidates"—members of Congress to whom we encourage employees or PACs of member companies to contribute.

Under the Chairman's Council, member companies have three ways to participate: contribute to ICI PAC, contribute to a member of Congress for whom ICI PAC holds a fundraiser, or contribute directly to a member on the Chairman's Council list of recommended candidates. The Chairman's Council sets annual fundraising goals for each of these options.



In terms of contributions made by ICI PAC, we strive to support members of Congress from both parties who demonstrate an interest in our issues and are receptive to open dialogue on them. We also maintain a good mix of House and Senate members when determining for whom ICI PAC hosts its 10 fundraising events each year. Once that list is complete, we submit it to the Chairman's Council for its approval and then to the Board of Governors for approval at its January meeting.

#### HOW DID THAT SYSTEM COME ABOUT?

**McGonigle:** The Chairman's Council began in 1995 with the idea to create a targeted approach that would ensure that the industry's resources would have the greatest impact. ICI staff helped us to focus on committees in Congress that were important to fund shareholders, and to ensure political contributions were targeted to those members of Congress who understood the fund industry and kept our shareholders' interests in mind. We established our fundraisers—also very targeted—and we limited the number of representatives that we encouraged members to give to directly.

Basically, we established a set of principles and controls that demonstrates our clear understanding of the who, what, where, when, and why of the political process. The Chairman's Council reports to the ICI Board three times a year, and we explain everything that we've done in those terms.

**Hart:** I think the clarity of that process is one reason why we've been able to meet and increase our fundraising goals. Most political organizations

normally only have a PAC. Clearly, contributions to ICI PAC give us more flexibility to participate in reelection efforts. But we recognize at the same time that some members of our industry are more inclined to participate through these other options: ICI PAC-hosted fundraisers and recommended candidates. So, we give them a choice.

#### HOW HAS THE CHAIRMAN'S COUNCIL GROWN?

**Hart:** Our fundraising cycle tracks the two-year congressional election cycles. In the 2003–2004 cycle, ICI member companies contributed \$1.4 million to the Chairman's Council through the PAC, fundraisers, and donations to recommended candidates. That number increased to nearly \$1.9 million during the 2006 cycle. And, for the cycle ending in December 2008, Chairman's Council contributions hit \$2.5 million.

#### POLITICAL ACTION COMMITTEES AND POLITICAL CONTRIBUTIONS FROM INDUSTRY GROUPS HAVE GOTTEN A BAD NAME IN SOME QUARTERS. WHAT'S YOUR RESPONSE TO THAT?

**Hart:** It is important to point out that PACs are very transparent and highly regulated organizations sustained by pooled contributions of politically and ideologically aligned individuals. PACs have existed since 1944, but over the years have become more and more regulated, with oversight from both federal and state agencies. This oversight has increased in the last few years with new regulations that call for an even higher level of disclosure and transparency. And you can be certain we are very compliance-minded as we conduct ICI's political activities.

**IF AN ICI MEMBER FIRM HASN'T BEEN INVOLVED WITH THE CHAIRMAN'S COUNCIL, WHAT'S THE FIRST STEP?**

**Hart:** The first and most important step a company needs to take is to sign a Prior Approval Form. This is a form that is mandated by law and is part of the regulations to ensure this remains a transparent operation. The form does not obligate any individual or company to anything. It simply allows ICI PAC to communicate in detail with a member company representative about ICI PAC and to ultimately solicit a contribution to ICI PAC. It should be noted, too, that we do not solicit a member company's employees. We only work with the one person who signs the form.

**WHAT DO YOU EXPECT IN 2010?**

**McGonigle:** 2010 is going to be a significant year in Congress and for fund shareholders. For example, current income, capital gains, and dividend tax rates are scheduled to revert to higher levels on January 1, 2011. This will have an impact on our shareholders, as will a host of other legislative initiatives involving financial services regulatory reform and retirement security. It will be very important for ICI to have a presence on Capitol Hill that will allow our voices to be heard in these debates.

**Hart:** All of this, as John pointed out, really underscores the importance of our member companies' participation in the Chairman's Council. If not now, when?

*John W. McGonigle has been a member of ICI's Board of Governors since 1986 and Chairman of the Chairman's Council since 2005.*

*James R. Hart has been Political Affairs Officer of ICI since 2006.*



ICI GOVERNOR JOHN F. COGAN JR., CHAIRMAN, PIONEER INVESTMENT MANAGEMENT USA, INC., DISCUSSES FUND INDUSTRY ISSUES WITH SENATOR EVAN BAYH (D-IN), OCTOBER 1, 2009.



HOUSE MINORITY LEADER JOHN BOEHNER (R-OH) SPEAKS WITH ICI GOVERNOR F. WILLIAM MCNABB III, PRESIDENT AND CEO, VANGUARD, AT A FUNDRAISER FOR THE CONGRESSMAN ON MARCH 3, 2009.

# Appendices



## 2009 ICI Executive Committee

SEATED (L. TO R.): MARTIN L. FLANAGAN, ROBERT C. POZEN, F. WILLIAM McNABB III, JOHN F. COGAN JR., ROBERT W. UEK, JOHN C. WALTERS

STANDING (L. TO R.): MARK R. FETTING, GEORGE C. W. GATCH, MELLODY HOBSON, EDWARD C. BERNARD, PAUL SCHOTT STEVENS, JOHN V. MURPHY, GREGORY E. JOHNSON, PAUL G. HAAGA JR., MICHAEL E. WILENS, ROBERT S. DOW

NOT PICTURED: LYNN L. ANDERSON, JOHN D. DesPREZ III, JOHN W. MCGONIGLE, MICHAEL S. SCOFIELD

## **Appendix A: ICI ORGANIZATION AND FINANCES**

ICI is a 501(c)(6) organization that represents 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, 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 B, page 52). The Institute employs a staff of 157 (see Appendix E, page 55).

ICI's Board of Governors is composed of 46 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 five include an Executive Committee—responsible for evaluating policy alternatives and various business matters and making recommendations to the Board

of Governors—as well as Audit, Compensation, Investment, and Nominating Committees. Other than the Institute's President, who is a member of the Executive Committee, all members of these committees are Governors. The Board has also appointed a Chairman's Council to administer the Institute's political programs, including the political action committee, ICI PAC (page 44). The Chairman's Council includes eight Governors as well as the Treasurer of ICI PAC. The Institute's President serves as an ex officio member.

The needs of investment company independent directors are addressed through the Independent Directors Council (Appendix C, page 53). 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.

Sixteen standing committees, bringing together about 1,600 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 53). In addition, 27 industry advisory committees, task forces, forums, and working groups with more than 1,900 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 well-established compliance policy and program.

# ICI UNAUDITED FINANCIAL STATEMENTS

## STATEMENT OF FINANCIAL POSITION

(as of September 30, 2009)

### ASSETS

Cash and cash equivalents	\$681,187
Investments, at market value	42,008,401
Accounts receivable	593,655
Prepaid expenses	640,377
Other assets	550,748
Furniture, equipment, and leasehold improvements, net (less accumulated depreciation of \$9,738,551)	3,294,173
Total assets	<u>\$47,768,541</u>

### LIABILITIES AND NET ASSETS

#### Liabilities

Payroll and related charges accrued and withheld	\$16,290,142
Accounts payable and accrued expenses	3,621,144
Deferred revenue	182,892
Rent credit	668,129
Deferred rent	1,538,808
Total liabilities	<u>22,301,115</u>

#### Net Assets

Undesignated net assets	24,467,426
Board-designated net assets	1,000,000
Total net assets	<u>25,467,426</u>

Total liabilities and net assets	<u>\$47,768,541</u>
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## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

(for the year ended September 30, 2009)

### CORE INCOME

Membership dues	\$50,076,185
Investment income	1,555,232
Royalty income	909,996
Program income	1,360,739
Total core income	<u>\$53,902,152</u>

### CORE EXPENSES

Administrative expenses	\$38,466,981
Program expenses	6,583,375
Depreciation and lobby proxy tax	3,229,327
Total core expenses	<u>48,279,683</u>

### Changes in net assets-core

Changes in net assets-core	<u>\$5,622,469</u>
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### SELF-FUNDED INCOME

Conferences	\$ 2,957,507
Other self-funded income	365,758
Total self-funded income	<u>\$3,323,265</u>

### SELF-FUNDED EXPENSES

Conferences	\$3,646,901
Other self-funded expenses	172,400
Total self-funded expenses	<u>3,819,301</u>

### Changes in net assets-self-funded

Changes in net assets-self-funded	<u>(496,036)</u>
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### Changes in net assets from operations

Changes in net assets from operations	5,126,433
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### Non-operating expenses

Non-operating expenses	1,606,542
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### Actuarial pension/postretirement plan loss

Actuarial pension/postretirement plan loss	3,314,519
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### Changes in net assets

Changes in net assets	205,372
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### Net assets, beginning of year

Net assets, beginning of year	<u>25,262,054</u>
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### Net assets, end of year

Net assets, end of year	<u>\$25,467,426</u>
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These financial statements are preliminary unaudited statements as of September 30, 2009. Audited financial statements for the fiscal year ended September 30, 2009, will be available after February 1, 2010. For information on obtaining copies of the audited statements, please contact Mark Delcoco at 202/326-5974.

## FINANCES

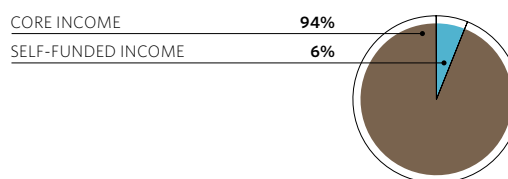
Throughout its history, the Institute has sought to prudently manage its financial affairs in a manner deemed appropriate by the Board of Governors, which is responsible for approving ICI's annual expense budget and its member dues rate. The Board of Governors considers both the Institute's core and self-funded activities when approving the annual dues rate. For fiscal year 2009, the Board approved a 5 percent increase in the annual dues rates for open-end and closed-end funds.

Core activities are related to public policy and include regulatory, legislative, operational, economic research, and public communication initiatives in support of investment companies and their shareholders, directors, and advisers. Reflecting the Institute's strategic focus on issues affecting investment companies, the Board of Governors has chosen to fund core activities with dues rather than seek alternative sources of revenues, such as sales of publications. The significant majority of ICI's total revenues, 94 percent, comes from dues, investment income, royalties, and miscellaneous program sources (see Figure 1). Similarly, by design, more than 90 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.

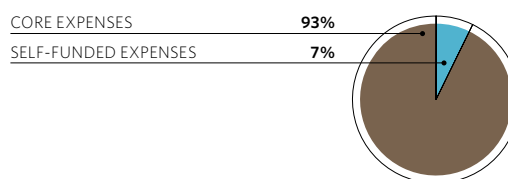
Self-funded activities (e.g., conferences, special surveys) are supported by separate fees paid by companies and individuals who participate in these activities. The financial goal for self-funded activities is that fees should cover all direct out-of-pocket costs and provide a margin to cover associated staff costs to ensure that these activities are not subsidized by member dues. In fiscal year 2009, due to lower-than-expected attendance at Institute conferences, self-funded expenses exceeded self-funded income by approximately \$496,000.

For fiscal year 2009, the Board approved a 5 percent increase in the annual dues rates for open-end and closed-end funds. Dues are calculated on industry assets on a trailing four-quarter average, so dues for fiscal year 2009 were based on assets in the four quarters ending in June 2008. Because the marginal dues rate declines as funds accumulate greater assets, open-end dues per \$10,000 of member fund assets for fiscal year 2009 declined to \$0.039, down from \$0.040 in fiscal year 2008 (see Figure 3).

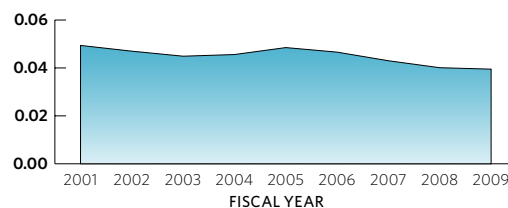
**FIGURE 1**  
Total revenues: FY 2009 = \$57,225,417



**FIGURE 2**  
Total operating expenses: FY 2009 = \$52,098,984



**FIGURE 3**  
Dues per \$10,000 of member fund assets



## Appendix B: BOARD OF GOVERNORS

(as of September 30, 2009)

**John V. Murphy**<sup>2, 3, 4, 6, 7</sup>  
*ICI Chairman*  
Chairman  
OppenheimerFunds, Inc.

**Martin L. Flanagan**<sup>2, 7</sup>  
*ICI Vice Chairman*  
President and CEO  
Invesco Ltd.

**John Amboian**  
*Chief Executive Officer*  
Nuveen Investments, LLC

**Lynn L. Anderson**<sup>2</sup>  
*Independent Director*  
SSgA Funds

**Edward C. Bernard**<sup>2</sup>  
*Vice Chairman*  
T. Rowe Price Group, Inc.

**James H. Bodurtha**<sup>3</sup>  
*Independent Director*  
BlackRock Funds

**Stuart Bohart**  
*Managing Director and Co-Head,*  
*Morgan Stanley Investment Management*  
Morgan Stanley

**Mary K. Bush**  
*Independent Director*  
Pioneer Funds

**Christopher W. Claus**  
*President*  
USAA Financial Services Group

**John F. Cogan Jr.**<sup>2</sup>  
*Chairman*  
Pioneer Investment Management  
USA Inc.

**Michael J. Cosgrove**  
*President and CEO, Mutual Funds*  
GE Asset Management, Inc.

**Patrick P. Coyne**  
*President*  
Delaware Investments

**Bruce L. Crockett**  
*Independent Trustee and Chairman*  
Aim Funds

**Richard S. Davis**  
*Managing Director*  
BlackRock, Inc.

**Anthony W. Deering**  
*Independent Director*  
T. Rowe Price Funds

**John D. DesPrez III**<sup>2</sup>  
*Chairman and CEO*  
John Hancock Financial Services, Inc.

**Robert S. Dow**<sup>2, 4, 6</sup>  
*Senior Partner*  
Lord, Abbot & Co. LLC

**Kenneth C. Eich**<sup>1</sup>  
*Chief Operating Officer*  
Davis Selected Advisers, L.P.

**Ralph C. Eucher**  
*Chief Executive Officer*  
Principal Funds

**Thomas E. Faust Jr.**<sup>1, 4</sup>  
*Chairman and CEO*  
Eaton Vance Management

**Mark R. Fetting**<sup>1, 2, 6</sup>  
*Chairman and CEO*  
Legg Mason, Inc.

**George C. W. Gatch**<sup>2, 3, 6</sup>  
*President and CEO, J.P. Morgan Funds*  
JPMorgan Asset Management

**C. Gary Gerst**  
*Independent Chairman*  
Henderson Global Funds

**Paul G. Haaga Jr.**<sup>2, 7</sup>  
*Vice Chairman*  
Capital Research & Management Company

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

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

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

**Diana P. Herrmann**<sup>1</sup>  
*President and CEO*  
Aquila Investment Management LLC

**Mellody Hobson**<sup>1, 2</sup>  
*President*  
Ariel Investments, LLC

**Edith E. Holiday**  
*Independent Director*  
Franklin Templeton Funds

**Gregory E. Johnson**<sup>2, 6</sup>  
*President and CEO*  
Franklin Resources, Inc.

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

**Lee Kranefuss**  
*Global CEO, Intermediary and ETF Business*  
Barclays Global Investors, N.A.

**John W. McGonigle**<sup>2, 6</sup>  
*Vice Chairman*  
Federated Investors, Inc.

**F. William McNabb III**<sup>1, 2</sup>  
*President and CEO*  
Vanguard

**James A. McNamara**<sup>1</sup>  
*President and CEO*  
Goldman Sachs Mutual Funds

**Randall W. Merk**  
*Executive Vice President,*  
*Investment Management Services*  
Charles Schwab & Co., Inc.

**Thomas M. Mistele**  
*COO and General Counsel*  
Dodge & Cox

**Alfred E. Osborne Jr.**<sup>1</sup>  
*Independent Trustee*  
FPA Funds

**Robert C. Pozen**<sup>1, 2</sup>  
*Chairman*  
MFS Investment Management

**J. Alan Reid**  
*Chief Executive Officer*  
Forward Management LLC

**Judy Rice**  
*President*  
Prudential Investments

**Thomas S. Schreier**  
*Chief Executive Officer*  
FAF Advisors, Inc.

**Michael S. Scofield**<sup>2, 5</sup>  
*Independent Chairman*  
Evergreen Funds

**Greg J. Stark**  
*Managing Director,*  
*Americas Private Client Services*  
Russell Investments

**Michael D. Strohm**<sup>3</sup>  
*Chief Executive Officer*  
Waddell & Reed, Inc.

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

**Garrett Thornburg**<sup>1</sup>  
*Chairman*  
Thornburg Investment Management, Inc.

**William F. Truscott**<sup>4</sup>  
*President, U.S. Asset Management, and CIO*  
RiverSource Investments, LLC

**Robert W. Uek**<sup>1, 2</sup>  
*Independent Trustee*  
MFS Funds

**John C. Walters**<sup>2</sup>  
*President and COO*  
Hartford Life Insurance Companies

**Lloyd A. Wennlund**  
*Executive Vice President and*  
*Managing Director*  
Northern Trust Global Investments

**Michael E. Wilens**<sup>2</sup>  
*CIO, Head of Asset Management*  
Fidelity Investments

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<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> Chairman's Council member

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

## Appendix C: GOVERNING COUNCIL OF THE INDEPENDENT DIRECTORS COUNCIL

(as of September 30, 2009)

The Independent Directors Council enhances outreach and education activities for independent directors and helps communicate their views more effectively to policymakers and the media.

**Lynn L. Anderson\***  
*Independent Director*  
SSgA Funds

**William L. Armstrong**  
*Independent Director*  
OppenheimerFunds

**Ashok N. Bakhru**  
*Independent Director*  
Goldman Sachs Funds

**Dorothy A. Berry**  
*Independent Director*  
Professionally Managed Portfolios  
Allegiant Funds

**James H. Bodurtha\***  
*Independent Director*  
BlackRock Funds

**Mary K. Bush\***  
*Independent Director*  
Pioneer Funds

**Vanessa C. L. Chang**  
*Independent Director*  
American Funds

**Bruce L. Crockett\***  
*Independent Director*  
Aim Funds

**Jerome S. Contro**  
*Independent Director*  
Janus Funds

**Anthony W. Deering\***  
*Independent Director*  
T. Rowe Price Funds

**Darlene T. DeRemer**  
*Independent Director*  
AIG Strategic Hedge Fund of Funds  
Nicholas-Applegate Institutional Funds

**Peter S. Drotch**  
*Independent Director*  
ING Funds

**Royce N. Flippin Jr.**  
*Independent Director*  
Ariel Investment Trust

**Paul K. Freeman**  
*Independent Director*  
DWS Funds

**C. Gary Gerst\***  
*Independent Director*  
Henderson Global Funds

**Cynthia A. Hargadon**  
*Independent Director*  
PAX World Funds

**Edith E. Holiday\***  
*Independent Director*  
Franklin Templeton Funds

**Susan B. Kerley\***  
*Independent Director*  
MainStay Funds and  
Legg Mason Partners Funds

**Joel W. Motley**  
*Independent Director*  
OppenheimerFunds

**Robert D. Neary**  
*Independent Director*  
Allegiant Funds

**Alfred E. Osborne Jr.\***  
*Independent Director*  
FPA Funds

**Donald H. Pratt**  
*Independent Director*  
American Century Funds

**Richard A. Redeker**  
*Independent Director*  
Prudential Retail Funds

**Michael S. Scofield\***  
*IDC Chairman and Independent Chairman*  
Evergreen Funds

**Laura T. Starks**  
*Independent Director*  
TIAA-CREF Funds

**Susan M. Sterne**  
*Independent Director*  
Sentinel Funds

**Virginia L. Stringer**  
*Independent Director*  
First American Funds

**Robert W. Uek\***  
*Independent Director*  
MFS Funds

**Roman L. Weil**  
*Independent Director*  
MainStay Funds

**Gary N. Wilner**  
*Independent Director*  
Oakmark Funds

**Rosalie J. Wolf**  
*Independent Director*  
The Sanford C. Bernstein Funds

**Patricia K. Woolf**  
*Independent Director*  
American Funds

**James W. Zug**  
*Independent Director*  
Allianz Funds and  
Brandywine Funds

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\* On ICI Board of Governors

## Appendix D: ICI STANDING COMMITTEES AND CHAIRS

(as of September 30, 2009)

### ACCOUNTING/TREASURERS

**Richard J. Thomas**  
*Senior Vice President and Treasurer*  
Federated Investment Management  
Company

### CHIEF COMPLIANCE OFFICER

**James M. Davis**  
*Director, Global Compliance*  
Franklin Templeton Investments

### CLOSED-END INVESTMENT COMPANY

**Keith A. Weller**  
*Executive Director*  
UBS Global Asset Management  
(Americas) Inc.

### ETF (EXCHANGE-TRADED FUNDS)

**Bruce Bond**  
*President and CEO*  
Invesco PowerShares Capital  
Management LLC

### INTERNATIONAL

**David Oestreicher**  
*Chief Legal Counsel*  
T. Rowe Price Associates, Inc.

### INVESTMENT ADVISERS

*Vacant*

### OPERATIONS

**Douglas L. Anderson**  
*Senior Vice President*  
Delaware Investments

### PENSION

**Dennis Simmons**  
*Principal*  
Vanguard

### PUBLIC COMMUNICATIONS

**Ivy B. McLemore**  
*Senior Director, Corporate Communications*  
Invesco Ltd.

### RESEARCH

*Vacant*

### SALES FORCE MARKETING

**Peter D. Jones**  
*President*  
Franklin/Templeton Distributors, Inc.

### SEC RULES

**Frank J. Nasta**  
*Managing Director and General Counsel*  
J.P. Morgan Investment Management, Inc.

### SMALL FUNDS

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

### TAX

**Gwen L. Shaneyfelt**  
*Senior Vice President, Global Taxation*  
Franklin Templeton Investments

### TECHNOLOGY

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

### UNIT INVESTMENT TRUSTS

**Steven M. Massoni**  
*Managing Director, UIT Division*  
Van Kampen Investments, Inc.



## 2009 ICI Senior Management

SEATED (L. TO R.): DONALD J. BOTELER, BRIAN K. REID, AMY B. R. LANCELOTTA

STANDING (L. TO R.): DONALD C. AUERBACH, F. GREGORY AHERN, PAUL SCHOTT STEVENS, KARRIE McMILLAN, DEAN R. SACKETT III,  
PETER H. GALLARY

## Appendix E: ICI STAFF

### EXECUTIVE OFFICE

**Paul Schott Stevens**<sup>1, 2, 6</sup>  
*President and CEO*

**Peter H. Gallary**<sup>3</sup>  
*Chief Operating Officer*

### GOVERNMENT AFFAIRS

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

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

**Peter J. Gunas**  
*Director, Retirement Security and Tax Policy*

**James R. Hart**  
*Political Affairs Officer*

### INDEPENDENT DIRECTORS COUNCIL

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

**Annette M. Capretta**  
*Deputy Managing Director*

**Lisa C. Hamman**  
*Associate Counsel*

### LAW

**Karrie McMillan**  
*General Counsel*

**Robert C. Grohowski**  
*Senior Counsel, Investment Companies*

**Frances M. Stadler**<sup>4</sup>  
*Deputy Senior Counsel*

**Dorothy M. Donohue**  
*Senior Associate Counsel*

**Rachel H. Graham**  
*Senior Associate Counsel*

**Tamara K. Salmon**  
*Senior Associate Counsel*

**Mara L. Shreck**  
*Associate Counsel*

**Ari Burstein**  
*Senior Counsel, Capital Markets*

**Jane G. Heinrichs**  
*Associate Counsel*

**Heather L. Traeger**  
*Assistant Counsel*

**Mary S. Podesta**  
*Senior Counsel, Pension Regulation*

**Elena B. Chism**  
*Associate Counsel*

**Michael L. Hadley**  
*Associate Counsel*

**Anna A. Driggs**  
*Assistant Counsel*

**Keith D. Lawson**<sup>5</sup>  
*Senior Counsel, Tax Law*

**Karen L. Gibian**  
*Associate Counsel*

**Susan M. Olson**  
*Senior Counsel, International Affairs*

**Eva M. Mykolenko**  
*Assistant Counsel*

### OPERATIONS AND CONTINUING EDUCATION

**Donald J. Boteler**  
*Vice President, Operations and Continuing Education*

**Linda J. Brenner**  
*Director, Operations and Continuing Education*

**Martin A. Burns**  
*Director, Institutional Operations and Service*

**Diane E. Butler**  
*Director, Transfer Agency and International Operations*

**Kathleen C. Joaquin**  
*Director, Operations—Distribution and Service*

**Peter G. Salmon**  
*Director, Operations and Technology*

**Gregory M. Smith**  
*Director, Operations—Compliance and Fund Accounting*

### PUBLIC COMMUNICATIONS

**F. Gregory Ahern**  
*Chief Public Communications Officer*

**Susan J. Duncan**  
*Senior Director, Member Communications and Vice President, ICI Education Foundation*

**Mike McNamee**  
*Senior Director, Policy Writing and Editorial*

**Jennifer S. Smith**  
*Director, Editorial*

**Janet M. Zavistovich**  
*Senior Director, Communications Design*

**Jodi M. Kessler**  
*Director, Design*

**Ilanthe Zabel**  
*Senior Director, Media Relations*

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

### RESEARCH

**Brian K. Reid**  
*Chief Economist*

**Sarah A. Holden**  
*Senior Director, Retirement and Investor Research*

**Peter J. Brady**  
*Senior Economist*

**John E. Sabelhaus**  
*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*

**Erin H. Short**  
*Director, Statistical Research*

### ADMINISTRATION

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

**Andrew L. Colb**  
*Director, System Operations*

**Paul R. Camarata**  
*Director, Information Technology*

**Theresa A. Brooks**  
*Director, Library Services*

**Mark A. Delcoco**  
*Controller/Treasurer*

**Patricia L. Conley**  
*Director, Accounting*

**Jane A. Forsythe**  
*Senior Director, Conferences*

**Mary D. Kramer**  
*Vice President, Human Resources*

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

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

**Lee D. Butler**  
*Director, Information Services*

**Sandra J. West**  
*Senior Director, Membership*

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

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

<sup>2</sup> Chairman's Council (ex officio)

<sup>3</sup> Chairman's Council and Treasurer to ICI PAC

<sup>4</sup> Secretary to ICI

<sup>5</sup> Secretary to ICI's Chairman's Council, Assistant Treasurer to ICI PAC, Political Compliance Counsel

<sup>6</sup> ICI Education Foundation Board

## Appendix F: PUBLICATIONS AND RELEASES

### RESEARCH PUBLICATIONS

A complete list of ICI research publications, statistical releases, and policy publications is available on the Institute's website. Participant-funded studies are not listed.

**2009 Investment Company Fact Book, April 2009**

» [www.icifactbook.org](http://www.icifactbook.org)

**Defined Contribution Plan Distribution Choices at Retirement, Fall 2008**

» [www.ici.org/pdf/rpt\\_08\\_dcdd.pdf](http://www.ici.org/pdf/rpt_08_dcdd.pdf)

**Equity and Bond Ownership in America, 2008, December 2008**

» [www.ici.org/pdf/rpt\\_08\\_equity\\_owners.pdf](http://www.ici.org/pdf/rpt_08_equity_owners.pdf)

**Retirement Saving in Wake of Financial Market Volatility, December 2008**

» [www.ici.org/pdf/ppr\\_08\\_ret\\_saving.pdf](http://www.ici.org/pdf/ppr_08_ret_saving.pdf)

**401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2007, Perspective, December 2008**

» [www.ici.org/pdf/per14-03.pdf](http://www.ici.org/pdf/per14-03.pdf)

**The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2007, Fundamentals, December 2008**

» [www.ici.org/pdf/fm-v17n5.pdf](http://www.ici.org/pdf/fm-v17n5.pdf)

**Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2008, Fundamentals, December 2008**

» [www.ici.org/pdf/fm-v17n6.pdf](http://www.ici.org/pdf/fm-v17n6.pdf)

**The Role of IRAs in U.S. Households' Saving for Retirement, 2008, Fundamentals, January 2009**

» [www.ici.org/pdf/fm-v18n1.pdf](http://www.ici.org/pdf/fm-v18n1.pdf)

**Profile of Mutual Fund Shareholders, 2008, Winter 2009**

» [www.ici.org/pdf/rpt\\_profile09.pdf](http://www.ici.org/pdf/rpt_profile09.pdf)

**Characteristics of Mutual Fund Investors, 2008, Fundamentals, February 2009**

» [www.ici.org/pdf/fm-v18n2.pdf](http://www.ici.org/pdf/fm-v18n2.pdf)

**Trends in the Fees and Expenses of Mutual Funds, 2008, Fundamentals, April 2009**

» [www.ici.org/pdf/fm-v18n3.pdf](http://www.ici.org/pdf/fm-v18n3.pdf)

**Defined Contribution/401(k) Fee Study, April 2009**

» [www.ici.org/pdf/rpt\\_09\\_dc\\_401k\\_fee\\_study.pdf](http://www.ici.org/pdf/rpt_09_dc_401k_fee_study.pdf)

**The U.S. Retirement Market, 2008, Fundamentals, June 2009**

» [www.ici.org/pdf/fm-v18n5.pdf](http://www.ici.org/pdf/fm-v18n5.pdf)

**What Does Consistent Participation in 401(k) Plans Generate?, Perspective, July 2009**

» [www.ici.org/pdf/per15-01.pdf](http://www.ici.org/pdf/per15-01.pdf)

**The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2008, Fundamentals, August 2009**

» [www.ici.org/pdf/fm-v18n6.pdf](http://www.ici.org/pdf/fm-v18n6.pdf)

### OTHER PUBLICATIONS

**Report of the Money Market Working Group, March 2009**

» [www.ici.org/pdf/ppr\\_09\\_mmwg.pdf](http://www.ici.org/pdf/ppr_09_mmwg.pdf)

**Financial Services Regulatory Reform: Discussion and Recommendations, March 2009**

» [www.ici.org/pdf/ppr\\_09\\_reg\\_reform.pdf](http://www.ici.org/pdf/ppr_09_reg_reform.pdf)

**SEC Valuation and Liquidity Guidance for Registered Investment Companies, July 2009**

» Volume I: [www.ici.org/pdf/pub\\_09\\_valuation\\_volume1.pdf](http://www.ici.org/pdf/pub_09_valuation_volume1.pdf)

» Volume II: [www.ici.org/pdf/pub\\_09\\_valuation\\_volume2.pdf](http://www.ici.org/pdf/pub_09_valuation_volume2.pdf)

### INDEPENDENT DIRECTORS COUNCIL PUBLICATIONS

**Compendium of IDC Publications, May 2009**

» [www.idc.org/pdf/idc\\_09\\_compendium.pdf](http://www.idc.org/pdf/idc_09_compendium.pdf)

**Board Oversight of Fund Compliance, September 2009**

» [www.idc.org/pdf/idc\\_09\\_compliance.pdf](http://www.idc.org/pdf/idc_09_compliance.pdf)

### JOINT ICI AND IDC PUBLICATIONS

**Overview of Fund Governance Practices, 1994-2008, September 2009**

» [www.idc.org/pdf/pub\\_09\\_fund\\_governance.pdf](http://www.idc.org/pdf/pub_09_fund_governance.pdf)

## STATISTICAL RELEASES

**Trends in Mutual Fund Investing:** a monthly news release describing mutual fund sales, redemptions, assets, cash positions, exchange activity, and portfolio transactions for the period.

**Long-Term Mutual Fund Flows:** a weekly report that provides aggregate estimates of net new cash flows to equity, hybrid, and bond funds.

**Money Market Mutual Fund Assets:** a weekly report on money market fund assets, by type of fund.

**Closed-End Fund Statistics:** a quarterly report on closed-end fund assets, number of funds, issuance, and number of shareholders.

**Exchange-Traded Funds:** a monthly report that includes assets, number of funds, issuance, and redemptions of ETFs.

**Unit Investment Trusts:** a monthly report that includes the value and number of deposits of new trusts by type and maturity.

**Worldwide Mutual Fund Market:** a quarterly report that includes assets, number of funds, and net sales of mutual funds in countries worldwide.

**The U.S. Retirement Market:** a quarterly update of the total assets and the role of mutual funds in the U.S. retirement market.

## Appendix G: ICI AND IDC EVENTS

OCTOBER 6-7, 2008	EQUITY, FIXED-INCOME AND DERIVATIVES MARKETS CONFERENCE	NEW YORK, NY
OCTOBER 7, 2008	CLOSED-END FUND WORKSHOP	NEW YORK, NY
OCTOBER 12-15, 2008	OPERATIONS AND TECHNOLOGY CONFERENCE AND SERVICE PROVIDER EXHIBITION	HUNTINGTON BEACH, CA
OCTOBER 24, 2008	ACADEMIC AND PRACTITIONER CONFERENCE ON MUTUAL FUNDS	BALTIMORE, MD
NOVEMBER 19-21, 2008	INVESTMENT COMPANY DIRECTORS CONFERENCE <sup>1</sup>	CHICAGO, IL
DECEMBER 15-16, 2008	SECURITIES LAW DEVELOPMENTS CONFERENCE <sup>2</sup>	WASHINGTON, DC
MARCH 5, 2009	RETIREMENT SAVINGS SUMMIT	WASHINGTON, DC
MARCH 22-24, 2009	MUTUAL FUNDS AND INVESTMENT MANAGEMENT CONFERENCE <sup>3</sup>	PALM DESERT, CA
APRIL 16-17, 2009	INVESTMENT COMPANY DIRECTORS WORKSHOP <sup>1</sup>	BOSTON, MA
MAY 6-8, 2009	GENERAL MEMBERSHIP MEETING	WASHINGTON, DC
SEPTEMBER 13-16, 2009	TAX AND ACCOUNTING CONFERENCE	LAKE BUENA VISTA, FL
SEPTEMBER 24, 2009	CAPITAL MARKETS CONFERENCE	NEW YORK, NY

<sup>1</sup> Sponsored by the Independent Directors Council

<sup>2</sup> Sponsored by the ICI Education Foundation

<sup>3</sup> Cosponsored by ICI and the Federal Bar Association

## Appendix H: ICI MUTUAL INSURANCE COMPANY

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

An organization must be an ICI member to purchase insurance from ICIM.

## Leading the Way on Policy Issues

YEAR IN AND YEAR OUT, ICI PURSUES A WIDE RANGE OF ISSUES THAT CAN HAVE A SIGNIFICANT EFFECT ON INVESTMENT COMPANIES AND THE SHAREHOLDERS THEY SERVE. KEY ISSUES IN FISCAL YEAR 2009 INCLUDE:

- » **MONEY MARKET FUNDS (PAGE 14):** In the wake of the credit crisis, ICI formed the Money Market Working Group to propose recommendations to strengthen the money markets and enhance regulation of money market funds. The *Report of the Money Market Working Group* in March 2009 anticipated regulatory proposals issued by the Securities and Exchange Commission in June 2009.
- » **FINANCIAL SERVICES REGULATORY REFORM (PAGE 16):** Congress and the Obama Administration began work on reforms to close regulatory gaps exposed during the financial crisis. ICI produced *Financial Services Regulatory Reform: Discussion and Recommendations*, focused on reforms that most directly affect the functioning of the capital markets and the regulation of investment companies. ICI was invited to testify three times before House and Senate committees.
- » **AFFIRMATION OF THE 401(K) SYSTEM (PAGE 18):** Market turmoil prompted critics to question the effectiveness of the 401(k) system. In congressional testimony, speeches, commentaries, press interviews, and Internet communications, ICI pressed the research-driven case that the 401(k) system has a remarkable track record of encouraging Americans to save.
- » **TARGET RETIREMENT DATE FUNDS (PAGE 20):** These funds faced increased scrutiny from the press, policymakers, and investors. ICI formed the Target Date Fund Disclosure Working Group, which produced *Principles to Enhance Understanding of Target Date Funds*—a template for funds that could give retirement savers a clearer picture of the operations, benefits, and risks of target retirement date funds. ICI staff met with policymakers, regulators, and the press to help advance target retirement date funds.
- » **SUMMARY PROSPECTUS (PAGE 26):** ICI strongly supported the SEC proposal, adopted in November 2008, allowing funds to voluntarily provide investors with a clear, concise document containing key information. ICI moved vigorously to help members understand and implement the new disclosure regime.

*See the table inside for further policy activity during fiscal year 2009.*

# ICI Action on Selected Policy Developments, Fiscal Year 2009

DURING AN EXTRAORDINARY YEAR, ICI PURSUED POLICIES THAT WORK FOR INVESTORS

## Financial Markets

**SHORT SELLING:** In April 2009, the Securities and Exchange Commission released a proposal describing possible approaches to price restrictions on short selling. Three months later, the SEC made permanent a rule aimed at reducing “naked” short selling.

*Citing both short selling's important role in the markets and SEC actions taken to curb abuses, ICI urged the SEC not to adopt any new price restrictions on short selling. If the Commission does adopt a price restriction, ICI recommended that it implement a security-specific circuit-breaker approach, in which an intraday decline in the price of a security would trigger a modified uptick rule.*

**CREDIT RATING AGENCIES:** The SEC in December 2008 adopted final rules to increase the transparency of registered credit rating agencies. After an April 2009 roundtable, the SEC voted unanimously in September 2009 in favor of further proposals to examine rating agency accountability and bolster oversight by enhancing disclosure and improving the quality of credit ratings.

*ICI commended the SEC on its new rules and encouraged further improvements in this area. At the roundtable, ICI President and CEO Paul Schott Stevens said the foremost goal for regulators should be ensuring that investors receive better disclosure about credit ratings and the ratings process.*

**MUNICIPAL SECURITIES:** The SEC voted unanimously in July 2009 in favor of a proposal to improve the quality and timeliness of municipal securities disclosure.

*ICI applauded the proposal and called on Congress to provide the Commission with sufficient authority to improve municipal securities disclosure, including repeal of the Tower Amendment, which limits SEC jurisdiction over municipal securities offerings.*

**FAIR VALUE ACCOUNTING:** As required by the Emergency Economic Stabilization Act of 2008, the SEC issued a report to Congress on fair value accounting standards. The report said investors generally believe fair value accounting increases transparency in financial reporting and helps investors and market participants make informed decisions.

*ICI told the SEC that mark-to-market accounting for the value of financial instruments better serves the interests of investors and capital markets than alternative cost-based measures do. ICI also helped shape a subsequent Financial Accounting Standards Board (FASB) Staff Position on measuring fair value in inactive markets.*

**DERIVATIVES DISCLOSURE:** In March 2008, FASB released a financial accounting standard requiring new financial statement disclosures from investment companies and others to help investors understand how and why an entity uses derivatives, how derivatives are accounted for, and how derivatives affect an entity's results of operations and financial position.

*In February 2009, ICI's Accounting Policy Subcommittee issued a comprehensive white paper to assist investment companies in implementing the new standard, including sample text note disclosures and an implementation schedule for differing fiscal year ends.*

**INTERNATIONAL FINANCIAL REPORTING STANDARDS:** The SEC asked whether investment companies should fall within the scope of a possible “roadmap” to adoption of International Financial Reporting Standards (IFRS) by 2014.

*ICI supported excluding investment companies from the roadmap. Fund statements under U.S. accounting principles are more informative for shareholders, ICI said, so international standards should converge toward U.S. principles in any transition to IFRS.*

**FINANCIAL SERVICES REGULATORY REFORM:** See page 16.

## Retirement and Education

**401(k) DISCLOSURE:** In June 2009, the House Education and Labor Committee passed H.R. 2989, which would mandate detailed 401(k) plan fee disclosures and require plan administrators to offer at least one index fund that met specific requirements to plan participants.

*While supporting disclosure reform, ICI voiced strong concerns that H.R. 2989 failed to clearly define disclosures that investors need while layering on unnecessary and potentially inaccurate information. It urged Congress to consider alternatives to the bill.*

**INVESTMENT ADVICE:** The U.S. Department of Labor indicated in September 2009 that the Obama Administration would propose changes to rules, created under the Pension Protection Act (PPA), permitting retirement plan participants and individual retirement account (IRA) savers to obtain advice from companies that provide services or investments to their plan or IRA. Separately, Rep. Robert E. Andrews (D-NJ) introduced legislation that would repeal the PPA advice provision.

*ICI, in meetings with DOL officials and in a statement to Congress, urged the adoption of policies that promote the provision of investment advice and, at a minimum, preserve pre-PPA guidance allowing various forms of advice and education on which many plans now rely.*

**2009 RMD WAIVER:** The Worker, Retiree, and Employer Recovery Act, enacted in December 2008, waived the required minimum distribution (RMD) rules for IRAs and employer-sponsored plans in 2009.

*To help members, ICI asked Treasury to provide guidance in several compliance and operational areas. In September 2009, the Internal Revenue Service provided guidance that addressed many member concerns.*

**COLLEGE SAVINGS:** The Middle Class Task Force charged Treasury with preparing a report on Section 529 college savings plans.

*ICI provided its research on the extent of holdings in 529 plans to Treasury and urged enhanced and effective disclosure for 529 plan participants.*

**AFFIRMATION OF THE 401(k) SYSTEM:** See page 18.

**TARGET RETIREMENT DATE FUNDS:** See page 20.

## Taxes

**GROWTH ACT:** The Generating Retirement Ownership Through Long-Term Holding (GROWTH) Act was introduced in the House and Senate. The legislation would allow mutual fund investors to defer capital gains taxes until they sell their shares.

*ICI applauded the GROWTH Act as a tool to help millions of Americans build savings for retirement, education, and other purposes.*

**MANDATORY COST BASIS REPORTING:** The Emergency Economic Stabilization Act contained a new cost basis reporting requirement that raised a wide range of implementation and other issues for funds.

*ICI requested prompt guidance from the IRS and Treasury on the requirement, given the considerable implementation burdens. ICI provided detailed suggestions for drafting the regulations.*

## Fund Regulation

**MONTHLY ACCOUNT STATEMENT PROPOSAL:** FINRA proposed in May 2009 a rule that would require broker-dealers to send customers their statements on a monthly basis.

*ICI recommended that quarterly statements remain the norm for mutual fund shareholders, as requiring monthly statements would significantly increase costs for mutual funds and offer little, if any, benefit to fund investors.*

**MASSACHUSETTS DATA SECURITY RULES:** In August 2009, Massachusetts proposed significantly revising its data security standards, set to take effect in 2010, to make them less burdensome and more consistent with federal law.

*Since January 2008, ICI has warned in letters, testimony, and meetings with Massachusetts officials that the rules were overly broad, did not provide enough flexibility in implementation, and could be unconstitutional. The proposed revisions address the concerns of ICI and others.*

**FOREIGN ACCOUNTS:** The IRS delayed the filing deadline for the Foreign Bank and Financial Account Report (FBAR) for 2008 and all prior years until June 2010 to give the IRS additional time to address various issues. Without that delay, thousands of employees of companies that manage funds would have been required to file duplicative FBARs in 2009.

*ICI urged the IRS to delay the filing deadlines and issue guidance that would eliminate the unnecessary recordkeeping and reporting burdens that the FBAR places on fund company employees.*

**EUROPEAN REGULATION:** The European Commission proposed a directive that addresses the regulation of managers of alternative investment funds that are domiciled in the European Union (EU) or that offer alternative investment funds to EU investors.

*ICI alerted the Commission that the proposed directive could negatively affect U.S.-registered investment companies and EU investors and suggested that the Commission revise the proposal to exclude U.S.-registered investment companies from its provisions.*

**MONEY MARKET FUNDS:** See page 14.

## Fund and Corporate Governance

**BROKER VOTING:** In July 2009, the SEC approved a New York Stock Exchange (NYSE) proposal that eliminates discretionary broker voting for the election of directors for all issuers except registered investment companies.

*ICI commended the NYSE for preserving discretionary broker voting for investment companies, a result consistent with ICI research showing that ending such voting could more than double investment companies' typical proxy costs.*

**JONES V. HARRIS ASSOCIATES L.P.:** The U.S. Supreme Court agreed to hear this case, which addresses the legal standard that courts apply in lawsuits alleging that a fund adviser has received excessive fees. Oral arguments were set for November 2, 2009.

*In September 2009, ICI and the Independent Directors Council joined several others in filing amicus curiae briefs in support of Harris Associates. The ICI brief describes the vigorous competition in the fund industry and urges the Court to endorse the well-tested existing legal framework for assessing excessive fee claims, which provides "real and substantial protection to investors." IDC's brief discusses the important role and responsibilities of independent directors and the rigorous process they follow in approving fund advisory fees.*



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