

## ICI VIEWPOINTS

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## Wall Street Journal Falls Short with Story on Funds' Commodity Investments

By Ianthé Zabel

Today's *Wall Street Journal* included [an article that attempted to analyze the debate](#) over regulation of commodity investments through mutual funds. Unfortunately, the story omitted basic facts about mutual fund regulation and oversight, and thus fell short of providing an accurate explanation of the issue and debate. ICI has [commented to the CFTC](#) on the regulatory proposal in question and [recently testified on Capitol Hill](#) about it. We were disappointed to see that our interview with the reporter wasn't reflected in the story, and so ICI President and CEO Paul Schott Stevens has submitted a letter to the editor in print and online to correct the record. Here's the text of his submission:

Letter to the Editor, *Wall Street Journal*:

Mutual funds are among the most regulated and transparent investment vehicles available, with investor protection as a defining principle. Yet your recent article ("Commodity Bets Draw Debate," April 26) suggests that mutual funds' commodity investments are "beyond the reach of current regulations." That's inaccurate and irresponsible.

Here are the facts. Mutual funds use futures, swaps, and other derivatives to offer diversified investment strategies and to manage risks for the benefit of their shareholders. Some of these strategies are executed through wholly-owned offshore subsidiaries, as explicitly allowed by the Internal Revenue Service in more than 50 rulings, to prevent double taxation. Both funds and their subsidiaries are subject to regulatory requirements that, among other things, limit their use of leverage and, in most cases, require disclosure of fees and portfolio holdings of the subsidiary. Under the law governing mutual funds, these offshore subsidiaries cannot engage in any activity that mutual funds could not directly pursue.

We've explained these important facts to the Commodity Futures Trading Commission and its self-regulatory organization, the National Futures Association. In fact, NFA told the CFTC in a public comment letter this month that mutual funds invest in derivatives through subsidiaries to satisfy tax law requirements. NFA's letter recommends that the CFTC allow mutual funds to continue to use their subsidiaries for derivatives investing as long as CFTC and NFA can fully inspect the subsidiaries' books and records—an approach ICI has also endorsed.

We also explained these facts to your reporter, but they were not reflected in the story. This important regulatory debate deserves better reporting.

Paul Schott Stevens  
President and CEO  
Investment Company Institute  
Washington, DC

*Ianthé Zabel was ICI's deputy chief public communications officer.*

