

ICI VIEWPOINTS

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ICI's 2018 Annual Report: Letter from the President

By Paul Schott Stevens

A version of this letter by ICI President and CEO Paul Schott Stevens was released in the Institute's [2018 Annual Report](#).

Fund industry watchers will remember this year as one of important policy developments, including some that have been the subject of years of debate. The Investment Company Institute has been deeply engaged in this wide range of issues, working on both legislative and regulatory fronts to promote advantageous outcomes for regulated funds and their shareholders.

Of primary importance was Congress's consideration of major tax reforms, including changes in the taxation of retirement savings. For many years, we had been concerned that Congress eventually would turn to the retirement system as a potential source of tax revenue, and therefore we worked to underscore the strengths and successes of the defined contribution system and the crucial role that tax deferral plays.

Nonetheless, draft tax legislation in 2014 proposed changing the deferral treatment of all or some of the 401(k) system, and "Rothification" was a prominent feature early in the debates over the 2017 legislation. The outcome in Congress was far from certain, until [vigorous efforts](#) helped establish the key role that tax incentives play in helping American workers achieve a secure retirement. Happily, in the final legislation, Congress preserved the current tax treatment unchanged.

Our other major objectives for the legislation—preserving the tax treatment of most municipal securities, as well as the flexibility that investors currently have in calculating capital gains—were likewise achieved. Because reforms of the magnitude represented in the Tax Cuts and Jobs Act of 2017 happen only infrequently in Washington, our work should redound to the benefit of retirement savers and investors for many years to come.

So too will our efforts to [improve fund disclosure](#). The Securities and Exchange Commission (SEC) adopted Rule 30e-3, which authorizes US-registered funds to deliver shareholder reports online as the default option. This proposition is so sensible that you might think it would be free from controversy. Far from it. Over two annual appropriations cycles, we battled a coalition of paper producers and their allies, who lobbied Congress to incorporate a provision in federal spending bills to prohibit the SEC from moving forward with any e-delivery rule.

Congress rejected their harmful efforts, and the SEC's adoption of Rule 30e-3 finally lays the issue to rest. Alongside the rule adoption, the Commission invited comments on the framework that governs the assessment of fees for delivering shareholder reports—a framework that we believe is fraught with conflicts of interest and imposes significant unjustified costs on fund shareholders.

The SEC also approved an important modification to its [liquidity risk management rule](#). In place of public disclosure of the "bucketing" data that funds will report to the Commission, funds will provide shareholders with narrative disclosure concerning their liquidity risk management program. We strongly concurred with the SEC that disclosure of this kind will be far more meaningful and understandable to the investing public than the initial requirement would have been.

More recently, the Commission voted to propose new [standards of conduct](#) for investment professionals. We welcomed this step out of our conviction that the SEC is the appropriate authority to establish and enforce such standards for the protection of all retail investors. This rulemaking is a high priority for SEC Chairman Jay Clayton, and though the initial package of proposals was not perfect, we know that the SEC is committed to setting an appropriately high bar while preserving retail investors' access to the investment products and services they depend on to reach their savings goals. This is precisely what the Department of Labor's

fiduciary rule failed to do.

Exchange-traded fund members can take heart in the Commission's proposed rule to codify and streamline the [ETF approval process](#). A top priority for us this year, the rule should make the ETF regulatory framework more consistent, transparent, and efficient.

Our international program, [ICI Global](#), continues to expand in scope and importance. This year, we gained good ground on numerous critical initiatives. As negotiations over Brexit have played out, we responded strongly to proposals that threaten to undermine the successful UCITS fund model by restricting the delegation of functions outside the European Union. We also engaged in a close dialogue with Hong Kong's securities regulator to demonstrate how funds use derivatives for the benefit of their shareholders.

On behalf of the International Organization of Securities Commissions (IOSCO), we continued to benchmark and encourage best practices around cybersecurity. And we remained dogged on subjects old (financial stability) and new (the "[common ownership hypothesis](#)") in our outreach to EU policymakers.

Many of our achievements this year, as reported in this annual report, are the sum of efforts spanning several or more years. Our success in a complex policy environment evinces what I believe to be some of the Institute's greatest strengths: the facts and informed perspective that we bring to the table, the respectful and constructive relationships that we seek to maintain with lawmakers and regulators, and our sheer persistence.

All this depends, of course, on the diverse talents and expertise of our staff—and this past year will be recalled for the transition of responsibilities for many key roles here at ICI. We are greatly in the debt of our departing colleagues for the outstanding contributions they have made over many years. Peter Gally, Brian Reid, Dan Waters, and Qiumei Yang leave very large shoes to fill.

At the same time, I am immensely proud of and confident in the new leadership at ICI and ICI Global: [Sean Collins](#), chief economist; [Susan Olson](#), general counsel; [Jennifer Choi](#), chief counsel for ICI Global; [Patrice Bergé-Vincent](#) and [Alexa Lam](#), who will lead ICI Global; and Don Auerbach, who will take over as chief operating officer.

As you survey this annual report, I hope you will agree that everyone engaged with ICI can take great satisfaction in the success we enjoyed this year past. We can have equal confidence that the Institute will continue to carry on its important missions on behalf of its members and the millions of shareholders they serve. I look forward to the year ahead!

Paul Schott Stevens was President and CEO of ICI.