INVESTMENT COMPANY INSTITUTE
ANNUAL REPORT
TO MEMBERS
ICI REPRESENTS...

More than 31,000 funds
Number of investment companies by type*

With $34.5 trillion in assets
Investment company assets, billions of dollars*

Serving more than 100 million shareholders
US ownership of funds offered by investment companies*

47.4 percent of US households own funds
60.9 million US households own funds
106.3 million individuals own funds

* Data for US mutual funds, closed-end funds, exchange-traded funds, unit investment trusts, and non-US funds are as of September 30, 2020. Data for ownership of funds are as of mid-2020.
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LEADERSHIP MESSAGES

Letter from the Chairman

2020 will go down in history as a year that none of us can ever forget—no matter how much we would like to. It was a year of turmoil, fear, and reckoning. Yet for the regulated fund industry, this has also proven to be a year of resilience, transition, and great hope. We will come out of the trials of 2020 stronger and more committed than ever to serving our hundreds of millions of investors around the world.

The COVID-19 pandemic and its economic and financial consequences, of course, shaped the year and touched every aspect of our business. Here, our industry displayed enormous creativity, energy, and strength—as did our trade association. Both ICI and its member firms shifted almost overnight to virtually 100 percent remote work, as both the health crisis and market turmoil raged.

Yet firms met their commitments to shareholders, maintaining services and keeping up with flows through turbulent markets. And the Institute met its commitments to members—bringing the industry together, advocating for its interests—as detailed in this annual report. However the pandemic evolves, our response will ensure that 2020 will go down in our history as one of the industry’s finest hours.

Even as our world grappled with health and economic crises, growing tensions over issues of justice and equity roiled America’s social fabric. While these concerns intensified, they are not new. For several years, the fund industry has increased its focus on enhancing diversity and inclusion—on ensuring that our workforce and our boards reflect the varied backgrounds and perspectives of the investors and society we serve.

As an industry, we can—and will—do more to foster a more diverse and inclusive workforce, and ICI provides a critical forum to help encourage and execute that work. In January, the Board of Governors created a board-level Diversity and Inclusion Working Group, which I had the honor of chairing. The working group identified two core areas for focus:

- improving our understanding of the demographics of our industry—because we can only manage if we measure—and expanding the pipeline of diverse talent entering our business at all levels of seniority.

In October, the Board endorsed the working group’s recommendations, raising our dedication to this cause to a new level. We recognize that we face a long journey toward a difficult goal—but we are determined to succeed.

For ICI, 2020 was also a year of significant transitions. After more than 16 years as president and CEO—and more than two decades of service to the Institute—Paul Schott Stevens is retiring.

Paul’s tenure has encompassed eventful and tumultuous years. Paul took office as the industry was dealing with the aftershocks of the late trading and market timing scandal. A very few years later, we were plunged into the global financial crisis. That triggered years of work on two rounds of reform for money market funds, intense legislative activity around the Dodd-Frank Act, and a debate about funds’ role in financial stability that still rages.

“it was a year of turmoil, fear, and reckoning.
Yet for the regulated fund industry, this has also proven to be a year of resilience, transition, and great hope.”

In the midst of all this, Paul led the effort to stand up ICI Global—a vast expansion of ICI’s international presence, with offices in London and Hong Kong, significant support from the entire staff, and a growing reputation for rigorous analysis and strong insights among policymakers all around the world.

Throughout his long tenure, Paul has consistently exhibited sound judgment and steady leadership, along with a farsighted vision for where our industry is going and what shareholders need. He has consistently pushed to make the Institute a stronger and more capable organization, in every area. And he has been an outstanding spokesman for our industry, testifying 24 times before Congress and speaking to hundreds of audiences about a wide range of issues.

2020 ICI ANNUAL REPORT | LEADERSHIP MESSAGES
For nearly two decades as president, Paul charted the best path forward for funds, their managers, their directors, and the shareholders they serve with great vision, energy, and impact. Our industry—and the opportunities that we offer investors—are stronger today than ever before, thanks to his efforts.

Fortunately, we have found a worthy successor. On November 9, Eric J. Pan—a veteran markets regulator with deep experience in international financial regulation and a recognized scholar and expert on financial regulation—became the 10th executive to head the Institute in its 80-year history.

Eric brings global experience, deep financial and regulatory insight, and a strong commitment to investor protection and service. He has directed international regulatory policy at both major US capital markets regulators, the Securities and Exchange Commission (2011–2015) and the Commodity Futures Trading Commission (2015–2019). He has written and spoken extensively on issues that matter greatly to ICI and its members, including international coordination of financial regulation and corporate governance.

The Board is confident that Eric will continue to build upon ICI’s great strengths as he leads our industry to navigate the new challenges and opportunities ahead.

The unending challenges of 2020 tested our industry—but they gave us the chance to demonstrate our outstanding strengths in service of hundreds of millions of investors worldwide. With great hope, we look forward to the future.

George C. W. Gatch
Chairman, Investment Company Institute

### Significant Steps to Foster Diversity and Inclusion in the Fund Industry

Fostering greater diversity and inclusion is critical to the future of the fund industry. ICI’s Board of Governors took significant steps in fiscal year 2020 to advance the Institute’s commitment and work toward that goal.

In January, the board directed the creation of a board-level Diversity and Inclusion Working Group to recommend measures that could advance diversity and inclusion. The working group responded with proposals to launch and publish ongoing surveys to measure the demographics of the industry’s workforce and of fund boards. The group also proposed pipeline initiatives designed to bring more women and members of racial and ethnic minority groups into legal and investment management careers in the industry.

At its October meeting, the Board passed a resolution formally endorsing the working group’s recommendations. The resolution directed the Institute to engage a firm with expertise in workforce issues to conduct a survey about the representation of women and members of racial and ethnic minority groups in management companies throughout the industry. The board resolution urges ICI members to participate in the survey and calls for ICI to report aggregated results. The report will provide more comprehensive data on the fund industry’s demographics and enable ICI and its members to develop targeted initiatives to foster an industry that incorporates, recognizes, and elevates people of all backgrounds, races, and cultures. A separate survey by ICI and the Independent Directors Council will report on the gender, racial, and ethnic makeup of fund boards.

The board resolution also supported two pipeline initiatives. It endorsed a five-year extension of the ICI Education Foundation’s commitment to help fund the Robert Toigo Foundation in their important efforts to advance the careers and leadership of underrepresented talent in financial services. And it directed ICI to develop a program that will expose more minority law students to the asset management industry, including the various legal and compliance positions available in the field.

In a separate action, the Board created the Diversity and Inclusion Committee, by elevating a membership-based working group on diversity issues to the status of standing committee. Crystal Hardie Langston, chief diversity officer of Vanguard Group, has been nominated as the committee’s first chair.

As ICI Governor Mellody Hobson, co-CEO and president of Ariel Investments, noted in a press statement, “These initiatives are the first few steps in a longer journey toward having a truly diverse and inclusive asset management industry, at all levels of seniority.” The Board’s direction will help leadership from across the industry work together to take action and make meaningful progress in this area in the years to come.
A Conversation with Paul Schott Stevens

Paul Schott Stevens, ICI’s longest serving chief executive, is retiring at the end of 2020. As he neared the end of his 16 years of service, he sat down with ICI staff to discuss the events of his tenure.

You’ve been describing your leadership experiences at ICI through a lens of five chapters of time. So, let’s talk a little bit about that.

When you rejoined the Institute in 2004, the industry was recovering from the formidable challenges of the market timing and late trading scandal. What did that episode show about the importance of shareholder confidence and the need to promote high ethical standards?

Well, it’s been said that confidence is a plant of slow growth, but it’s one that can be destroyed quite quickly. The bad actions of a few in the industry put at risk the reputation of us all, and it required us to take strong action supporting the SEC in a series of regulatory measures to make sure that those abuses didn’t happen again. I think late trading and market timing taught us of the importance of integrity in our business, and called for rededication by all to our fiduciary role on behalf of 100 million American investors.

After that scandal, ICI strongly supported both enforcement and new regulation by the SEC. Would you talk a little about that legacy and what it meant?

I think ours is an industry and organization, ICI, that tries to face up to problems as they arise. This has been true throughout my association with ICI. When I was general counsel in the mid-1990s, for example, there arose issues with respect to personal investing by portfolio managers and others. And so, we got together and developed a standard of conduct. You can name one issue after another where we took action. Acknowledging problems, working together to find constructive and effective solutions, and, as appropriate, cooperating with the regulatory community to protect our shareholders has been a part of our legacy and a part of our culture, and I’m very proud of that.

Money market fund reform is another example of ICI taking real initiative and not reflexively resisting regulations. What would you like to share about that time?

Well, the battle over money market funds was quite something through two rounds of SEC rulemaking. The first [round] was really prompted by the ICI working group’s recommendations, and it made money market funds the first part of the financial system to be reformed after the great financial crisis. Of course, the money fund chapter isn’t over. We had problems occur during March and April of this year during the COVID-19 pandemic. And so, we’ll continue at ICI to be thinking through money fund reforms.

The debate around financial stability has been another significant chapter of time during your tenure. How did you lead the charge to set the record straight?

This is a matter of principle, I think, for us. It really involves the question of whether [regulated funds] are going to be regulated like banks—something that is altogether inappropriate. It’s incompatible with the model of service that we bring; it’s incompatible with our role in capital markets, our agency relationship to our customers, and many other aspects of our business. But after the financial crisis, there was a lot of attention by central bankers and finance ministry officials on what they called “shadow banks.” This characterization of the fund industry was, I think, purposely pejorative and altogether wrong. So, we’ve had to fight hard to make sure that we maintain an appropriate framework of regulation for our industry. We’ve fought successfully so far but that battle will continue. It’s once again being renewed in the aftermath of the events of March 2020.

For videos of Paul Schott Stevens’s conversation, please visit the leadership messages section of the 2020 ICI Annual Report at www.2020ici.org.
One of the great things about ICI is that **members come together** to manage risks, to make sure that we all can keep our promises to our shareholders. It’s a place where ICI does some of its **most meaningful work** on behalf of our members.”

Paul Schott Stevens, President Emeritus
You’ve talked a lot about the critically important role that ICI Research plays in bringing facts to the table. Could you tell us a little bit about how it was instrumental in this debate?

The data that we bring to the table on regulatory issues of all kinds is extraordinarily important, and it certainly has been important during the financial stability debate. Too much policy is made, not only in Washington, but elsewhere, in the absence of facts. But if you want to be an effective advocate, bringing facts and an informed perspective to the table is really the secret to success. And that’s always been our method at ICI.

One of the most notable ways that we expanded our global perspective was through the formation of ICI Global in 2011. What was the Board’s vision in creating ICI Global?

Global managers looked at their activities, really, on a worldwide basis, and regulatory interest in various jurisdictions was spiking as well. So, they turned to ICI and said, well, you’ve got to respond to all these trends. We established an office in London and we quickly thereafter established another in Hong Kong. We also dedicated a portion of our staff in Washington to work on global issues, and we proceeded to change the mindset of the organization into a global mindset where the international dimension of our work was considered, literally, at every turn. It’s probably the biggest change to ICI that’s happened on my watch and one that I’m very proud of. I think these pressures toward globalization and the increased interest in fund investing around the world will only increase and expand in years to come. ICI wants to be a part of that. In fact, we’re the only association of regulated funds or asset managers with a global membership. We have members on six different continents.

You opened your career as president in the middle of a crisis that required real leadership. It seems unfair, perhaps, but maybe fitting that your time as president is bookended by another crisis. How do you think our industry has fared throughout the pandemic?

The degree of resilience that the industry has shown is really quite remarkable. Part of that is longtime planning—business continuity. It’s the effort of people in our operations groups around the industry, technologists, risk managers, compliance officers, all sorts of people who keep the infrastructure that keeps fund investing up to snuff, if you will. We’ve seen it at ICI, too, and we have a great deal of which to be proud.
Eric J. Pan Elected as ICI’s Next President and CEO

Eric J. Pan, a veteran capital markets regulator with deep experience in international financial regulation and a recognized scholar and expert on financial regulation, joined ICI on November 9, 2020, as president and CEO, the 10th chief executive of ICI and its predecessor organizations.

The Board of Governors unanimously elected Pan on October 8, on the recommendation of a search committee composed of seven members of the Board’s Executive Committee and led by ICI Chair George C. W. Gatch. As president and CEO, Pan will direct ICI’s staff of 174 in offices in Washington, DC; London; and Hong Kong.

“I am honored to join ICI as its next president and chief executive,” Pan said. “A regulated investment fund industry is essential to successful capital markets. As the leading voice for investment funds for 80 years, ICI is dedicated to ensuring funds continue to play this vital role in the United States and abroad. I look forward to working with ICI’s members and top-flight staff to continue the good work of Paul Schott Stevens by speaking out about why funds are important, how they serve investors, and why they play a critical role in the financial system.”

A graduate of Harvard College, the University of Edinburgh, and Harvard Law School, Pan has made his mark both as a regulator and an academic.

He was recruited to the Securities and Exchange Commission (SEC) in 2011, charged with leading a new unit to oversee international regulatory policy and implement the agency’s response to the G20 Leaders’ agenda in the wake of the global financial crisis. In that role, he oversaw the SEC’s participation in the International Organization of Securities Commissions (IOSCO) and Financial Stability Board (FSB). In 2015, Pan moved to the Commodity Futures Trading Commission (CFTC), where as director of the Office of International Affairs he supervised all CFTC international initiatives. He represented the Commission in bilateral and multilateral negotiations as well as in IOSCO and the FSB, chairing the IOSCO Committee on Derivatives, the OTC Derivatives Regulators Group, and the FSB working group on data standards governance. He also assisted the CFTC chairman in leading the IOSCO Cyber Task Force and the IOSCO Task Force on Market Fragmentation.

From 2005 to 2010, Pan was director of the Heyman Center on Corporate Governance and associate professor of law at the Benjamin N. Cardozo School of Law, publishing research on financial regulation, international coordination, and corporate law. He returned briefly to academia in the fall of 2019, spending a semester as senior research fellow and adjunct associate professor at Columbia Law School and its Center for Law and Economics Studies. Pan began his career as an associate at Covington & Burling in Washington, DC.
COVID-19 has ushered in a new everyday reality for the fund industry. But the early weeks of the crisis, when we saw those extraordinary events in the financial markets—they feel like a long time ago now.

Susan, take us back to those hectic weeks in March. How did ICI engage with policymakers to support members and their shareholders during this uniquely challenging time?

Olson: Those early weeks were unlike anything we had ever been through—and they certainly came at us fast. But our approach didn’t stray too far from how we’ve handled other challenging situations.

By that I mean, huddling with members to discuss what they were seeing in the markets—what funds and their shareholders were experiencing—and then meeting with policymakers to share that on-the-ground perspective.

This approach guided our engagement with senior officials at Treasury and the Federal Reserve Board, which helped inform their efforts to calm the markets. Same for our discussions with the SEC [Securities and Exchange Commission] and staff, which helped us secure relief to give funds another tool to manage their liquidity, just in case they needed it.

Looking back now, would you consider ICI’s efforts here a success?

Olson: Absolutely—and that’s a credit to the regulators as well. Without their availability, their openness—without their willingness to engage in timely and fulsome communication—we wouldn’t have been able to supply them with critical data and insight in real time. It was an intensely stressful few weeks, but I know it wasn’t just us who were feeling the pressure.

Bergé-Vincent: Right. Here in Europe, we were engaged with policymakers in a wide range of areas. But none more important, I think, than our work to keep financial markets from closing in response to the volatility triggered by the pandemic and the shutdowns of economies.

As the crisis ramped up, we stood shoulder-to-shoulder with other market participants against calls for the markets to close, and led a global effort urging policymakers to commit publicly to keeping them open.

“Here in Europe, we were engaged with policymakers in a wide range of areas. But none more important than our work to keep financial markets from closing in response to volatility triggered by the pandemic and the shutdown of economies.”

—Patrice Bergé-Vincent
Our thinking here was that such a commitment would assure citizens and businesses that they wouldn’t lose access to funding when they needed it most. And we’re grateful that, in the end, not a single European country closed its markets.

Say a major market had closed—what was at stake for our members?

Bergé-Vincent: A lot. Funds wouldn’t have been able to value their portfolio securities fairly, which would have forced them to suspend redemptions and created challenges for retail investors. That’s a much bigger problem than any that policymakers could have solved by shutting a market down.

What about supporting members’ own responses to the crisis? ICI was quite active there as well.

Burns: Very much so. Every week—and often more frequently than that—our committees were holding calls for pretty much every area of the industry. Operations, law, the risk officers, the compliance folks—everyone. At times we had several hundred people on a single call—from firms of every size and style you can think of.

Having this holistic view of the fund complex—of the fund business—ensured that our support would reach the entire membership, not just parts of it. Plus, in working with other trade groups, we were able to minimize any bottlenecks that might have disrupted the transaction process or kept the delivery of services to shareholders from running smoothly.

Olson: I would add that our frequent member surveys also played a key role here. Members told us regularly that having a broad understanding of the challenges brought on by the crisis—and responses to it—helped them better assess and improve their operations and compliance efforts.

Why do you think you were able to draw such robust participation?

Burns: You know, members have long turned to our committees as a place for practical, productive discussion to enhance operations for the benefit of fund shareholders.

In times of crisis, this type of forum becomes even more critical. And I think so many folks joined, one, because they were eager for information to bring back to their firms, and two, because they wanted to be a part of the regulatory and operational solution themselves—and turn this information into action.

Let’s talk more about that. Members managed to move nearly their entire staffs from office work to remote work—pretty much overnight. And in the months since, they’ve been able to continue serving their shareholders with little or no disruption. How have they done it?

Burns: Well, most members went into the crisis with two key advantages: some staff already working remotely, and really, really strong business continuity plans developed over years. That foundation was important. And from there, members have just been incredibly thorough in supporting employees. Arranging to have equipment delivered, creating tip sheets for managing a home network, strengthening their data security—things like that.

Data security has been huge.

Burns: You’re telling me. Our members are always working with highly sensitive information, and they never stop working to ward off cyberattacks.

But the number of attacks we’ve seen since the crisis hit—the sophistication of them—it’s all been on another level. So members have had to dedicate an enormous amount of energy and resources to shore up their cyberdefenses, get them in place at people’s homes, and reinforce sound cyberhygiene practices among their staffs.

About 90 percent of the industry is working from home now, right? Why not everyone?

Burns: Some critical shareholder servicing functions just can’t be performed from home. Things like accessing equipment to manage on-site systems, processing mail, and handling checks. Printing shareholder documents, too, which most members delegate to a third-party service provider.

We and our members reached out to states to ensure that, as governments ordered lockdowns, staff who perform these activities would be classified as “essential,” so that they could legally get this critical work done.

I’d like to now fast-forward some, and zoom out a bit beyond the fund industry. Because even as markets have calmed, economies continue to reel.

Patrice, that’s certainly true in Europe, which is suffering its worst economic shock since World War II. What role can regulated funds play in Europe’s efforts to restore economic growth, and how is ICI engaging here?

Bergé-Vincent: Well, we’ve been saying it since long before the pandemic. The key to unlocking the EU’s economies is a robust capital markets union—one that promotes a greater role for market-based financing and encourages more retail-investor participation.
The same is true now, only the need is even more urgent. And regulated funds—because they’ve proven so useful for growing household savings and channeling investment to businesses—are well positioned to address this need.

We’ve emphasized these points to the European Commission in recent months. And the Commission’s new Capital Markets Union Action Plan would suggest that our recommendations haven’t gone unnoticed.

A lot remains to be done, though. The EU’s recovery plan relies for the time being on financing from bank loans and taxpayer money. Those are important sources of financing—don’t get me wrong—but they alone won’t be nearly enough to deliver a lasting recovery. So our advocacy looking forward will center on showing policymakers why increased retail investor participation in EU capital markets through regulated funds is the missing piece.

This idea of looking forward—let’s explore that. When the pandemic is behind us, do you expect anything in the fund industry to revert to the pre-COVID normal? Or is there no going back at this point?

Bergé-Vincent: My hope is that we’ll be able to return to in-person meetings with policymakers—in addition to having virtual meetings—and that this will foster even richer engagement with them. Our virtual meetings with policymakers have been going very well, but that’s in part because of the wealth of relationship capital we’ve built with them over time.

The longer the pandemic continues, the more we’ll have to draw from this capital. And at some point, I think, we’ll have to build it back up with some of the in-person interaction we’re used to.

Olson: We’ve experienced many benefits from virtual meetings, including the ability to involve more people and schedule meetings for members and policymakers more easily. So we’ve learned wonderful lessons that we’ll apply as we move forward.

One thing I do expect to be permanent is this greater appreciation for electronic delivery. Some investors will always prefer physical documents. But for most, the simplicity, accessibility, and versatility of electronic delivery will come as very welcome improvements.

Well, wherever we end up on the other side of all this, it certainly will have been a learning experience. And that note—learning—is actually how I’d like to wrap up.

You’ve all worked in and around the fund industry for quite some time, and navigated ICI through more than a few challenges. But I have to ask—what has this crisis taught you about the industry?

Burns: What I’ve learned is, the industry is even more resilient than we thought. Thinking about that shift to remote work, few of us had ever contemplated something at such a scale and speed. And I have to admit—over that March weekend, I wasn’t sure how smoothly it would go.

Yet everyone—and I mean, everyone—really stepped up to ensure that service to shareholders wouldn’t suffer. Fund complexes have learned so much about their capabilities since, which I think will help shape their approach to business over the next five or 10 years.

Olson: It really was an amazing feat. But you know, Marty, I actually can’t say I was surprised at how smoothly the transition went. The learning experience for me was more about how productive the industry could be after the transition.

Historically, there has been some skepticism about how engaged remote workers actually are, but the success we’ve seen over the past six months has been a real eye-opener.

Bergé-Vincent: It’s kind of like everyone in the industry has been put through this big test—a test of tests, if you will. The fact that we’re still going strong should give us all confidence that whatever challenges come our way, we can overcome them. Together, we are stronger. That’s the big lesson for me.

Olson: And I think that’s heartening. Over the past 80 years, funds have evolved constantly to meet the needs of their shareholders, but the industry had never had to navigate something like this.

Now, we know that wholesale change doesn’t have to be scary. It doesn’t have to worry us. Instead, it can be a spark for serving shareholders even better in the future.

—Susan Olson
ICI’s Response to COVID-19
How ICI Took Advantage of Structures and Culture

ICI Chief Operating Officer Donald C. Auerbach sat down to discuss what the Institute is doing to support ICI staff, ICI members, and the hundreds of millions of investors they serve globally through the challenges of the COVID-19 pandemic.

How did members and ICI staff adapt to the unforeseen challenges that COVID-19 presented virtually all organizations?
As COO, part of my job is to ensure that our departments and managers had the tools and support they needed to facilitate the transition to remote work as seamlessly as possible, while also continuing to provide our members with the high level of support and expertise they expect from ICI.

In a matter of days, ICI and its members moved nearly their entire staffs from office work to remote work—with minimal or no disruption. Our employees did what we thought would be a one-day test of remote work on March 13—but then we haven’t been back to the office since. The transition was largely seamless for the organization.

Our lawyers, economists, operations experts, and other professionals normally spend a lot of time meeting together in the office, collaborating on various projects to support our members. Our investment in technology and the dedication of our employees has allowed our staff to continue this cooperation virtually. Maintaining this ICI culture, where cross-functional collaboration thrives for the benefit of the membership, is the major challenge and primary focus for our managers while we’re virtual.

We do look forward to getting everyone back together in person as soon as it’s safe to do so. Of course, nobody knows when that will be, so we are scaling up for the "new normal" in whatever form that ultimately takes. Importantly, our interactions with ICI members and committees and our ability to be on call for our members has not suffered. In some cases, including committee meetings and conferences, we have seen a higher level of participation and interaction virtually than we might expect to see in person.

How did ICI manage to be prepared for this shift in how we support our members and the investors they serve?
While we never envisioned an event like the COVID-19 crisis, our planning over the years has certainly come into play as the organization was forced to revamp the way we work and serve our members almost overnight.

Our commitment to investments in technology, which long preceded my time as COO, and the skills of our IT professionals, have really paid off for the organization this year. This, combined with our focus on business continuity planning over the years, allowed us to adapt the delivery of our member services to the realities of the workplace during the COVID-19 crisis.

Like our members, we are continuously focusing on upgrading our information security. We are also entrusted with member data that underlie our statistical and research efforts, and we have a duty to keep that safe and secure. As part of these efforts, we worked with an outside auditing firm, Deloitte, to review all of our security procedures and protections. We obtained a SOC 2 Level 1 certification—the gold standard in measuring the strength of information security controls. ICI and Deloitte have worked through more than 80 internal controls to ensure all requirements are documented and reviewed, and that they meet AICPA standards for SOC 2 certification.

“Our commitment to investments in technology...combined with our focus on business continuity planning over the years, allowed us to adapt the delivery of our member services to the realities of the workplace during the COVID-19 crisis.”

Donald C. Auerbach
Chief Operating Officer
Investment Company Institute
COVID-19 triggered extraordinary events in the financial markets and members are under unusual pressure. Tell us about the value of ICI membership in these circumstances.

One of the benefits of ICI membership is that it gives member firms unlimited access to key resources to augment their own in-house capabilities and knowledge bases. These include:

- Experienced legal, compliance, and policy experts with years of experience working with member firms, regulators, and the policymaking community.
- Access to ICI’s historical data in benchmarking products and new statistics.
- Expertise, resources, support, and best-practice service in industry operations. Many on our operations staff have years of industry experience and are well-equipped to assist our members during these unprecedented times.
- The deep global experience of ICI’s international program, ICI Global, which benefits both member firms operating on a global basis and those that are primarily US-focused.
- The opportunity to participate in one or more of our 70-plus US and global committees. Members’ participation on our committees brings invaluable insights to inform ICI’s policy advocacy and to help shape industry activity. I promise you will come away feeling that you’ve gained knowledge that can apply to your firm.

During the pandemic, we’ve made a point of making ICI even more accessible to our members. For example, members have access to the cell phone numbers of ICI staff as they work remotely during this time of crisis.

We’ve conducted frequent outreach, calls, and virtual meetings with member committees, providing a forum to share experiences in addressing COVID-related challenges, including business continuity and technology challenges, and to identify issues to raise with policymakers and regulators.

As ICI continues its efforts to support member funds and their shareholders, I have been gratified to see our collaborative culture in action.

Business Continuity in an Unpredictable World

With the sweeping changes ushered in worldwide by COVID-19, business continuity planning (BCP) took precedence in the work of ICI Operations this year. Since the beginning of March, the BCP Subcommittee of ICI's Technology Committee has met weekly online with a record number of dedicated member participants.

By collecting insights from across the industry about fast-changing circumstances, the BCP group helped members navigate the many unknowns posed by the pandemic. In all, fund industry operations performed well amid the uncertainty and abrupt work-from-home transition, a testament to years of scenario and resilience planning.

To help members gauge their own decisionmaking, ICI Operations’ Technology Committee and BCP Subcommittee issued two surveys to members in early March about their travel and in-person meeting restrictions. After it became apparent that working remotely would not be temporary, these committees collaborated with the Chief Compliance Officer Committee, to send a more comprehensive third survey to chief compliance officers, examining the considerations involved in a return to the office.

As spring turned to summer and then fall, the BCP group continued to monitor conditions that could affect firms’ work arrangements: the impact of school closures or reopenings, the availability of public transportation, testing and contact tracing policies, office redesign, potential permanent work-from-home positions, the resumption of business travel, the prospects of resurging infections, and more. Throughout, ICI has helped members communicate their experiences with one another.

The industry will now also be considering new business continuity scenarios never envisioned before, including the prospect of a second emergency coinciding with the pandemic. By working together with members, the BCP group will continue to address the evolving requirements of an uncertain world.

In the wake of the market turmoil of March, ICI’s leadership recognized that policymakers would focus attention on the experiences of a wide range of market participants, including regulated funds.

In June, the Executive Committee of ICI’s Board of Governors established the COVID-19 Market Impact Working Group, a group of senior industry executives charged with examining the causes of the 2020 market turmoil and the experiences of regulated funds. Their goal was to help provide a sound, empirical basis for any future regulatory discussions or other responses that could affect regulated funds and their investors. A second group, the Money Market Working Group, was formed to bring in a wider range of perspectives from sponsors of money market funds.

In October, ICI began issuing research papers that together will form the Report of the COVID-19 Market Impact Working Group. The first paper, “The Impact of COVID-19 on Economies and Financial Markets,” examines the epidemiological, economic, and policy origins of the market turmoil. It finds that the market dislocations represented a liquidity crisis driven by the economic response to a global health crisis—unlike the credit crisis that roiled markets in 2007–2009. The working group believes it is critically important that policymakers understand and take account of this difference in determining whether policy approaches rooted in the experience of the global financial crisis are or are not appropriate in response to the COVID-19 crisis.

Subsequent papers examine the experiences of exchange-traded funds (ETFs), money market funds, Undertakings for Collective Investment in Transferable Securities (UCITS), and bond mutual funds. Each paper carefully reviews a wide range of data—covering assets, flows, indicators of market stress, and the behavior of investors and intermediaries—to determine the nature and sequence of events in March.

The working group’s examination of money market funds finds that, contrary to statements by some commentators, these funds did not cause the COVID-19 market turmoil. Data demonstrate that there were serious and widespread dislocations in short-term credit and other fixed-income markets before institutional prime money market funds experienced redemption pressure. Evidence shows that the 2010 Securities and Exchange Commission (SEC) reforms improved the resiliency of prime money market funds. The paper also finds, however, that one of the SEC’s principal 2014 reforms—giving fund boards the option to impose liquidity fees and gates if a fund dipped below the 30 percent weekly liquid assets threshold—may have intensified flows from institutional prime money market funds instead of moderating them.

ICI is providing each paper in the report to a wide range of regulators and policymakers in jurisdictions around the world to help shape the dialogue on policy responses to the COVID-19 market turmoil.

For more information, please visit www.ici.org/covid_working_group.
ICI’s regulatory work this year will be remembered for its robust response to the COVID-19 crisis. The spread of the disease into a global pandemic—and the challenging market conditions that ensued—spurred policymakers across the world to take remarkable action. And the Institute’s close engagement with them helped produce practical solutions that advanced the interests of member firms and protected their investors.

Yet even as ICI responded swiftly to the crisis, it continued to deliver on its usual extensive agenda of regulatory priorities. Throughout the year, the Institute worked tirelessly on behalf of members and their investors in pursuit of a wide range of important policy goals.

Critical Response to a Crisis

As the pandemic’s early days ushered in extraordinary market volatility and intense demands for liquidity, ICI acted quickly to confront the developing challenges facing the industry.

Together with members, ICI urged senior US Treasury and Federal Reserve officials to adjust some of the Fed’s emergency liquidity facilities to make them more useful and effective. And at the Institute’s request, Securities and Exchange Commission (SEC) staff provided relief to ensure that the industry could continue to manage liquidity in these difficult market conditions—first for money market funds and then for long-term mutual funds.

On the global front, ICI led a joint effort urging regulators to keep financial markets open, helped secure an extension of deadlines for regulatory consultations, and shared timely data and analysis with policymakers and other trade bodies on the behavior of fund investors during the crisis.

Major Progress in FSOC’s Policy Approach

ICI has long advocated for the Financial Stability Oversight Council (FSOC) to improve its approach to identifying and mitigating any potential systemic risk among nonbank financial companies. This year marked major progress toward that goal, with the FSOC adopting constructive reforms to its interpretive guidance governing designation of nonbank financial companies as systemically important financial institutions (SIFIs). In line with ICI’s recommendations, the FSOC will examine financial products, activities, and practices that could pose risks to US financial stability. If the FSOC identifies a potential risk to US financial stability, it will work with financial regulators to seek implementation of appropriate actions to address that risk.

The FSOC will consider designating a company as a SIFI only if it believes the company poses risks that cannot be addressed through this activities-based approach. In cases where the FSOC does decide to pursue SIFI designation of a company, it will do so through a more transparent, analytically rigorous process—involving more timely and constructive engagement with the company and its primary regulator.

At the ESG Forefront

Interest in environmental, social, and governance (ESG) investing grew substantially over the past year. And as fund managers worked to meet this increasing investor demand, ICI experts delivered thorough, well-informed support to members in this complex, rapidly evolving space.

The Institute’s most important ESG initiative focused on improving the public’s understanding of ESG investing and the many choices that regulated funds provide. The publication stemming from the initiative—written by a working group of senior executives from ICI members—set forth a simple, consistent terminology for firms to use when describing ESG integration and sustainable investing strategies. ICI’s Board of Governors strongly endorsed the working group’s recommendations and urged all members to implement the terminology as soon as reasonably practicable.

The year also saw the Institute advocate vigorously for sound, investor-centered ESG policymaking around the world, and build a comprehensive tracker of global ESG policy developments.

Derivatives and Fair Valuation: Pursuing Sound Regulatory Frameworks

In November 2019, the SEC issued its long-awaited reproposal of a rule to reform the regulation of US-registered funds’ use of derivatives—aiming to consolidate 40 years of guidance, no-action letters, and informal comments from the Commission and staff into a single, comprehensive rule.
ICI’s supportive comments commended the SEC for crafting a proposal that would both protect investors and preserve fund managers’ ability to use these practical portfolio management tools. The Institute also recommended several targeted adjustments to enhance the proposal, and worked closely with the SEC and staff to incorporate them into the final rule, which was adopted in October 2020.

Issued in April 2020, the SEC’s proposal to modernize the regulation of funds’ valuation of portfolio securities similarly seeks to replace a patchwork of guidance—and also earned ICI’s support.

In comments to the Commission, ICI praised the proposal for acknowledging the importance of accounting standards in the valuation process, and for recognizing the complementary and essential roles that investment advisers and fund boards play in it. Ahead of the final rule’s adoption in December 2020, the Institute engaged with the SEC and staff to modify some of the proposal’s requirements in a way that would more accurately reflect funds’ current practices—while still maintaining investor protections.

Toward a More Efficient Fund Proxy System
ICI’s efforts to improve the proxy system for funds as issuers continued apace this year, with a report to the SEC highlighting a wide-ranging survey that asked fund companies about their recent proxy campaigns.

The report emphasizes the many challenges—and high expenses—that fund complexes often face in soliciting proxy votes, while illustrating how these hurdles can disproportionately affect decisions relating to fund policies, governance, and operations.

Among its many recommendations for improving the fund proxy system, ICI called on the SEC to create a new, more practical way for funds to reach a majority vote on specified items, which could save fund shareholders millions of dollars.

Stepping Up for Closed-End Funds
Closed-end funds (CEFs) are a smaller segment of the regulated fund industry, but offer distinct investment opportunities. Thanks to ICI’s resolute advocacy on behalf of CEFs and their investors this year, the SEC staff withdrew Boulder Total Return Fund, Inc., a 2010 no-action letter that had limited CEFs’ ability to defend themselves against activist investors seeking short-term profits.
ICI’s advocacy centered on a comprehensive report, delivered to the SEC in May 2020, that refuted the Boulder letter’s conclusions and showed how it harmed CEFs and their investors. The Institute also met with policymakers to explain the report’s findings and highlight the benefits of CEFs, including their ability to offer retail investors exposure to private equity and other investment opportunities.

The SEC is now analyzing how CEFs can help give retail investors greater access to private markets, and ICI looks forward to further discussions on this issue with the Commission and staff. (See, also, the opposite page.)

**Seeking Improvements to MiFID II/MiFIR**

The revised Markets in Financial Instruments Directive (MiFID II) and the Markets in Financial Instruments Regulation (MiFIR) have spurred innovation and enhanced competition across parts of the trading and market structure landscape, but the MiFID II/MiFIR framework is far from perfect. With helpful input from members, ICI delivered a highly detailed response to a European Commission consultation outlining numerous ways to improve the framework.

ICI’s response recommended changes to enhance pre-trade and post-trade transparency and ensure that fund managers can maximize execution quality for their investors. To strengthen the framework’s investor protections, the response offered recommendations for improving the fund investment process, enhancing investor choice, and enabling investors to benefit from cost efficiencies derived from the management of pooled fund assets.

The Institute is confident that these recommendations will help inform the European Commission’s thinking as it considers proposing changes to the MiFID II/MiFIR framework.

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**For Funds’ Use of Derivatives, a Promising New Regulatory Framework**

For more than 40 years, US-registered funds using derivatives have had to negotiate an increasingly complex maze of guidance, no-action letters, and informal comments from the Securities and Exchange Commission (SEC) and staff. In November 2019, the Commission took a major, long-needed step with a promising new proposal aimed at consolidating this cumbersome regulatory framework into a single comprehensive rule.

ICI’s supportive comments commended the SEC for crafting a proposal that would protect investors while preserving fund managers’ ability to use these practical portfolio management tools—and recommended several targeted adjustments to enhance it. The Institute’s main recommendations included:

* revising the proposal’s limits on leverage, so that fewer funds have to deregister or change their investment strategy;
* excluding certain financial instruments that do not pose risks commonly associated with derivatives from the definitions of “derivatives transaction” and “senior security,” so that funds investing solely or primarily in these instruments do not unduly fall subject to the rule; and
* modifying the criteria that funds must use when selecting a securities index to compare against for the proposal’s relative value-at-risk leverage limit, so that the indexes they select align more closely with investors’ expectations of their funds’ volatility and risk.

ICI engaged closely with the SEC and staff to incorporate these revisions and others into the final rule ahead of its adoption in October 2020.
Closed-end funds (CEFs) offer their shareholders many benefits, including a steady stream of income and the ability to access specialized asset classes. Yet over the past decade, the number of CEFs has declined, from 629 at year-end 2009 to 494 at year-end 2019, hindering investors’ ability to take advantage of these important investment vehicles. One reason for this decrease is a marked increase in activist activity, which was facilitated by the Boulder Total Return Fund, Inc.—a no-action letter issued by the Securities and Exchange Commission (SEC) staff in 2010. The letter limited the ability of CEFs to defend themselves and their shareholders against activist investors seeking short-term profits. As a result, CEFs became more attractive for activists to target and employ arbitrage tactics against—tactics that often forced CEFs to shrink or liquidate, which increased the costs for shareholders and reduced the availability of CEFs to investors.

In March 2020, ICI submitted a **comprehensive report** to the SEC, using robust legal and statistical analysis to demonstrate why the Boulder letter’s conclusions were wrong and how the letter had harmed CEFs and their investors. ICI also met with policymakers to explain the report’s findings and highlight the benefits of CEFs—including their ability to offer retail investors more opportunities to access private equity and other investments. The **SEC withdrew the letter** in May 2020 and is analyzing **how CEFs can help** achieve the Commission’s goal of giving retail investors greater access to private markets.

### EU Advocacy: Advancing Sound Policies for Funds and Their Investors

Though helping members navigate COVID-19 responses was a top priority for ICI Global, it continued to work with members on preparing for Brexit and advocated on crucial EU legislative proposals.

#### Brexit

Throughout 2020, ICI Global met with UK and EU policymakers to urge them to minimize business disruptions and unnecessary costs for funds by negotiating cooperation agreements between the United Kingdom and other countries. These agreements will allow funds to continue to delegate fund management to the United Kingdom after the Brexit transition period. ICI Global also submitted a comment letter to UK government officials about the importance of maintaining and supporting cross-border distribution of funds.

#### MiFID II/MiFIR

EU policymakers are reviewing the revised Markets in Financial Instruments Directive/Regulation (MiFID II/MiFIR). ICI Global met with policymakers and submitted a comprehensive comment letter advocating for:

- Establishing a consolidated tape to make markets more transparent, fair, and efficient
- Improving investors’ access to appropriate regulated funds by enhancing the inducements framework
- Reforming disclosure requirements to make them more user-friendly and engaging
- Making e-delivery the default method for disclosures and communications

#### ESG

As part of the EU Action Plan on Sustainable Finance, policymakers adopted new environmental, social, and governance (ESG) disclosure requirements for asset managers and funds. Policymakers also continue to propose additional requirements for ESG disclosure, the consideration of ESG in the investment process, and the distribution of ESG funds. These requirements will create substantive new obligations for managers. Through numerous meetings and comment letters, ICI Global advocated for more workable standards and requirements that would not impose unnecessary burdens on managers, hinder investment choice, or stifle the growth and innovation of the ESG market.
The fund industry proved this year that rigorous preparation and active member exchange make all the difference in meeting the unexpected. Fostering that preparedness is at the heart of the mission of ICI’s Operations Department, which continually seeks to help members improve and fortify operational capabilities from distribution and servicing to cybersecurity and fraud prevention. The close cooperation that members have developed working on these issues together over many years enabled them both to manage an unprecedented global crisis and to bring to fruition ongoing priorities in a challenging year.

Fending Off Cyberattacks at the Home Office

Chief information security officers (CISOs) know that dogged preparation and scenario planning pay off when a crisis occurs. Mutual trust gained among members of the CISO Committee over many years enabled them to share their experiences and ideas to help the industry manage a smooth transition and maintain strong operations and defenses during the COVID-19 crisis.

In mid-March, when the fund industry transitioned from business as usual to working from home across the globe, the cyberthreat landscape expanded dramatically. Cybercriminals intensified attacks to take advantage of potential vulnerabilities of home office environments with a notable rise in phishing and ransomware attempts playing upon pandemic fears and the prospect of government stimulus checks.

With the rapid switch to working from home, fund complexes quickly ramped up systems that had previously accommodated only occasional remote working. To fortify against network incursions in a more dispersed work-from-home environment, the industry’s technology teams equipped employees’ home offices with stronger security and controls to facilitate tighter network monitoring.

During this time, ICI Operations also continued to engage in its regular cybersecurity work, issuing—for the sixth year—surveys on domestic and global security practices. These two surveys are the only cybersecurity surveys focused on the mutual fund industry. The US survey—the ICI 2020 Cybersecurity Survey—collects, anonymizes, and aggregates responses from US members on their practices, including encryption, authentication, access controls, and security operations. The results are tiered by asset size to enable firms to compare their practices to those of their peer group.

On behalf of the International Organization of Securities Commissions (IOSCO), ICI collects data from individual firms through IOSCO’s Affiliate Members Consultative Committee (AMCC) to conduct the AMCC 2020 Global Cybersecurity Survey. Together, the US and global surveys provide insights into the cybersecurity practices of the industry around the world, including the evolving threats and defenses.

Benchmarking Industry Transfer Agent Costs

As part of important ongoing work, ICI published its 18th biennial Mutual Fund Transfer Agents: Trends and Billing Practices study. The comprehensive data gathered from members provide a premier benchmarking tool for fund complexes to compare their transfer agent charges against those of other funds to assess the competitiveness and efficiencies of their operations.

Advocating for the Needs of Small Funds

Small funds—those with assets less than $10 billion—bring innovation and choice to the fund industry. These funds also face challenges different from those of their larger counterparts. The Small Funds Committee has long provided a forum to facilitate exchange among this distinct peer group.

A newly created sales and marketing subcommittee this year is helping small funds achieve more efficient and effective ways to reach investors. Because modest staff size and budgets present unique issues for their distribution efforts, a top priority for the subcommittee is to help small funds market through online channels. To help do this, the subcommittee has offered presentations and hands-on workshops with expert sales and marketing professionals, including sessions on how to devise digital strategies, use social media, and shop for the appropriate technology. The subcommittee’s meetings have continued to be well attended, as the virtual meetings enable broader participation.

Meanwhile, the Small Funds Committee continued its mission to facilitate direct engagement with regulators. This year, members participated in the third annual roundtable of the Smaller Funds Outreach initiative from the Securities and Exchange Commission (SEC), to explore whether regulatory
Combing a Rising Wave of Scams

COVID-19 health fears, the shortage of masks and protective gear, and government stimulus checks provided gold mines of opportunity for fraudsters seeking to take advantage of the stresses created by the global pandemic. ICI’s Fraud Prevention Working Group—already in operation for two years—was well-equipped to help members manage the significant uptick in crisis-related scams this year.

At the onset of the pandemic, the group released a white paper, *Red Flag Indicators: Warnings of Potentially Fraudulent Activity*, identifying telltale signs of scams. The paper provides information to help funds train staff and create automated systems to detect and head off such attempts. The group also focused on training members to monitor and combat fraud targeting vulnerable adults, including the elderly, who may be even more isolated and susceptible during the pandemic.

Members continued to share information regularly on the newest frauds they were encountering, including real-time fraud alerts. These alerts often give indications of coordinated fraud schemes across states, which ICI refers to the Federal Bureau of Investigation (FBI) for further examination.

ICI set up an online resource center for members, which includes a year-over-year comparison of key fraud statistics and trends gathered on a quarterly basis from working group participants on the details of the fraud attempts and successes in deterrence they have experienced. The group is also helping funds educate shareholders with an upcoming paper on what shareholders can do to protect their own accounts.

Reaching a New Milestone in Global Cooperation

On June 1, the fund industry reached a unique industry-led agreement providing a solution to a challenge introduced by recent European regulations governing funds’ oversight of fund distribution.

Under these regulations, fund managers of Undertakings for the Collective Investment in Transferable Securities (UCITS) and alternative investment funds (AIFs) must exercise enhanced oversight of their fund distribution channels. Fund managers have taken varying approaches to this requirement—confronting distributors with an unmanageable volume of requests for answers to multiple, often conflicting, due diligence questionnaires (DDQs).

ICI began this effort in March 2019 when it convened fund managers and distributors to create a uniform due diligence questionnaire for distributors to make the process more efficient and effective. By including both fund managers and distributors, the group was able to come to an agreement that saves significant time and cost, benefiting funds, distributors, and investors alike.

ICI also continues to foster stronger global cooperation in other areas of fund operations. As in the United States, ICI’s Chief Information Security Officer Committees in London and Tokyo hold meetings twice a year with law enforcement agencies and cybercrime units in their respective regions, as well as with US Federal Bureau of Investigation and Secret Service representatives who work from US embassies in these locales. The meetings help create the channels and lay the groundwork to coordinate responses to attacks when they occur. ICI also uses these occasions to discuss effective cyberhygiene practices, offer insights on current cybersecurity trends, and provide other helpful resources. During the COVID-19 crisis, the meetings took place virtually, which expanded participation significantly.
The economic hardship created by the COVID-19 pandemic harmed the financial lives of millions of Americans. As retirement savers work to weather the storm, ICI advocated—and continues to advocate—for relief and flexibility during these challenging times. Engaging key policymakers and regulators, ICI provided research, education, and expertise during critical moments of debate about how Congress and the administration should respond to this crisis.

Helping Savers Through the CARES Act
ICI advocated strongly for the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which was signed into law on March 27, 2020. ICI and member firms provided deep expertise and reliable research to lawmakers as they drafted this legislation. The result was a bill that provided essential relief to retirement savers. It paused required minimum distributions (RMDs) from individual retirement accounts (IRAs) and 401(k)s for one year and waived loan penalties and increased loan limits for families facing financial hardships because of the COVID-19 pandemic. These provisions were critical to many American families during this challenging time.

Advocating Catch-Up Assistance
As the health crisis and resulting economic hardship continues, ICI's Legal, Research, and Government Affairs Departments developed a proposal to help American families get their retirement savings goals back on track over the coming years. ICI's government affairs team is engaging policymakers, advocating that the proposal—called the "Temporary Coronavirus-Related Catch-Up Contribution" proposal—be considered for any future relief legislation.

Delivering Reforms for Savers
ICI is also engaging lawmakers and closely tracking a "Retirement 2.0" package being discussed by House and Senate tax writers. A sequel to the 2019 Setting Every Community Up for Retirement Enhancement (SECURE) Act, this legislation may include provisions to increase 401(k) catch-up contribution limits for individuals older than 60 and to allow employers to make an additional contribution on behalf of employees in a small business SIMPLE plan. ICI's government affairs team remains engaged with lawmakers as the process moves forward.

Looking Ahead
As the United States recovers from this unprecedented health and economic crisis, ICI will continue engaging policymakers, regulators, and other stakeholders to ensure the voice of the regulated fund industry and retirement savers is heard.

As retirement savers work to weather the storm, ICI advocated—and continues to advocate—for relief and flexibility during these challenging times.
Modernizing E-Delivery Rules for Retirement Savers

DOL Brings Delivery Rules into 21st Century While Protecting Savers’ Right to Get Paper

For years, ICI tirelessly worked to promote and advocate electronic delivery of plan communications for 401(k) participants. This year, the efforts led to a big win for American retirement savers and the funds and managers who serve them. The Department of Labor (DOL) issued a final rule in May to modernize outdated 401(k) plan notice delivery rules and promote greater use of electronic communication, while still allowing participants to receive paper copies if they prefer them.

Through academic studies (in 2011 and a 2018 update), meetings with the DOL, and comment letters, ICI pressed the DOL to update its e-delivery rules. The Institute also promoted a corresponding e-delivery legislative effort through congressional testimony and worked to prevent any action on Capitol Hill that would block the rule.

The DOL’s commonsense rule brings retirement plan communications into the 21st century and leads to better outcomes for participants. ICI will continue to monitor and engage with the DOL as it implements this important rule.

Informing Pension Reforms Across the Globe

As policymakers and thought leaders examine pension systems and consider pension reforms, ICI continues to advocate for sound policies and to use its research to help stakeholders better understand the components of a successful retirement system and the important role that regulated funds play in helping investors build retirement savings.

Europe

Policymakers continue to work on implementing a pan-European personal pension (PEPP) product—a voluntary savings vehicle that investors can take with them across member states. Though ICI is hopeful that PEPP can succeed, it is unclear if providers can create a viable product under the enacted framework, because it may be too rigid to yield products that will be attractive to savers or PEPP providers. ICI strongly advocated for a more flexible framework than the current one, which includes mandatory advice and a fee cap on the basic investment option. The Institute continues to urge policymakers to revise the framework as part of their work on the capital markets union.

Asia-Pacific Region

To assist members’ advocacy efforts and inform policymakers’ work, ICI is creating pamphlets on different jurisdictions’ systems in the Asia-Pacific region, and short documents about the “keys” of a successful retirement system. The first completed pamphlet describes the Japanese retirement system, and includes a list of resources that members can use to access further information. Additionally, ICI completed two “keys” focused on contributions and on investment choices. These and other materials will help ICI and its members to facilitate future discussions with policymakers in Japan and other countries.
EXCHANGE-TRADED FUNDS

Representing the Interests of ETFs

For many years, ICI has been at the forefront of efforts to deliver vigorous representation for the interests of exchange-traded funds (ETFs) and the investors who use them. And as the ETF industry faced the reverberations of the COVID-19 pandemic in 2020, ICI’s efforts around ETF developments were as robust as ever.

Offering New Research in a Crisis

Of particular note is ICI’s work on the experience of ETFs in the COVID-19 crisis. Throughout the summer, ICI conducted a rigorous analysis of how these funds and their investors reacted during the unprecedented market volatility of March 2020. This research, developed through ICI’s close work with a diverse group of participants in the ecosystem, including ETF sponsors and members of ICI’s ETF committees, shows that the ETF industry proved its resilience. Additionally, ETFs proved their value, acting as a source of stability and an important source of price discovery in the fixed-income market by providing investors with real-time views on the value of underlying bonds.

To build further insight into ETFs’ role in the markets, ICI presented a new video early in the fiscal year rebutting the common misperception that ETFs are one of the culprits during times of market volatility.

Providing Strong Advocacy

During the year, Shelly Antoniewicz, ICI senior director of industry and financial analysis, and Jane Heinrichs, ICI associate general counsel, provided analysis through speaking engagements in both Europe and the United States on a variety of ETF issues, such as the global ETF regulatory landscape; environmental, social, and governance (ESG) issues; and the market stress caused by the COVID-19 crisis.

ICI also worked throughout the year to provide data and fact-based analysis to the public and the media—through many interviews with reporters on ETF issues, ICI Viewpoints posts, and Focus on Funds video segments. For example, Antoniewicz provided data and analysis in a March ICI Viewpoints showing that ETFs acted as a relief valve in March for the underlying stock and bond markets by allowing investors to gain or shed risk exposure to various asset classes, and that ETFs did not experience mass redemptions.

As markets navigate the results of the COVID-19 crisis, attention will undoubtedly continue to be focused on ETFs. ICI will continue its efforts to support the industry in a complex market environment—easing concerns of policymakers and others that ETFs would put additional pressure on the financial system during a crisis.

Investors Turn to ETFs to Transfer, Hedge Risks in Stressed Markets

Total ETF trading volume and ETF share of US stock market trading volume; daily, January 2–May 29, 2020

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<th>Bills of dollars</th>
<th>Percent</th>
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<tr>
<td>ETF trading volume</td>
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<tr>
<td>ETF share of US stock market trading</td>
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This figure from the “Experiences of US Exchange-Traded Funds During the COVID-19 Crisis” paper shows that during the market turbulence of March 2020, ETF trading volumes rose—both in absolute terms and as a share of total stock market trading—as investors turned to ETFs to quickly and efficiently transfer and hedge risks.

Source: Investment Company Institute tabulations of Bloomberg and Cboe Exchange, Inc. data
ETFs are receiving renewed attention because of the recent market volatility caused by the COVID-19 pandemic. Though some analysts claim ETFs have contributed to periods of market volatility, the reality is that they play an important stabilizing role—including during the recent COVID-induced volatility. In a timely video, ICI Senior Director of Industry and Financial Analysis Shelly Antoniewicz debunks the common misperception that ETFs cause market volatility.

Antoniewicz explains that most of the negative commentary arises because of active trading in the secondary market, where investors buy and sell existing ETF shares on an exchange. Yet those trades have no impact on the markets for the securities that make up the ETFs’ portfolios. Analysis of the primary market—where large institutional investors, known as authorized participants, interact with ETFs directly to create and redeem ETF shares—shows that those activities make up a minor share of overall trading. Going back decades, she concludes, every major bout of market volatility was set in motion by a macroeconomic event—with ETFs playing no material role.

Expanding Global ETF Efforts

This year, ICI’s role as the industry voice on ETF issues advanced through continued growth of the global ETF committee.

The ICI Global Exchange-Trade Fund Committee brought together the major players in the European ETF ecosystem at its second in-person meeting in October in London. The meeting included a session with major European ETF regulators and a session with authorized participants (APs), market makers, electronic trading platforms, and exchange personnel exploring the unique issues of ETF trading in Europe.

This year, ICI also continued its work to help global policymakers better understand ETFs. In this effort, the Institute met with staff at many regulatory and government agencies, including the Autorité des Marchés Financiers and Trésor Public in France; the Financial Conduct Authority in the United Kingdom; and such multinational bodies as the European Securities and Markets Authority, the Financial Stability Board, and the Bank for International Settlements. In these meetings, ICI discussed the ETF structure and provided analysis to help allay perceived concerns about negative effects on the financial markets from these funds.
FINANCIAL MARKETS

Ensuring the Orderly and Fair Operations of Financial Markets

ICI members participate in the financial markets on behalf of millions of investors and have a strong interest in policies that help markets operate in an orderly, fair, and transparent manner. This pursuit guided ICI’s work during the past year, both in the immediate crisis of market dislocation and volatility in response to COVID-19 and in ICI’s long-standing advocacy for reforms in equity market structure.

Addressing Market Turmoil During the COVID-19 Crisis

The onset of the COVID-19 pandemic and the subsequent restrictions on major sectors of the US economy dramatically affected financial markets in March 2020. Throughout that time, ICI worked with policymakers and legislators to ensure that funds had the support and resources they needed to operate and serve investors.

Fixed-income markets first showed signs of dislocation in early March, followed by turmoil in other markets as businesses and investors reacted, racing to bolster their cash to protect themselves from the uncertainty that the pandemic and the economy’s swift contraction engendered. As a result of this sudden demand for liquidity, short-term markets froze in mid-March, and some money market funds came under intense pressure.

During this time, ICI worked closely with members to understand what was happening in the markets. The Institute conveyed these market insights to policymakers and advocated for swift action to help restore market liquidity. When the Federal Reserve established a number of liquidity facilities, including the Money Market Mutual Fund Liquidity Facility (MMLF), ICI advocated for expanding the MMLF to include a wider range of securities.

ICI also suggested measures to enhance the utility and effectiveness of other facilities that the Federal Reserve established. For example, at the request of Federal Reserve staff, ICI worked closely with members and their outside counsel to evaluate and recommend changes to the proposed terms of the Term Asset-Backed Securities Loan Facility to facilitate funds’ participation and improve the program’s effectiveness. Taken together, the Federal Reserve’s actions and programs were necessary and appropriate, as they helped restore liquidity and the flow of credit to the economy.

Informing Policymakers About Funds’ Experiences During COVID-19

To help policymakers and government officials better understand how the markets and funds and their investors behaved during the onset of the pandemic, ICI published the Report of the COVID-19 Market Impact Working Group. It includes data-based, in-depth analysis of US markets and the experience of money market funds, exchange-traded funds, bond funds, and Undertakings for Collective Investment in Transferable Securities (UCITS).

Improving the Quality and Cost of Market Data in Equity Markets

Access to timely, accurate, and cost-effective market data is critical for funds to make informed trading decisions. During the past year, the Securities and Exchange Commission (SEC) proposed several amendments to Regulation NMS—the framework of rules that governs price quotes, trade execution, and market data—and ICI advocated for changes that would enhance the governance, cost-efficiency, and quality of market data.

Governance. Stock exchanges run equity data plans that consolidate and transmit stock data through public feeds. The exchanges govern these plans and exercise disproportionate influence over their design and operation through operating committees. ICI was pleased when the SEC adopted an order that requires exchanges to create one equity data plan, allows other participants—including fund advisers—on the operating committee, and gives these participants one-third of the voting power. The Institute has long advocated for operating committees to include a more diverse set of market participants to ensure the committees are better informed and less influenced by conflicts of interest.

Effective-upon-filing exemption. Exchanges have been able to use the effective-upon-filing exemption to establish or change a fee for market data without prior SEC approval or public comment. In August 2020, the SEC adopted an amendment that rescinded this exemption. ICI supported this change because it makes the fee setting process fairer and more transparent by enabling funds and other market participants to comment on the reasonableness of market data fees.
As the 2020 election cycle heated up, several presidential candidates and lawmakers proposed versions of a financial transaction tax (FTT). These proposals made the tax and its impact on Main Street savers sound small. But, as ICI research shows, the reality is very different. An FTT would ultimately harm individual investors who are saving for retirement, education, and other long-term financial goals.

Promoting the Benefits of Capital Markets and the Role of Regulated Funds

Throughout the year, ICI Global continued to help EU and Asia-Pacific policymakers understand the benefits of deep capital markets and the role that regulated funds can play in developing them—work that is taking on new importance, as COVID-19 has underscored the necessity of having flexible, robust capital markets that can weather and recover from financial shocks.

European Union

For more than six years, EU policymakers have worked toward developing strong capital markets through its capital markets union (CMU) initiative. Realizing this goal became more urgent with the onset of the pandemic, and policymakers worked to develop a new CMU action plan. In meetings with and submissions to policymakers, ICI Global emphasized the importance of designing a CMU that makes investing in regulated funds easier for and more attractive to EU citizens and was pleased that the action plan—consistent with ICI Global’s recommendations—including studying different countries’ experiences with auto-enrolling participants in occupational pension plans and making better use of technology in the investment process.

Asia-Pacific Region

Japan is considering economic reforms to develop stronger capital markets, including enabling regulated funds and other financial services to meet investors’ saving needs. In November 2019, ICI President and CEO Paul Schott Stevens traveled to Tokyo to meet with policymakers, including representatives from the Financial Services Agency, about these reforms. In a speech at a meeting of Japan’s regulated fund association, Stevens detailed the benefits of deep capital markets and how regulated funds help develop them. Stevens also traveled to China to meet with policymakers and emphasize the same messages about capital markets in a speech at Tsinghua University.
An Interview with IDC Managing Director Thomas Kim

As Thomas Kim finished his first year as IDC's managing director, he sat down to discuss the organization's priorities.

Tell us about the most meaningful observations you've made in your first year as IDC managing director?

Given the challenges of 2020, the fundamental importance of the role of fund boards and independent directors is even clearer to me. The registered fund industry has experienced so much change and growth in its 80-year history. Its success is attributable in no small part to strong governance and the oversight role of independent directors. In a year of rapid and unexpected change, independent directors demonstrated once again their ability to adapt their service to fund shareholders.

In addition, I've been pleased at how IDC and its team have been able to be nimble and resilient in the face of changes in the market, the policy environment, and during the evolving public health crisis.

How did IDC adapt to the challenges posed by the COVID-19 crisis?

Early in the crisis, IDC engaged in regular conversations with SEC staff to seek a broadening of relief from in-person board meeting requirements. We understand that they are considering ways in which relief could be made permanent. With the technology available today, it is important that rules be modernized to allow fund boards to interact in effective and flexible ways, and we look forward to ongoing conversations with the SEC on this issue.

IDC also kept the director community informed about current conditions during a period of market volatility, and we adapted our programs to a virtual environment. Members of the Governing Council and other fund directors provided real-time insights on the needs of the independent director community. Through frequent check-in calls with them and collaboration with ICI colleagues, IDC mobilized to deliver the strongest programming possible to independent directors during this time.

What are the top policy developments that IDC worked on this year?

This has been a very active year for policy initiatives. One of the most important developments has been fair valuation. We commended the SEC for developing its proposed rule. While the modernized framework contained many positive elements, IDC also commented on some prescriptive elements in the rule with recommendations for modifications.

The SEC adopted the fair valuation rule in December [2020] and recognized the complementary roles that fund boards and advisers play in the fair valuation process and the discretion they exercise. The final rule also was responsive to a number of IDC recommendations that addressed the prescriptive nature of the proposed rule.

Another important development IDC worked on this year was the SEC’s reproposed rule on the use of derivatives in investment management. IDC submitted a supportive comment letter but recommended some modifications about how fund boards should oversee derivatives risk managers. The SEC’s final rule released in October reflected a far better approach than the SEC’s 2015 proposal and improved upon the reproposal issued in November 2019. The final rule provided greater flexibility for fund boards to determine the frequency and content of board reports and clarified the fund board’s role in approving the designation of a derivatives risk manager.

Finally, and very relevant to the independent director community, was the temporary relief the SEC granted relating to in-person meeting requirements for fund boards.

How is IDC carrying out its mission to educate and offer peer-to-peer engagement for the independent director community during the COVID-19 crisis?

To make sure that fund boards wouldn't miss a beat during the coronavirus crisis, we pivoted quickly to deliver our educational...
offerings on a virtual basis. That started with expanding our webinars and conference calls, both in frequency and content, to ensure we were informing and helping fund boards during a period of market volatility. In addition, we launched virtual roundtables in lieu of in-person chapter meetings. We have been pleased with the success of these meetings, where groups of independent directors can share their perspectives on governance, regulatory developments, and other topics of interest. Similarly, we are offering our Foundations for Fund Directors educational program virtually. We had a strong, positive response from independent directors, and interaction among participants occurred seamlessly.

“We’re underscoring the important role that independent directors play in representing the interest of 100 million fund shareholders and the vital role of IDC in fostering a vibrant community for fund independent directors.”

Underscoring IDC’s Commitment to Excellence in Fund Governance

This year, IDC’s Governing Council ratified an updated four-part mission statement reaffirming the importance of shareholder interests and fostering deeper engagement within the independent director community. Partnered with this update was an initiative to reflect IDC’s mission, focus, and priorities, through a new logo, a new explainer video, and a new brochure.

We also hosted IDC’s first virtual fund directors conference to take the place of the meeting that usually occurs in Chicago. We saw record attendance and are very pleased with the response from independent directors. While we look forward to returning to in-person conferences and meetings, we’re ready to deliver top-notch programming virtually as long as that’s necessary.

How is IDC rededicating its mission?

We recently launched IDC’s new brand, reflecting the strength of IDC’s 16-year history and IDC’s commitment to build upon its success. IDC is about excellence in fund governance for the benefit of fund shareholders. With our renewed mission and communications initiative, we’re underscoring the important role that independent directors play in representing the interests of 100 million fund shareholders and the vital role of IDC in fostering a vibrant community for fund independent directors.
ICI PAC

Working for Fund Shareholders on Capitol Hill

ICI’s Government Affairs team has a long history of working on Capitol Hill to advance the interests of registered funds and their shareholders—and the Institute’s political action committee (ICI PAC) is a major part of that effort. Since 1985, ICI PAC has worked to increase awareness among key lawmakers of fund-related issues, and to enable members to pool resources and to speak with one voice in the political arena.

Over the past year, the COVID-19 crisis compelled the fund industry to transform its approach to doing business. But ICI PAC evolved right along with it, becoming one of the first PACs to launch a virtual fundraising program. This swift evolution enabled ICI PAC to continue supporting the campaigns of lawmakers who demonstrate an interest in public policies that could affect registered funds and their shareholders, and building relationships with lawmakers who work closely on financial services issues. Employees of ICI member companies can continue to support elected officials through ICI’s political program by:

• contributing directly to ICI PAC;
• participating in fundraisers for individual candidates hosted by ICI PAC; or
• contributing to lawmakers recommended by the Chairman’s Council, which governs ICI PAC.

Thanks to contributions from employees of member companies and ICI staff, ICI’s political program raised nearly $1.7 million during the 2020 election cycle, supporting the reelection of more than 220 lawmakers on both sides of the aisle. Many of these lawmakers serve in key positions on committees with primary jurisdiction over the fund industry.

During the 2020 election cycle, ICI PAC

- Received contributions from 687 individual donors
- Supported the reelection of 222 members of Congress
- Raised $1,676,728 plus $947,200 more, directly for federal candidates
- Disbursed $1,679,750 in direct contributions to federal candidates, leadership PACs, and national political party committees

Note: Data are as of October 16, 2020.

Please contact Ashley Cavossa, ICI’s director of political affairs, at Ashley.Cavossa@ici.org or 202-371-5421 with any questions about ICI’s political program.
Representative Gregory Meeks (D-NY), a member of the House Committee on Financial Services, speaks with ICI Chief Operating Officer Don Auerbach at an ICI event held in the representative’s honor.

Attendees hear from Senator Thom Tillis (R-NC), a member of the Senate Committee on Banking, Housing, and Urban Affairs, at an ICI event.

Senator Rob Portman (R-OH), a member of the Senate Joint Economic Committee, greets guests at an ICI luncheon.

Senator Mark Warner (D-VA), a member of the Senate Committee on Banking, Housing, and Urban Affairs, speaks with ICI President and CEO Paul Schott Stevens at an ICI event held in the senator’s honor.
ICIEF announced its **partnership with the Toigo Foundation**, which fosters underrepresented talent in the finance industry, in April 2019 and was proud to see its grant funding support two master of business administration candidates who plan to use their grants to support their education and professional development. ICIEF continued its partnership with the Toigo Foundation during the 2020 fiscal year and has begun a five-year, $100,000 commitment to support its important efforts to prepare and advance diverse leaders, as well as its encouragement for firms to build a culture of inclusion where all can thrive.

**Commitment for Established Partnerships**

For a 10th year, ICIEF partnered with Junior Achievement of Greater Washington to support its Finance Park program, which teaches students real-world lessons through experiential education. The program reaches approximately 40,000 middle school students each academic year with a personal finance curriculum and a one-day visit to Finance Park, where students are challenged to balance a household budget. ICIEF contributes to the investor education of the interactive Finance Park experience with its Investing Road Trip exhibit and scavenger hunt.

Building on the essential investing topics introduced in the Investing Road Trip, ICIEF also produced a yearlong **ICI Viewpoints series** to mark its 30th anniversary year. Each month’s blog post examined a different concept essential to successful investing—such as risk, diversification, compound returns, fees and expenses, and saving for retirement.

**Opportunity for New Engagement**

As pandemic-related shutdowns began to affect schools and businesses in the spring of 2020, ICIEF was finalizing funding for a **new grant to the Maryland Council on Economic Education** (MCEE) to help further the ability of teachers to offer financial education in Prince George’s County, Maryland.

The grant funds an intensive program designed for 15 teachers, including in-depth lessons on investor education, personal finance, and teaching strategies. The cohort of teachers, who took the virtual training in August and September, will in turn apply the skills and strategies they learned to their students’ coursework on saving and investing.

As an investment in DC-area teachers, and ultimately the thousands of students they will reach throughout their careers, this intensive teacher training embodies the spirit of ICIEF’s mission to promote investor education and ICI’s commitment to its local community.
To encourage people to save, our federal and state governments give investors special tax treatment on money in savings plans for specific goals, like retirement and education.

Diversification—holding a variety of investments from many industries and geographic areas—helps to smooth out the ups and downs that they will experience over time.

As part of ICIEF’s 30th anniversary celebration, ICIEF shared a series of blog posts explaining basic investing concepts, drawn from the ICIEF Investing Road Trip.
APPENDIX A

Governance and Finances

Governance
ICI is a 501(c)(6) organization that represents regulated 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, and sponsors of unit investment trusts in the United States; similar funds offered to investors in jurisdictions worldwide; and their investment advisers and principal underwriters.

The Institute employs a staff of approximately 180. 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.

ICI’s Board of Governors is composed of 57 members, representing ICI member companies and independent directors of investment companies. Governors are elected annually to staggered three-year terms. The Board is geographically diverse and includes representatives from large and small fund families, as well as fund groups sponsored by independent asset managers, broker-dealers, banks, and insurance companies. This broad-based representation helps to ensure that the Institute’s policy deliberations consider all segments of the fund industry and all investment company shareholders.

Five committees assist the Board of Governors with various aspects of the Institute’s affairs. These include an Executive Committee—responsible for evaluating policy alternatives and various business matters and making recommendations to the Board of Governors—as well as Audit, Compensation, Investment, and Nominating committees. Other than the Institute’s president, who is a member of the Executive Committee, all members of these committees are governors. The Board also has appointed the Chairman’s Council to administer the Institute’s political programs, including the political action committee, ICI PAC. The council includes 11 governors, the treasurer of ICI PAC, and the Institute’s president (ex officio).

To provide strategic direction to ICI’s international program, the ICI Global Policy Council takes the lead in setting the program’s priorities and coordinating initiatives worldwide, subject to the Executive Committee’s review and approval.

ICI addresses the needs of investment company independent directors through the Independent Directors Council (IDC). IDC organizes educational programs, keeps directors informed of industry and regulatory developments, assists in the development and communication of policy positions on key issues for fund boards, and promotes greater understanding of the role of fund directors. IDC’s Governing Council, made up of four committees, helps set IDC’s priorities in these areas.

Twenty-five standing committees, bringing together more than 2,400 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. In addition, 56 industry advisory committees, task forces, forums, and working groups with more than 4,000 participants tackle a range of regulatory, operations, and business issues. In all its activities, ICI strictly observes federal and state antitrust laws, in accordance with a long-standing and well-established compliance policy and program.

Finances
Throughout its history, the Institute has sought to prudently manage its financial affairs in a manner deemed appropriate by the Board of Governors, which is responsible for approving ICI’s annual budget and its member net dues rate. The Board of Governors considers both the Institute’s core and self-funded activities when approving the annual net dues rate.

Core activities are related to public policy and include regulatory, legislative, operational, economic research, and public communication initiatives in support of investment companies and their shareholders, directors, and advisers. Reflecting the Institute’s strategic focus on issues affecting investment companies, the Board of Governors has chosen to fund core activities with dues rather than seeking alternative sources of revenues, such as sales of publications, and strives to keep the level of dues relatively flat when compared to industry assets under management (see Figure 1). The significant majority of ICI’s total revenues in FY 2020, 99 percent, comes from dues, investment income, royalties, and miscellaneous program sources. Similarly, by design, 99 percent of the Institute’s total resources in FY 2020 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 FY 2020, two major ICI conferences were cancelled due to the pandemic, which resulted in a significant decline from the previous fiscal year in self-funded revenue and expenses.
FIGURE 1
Member Dues Relative to Assets Under Management Have Declined
Basis points

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

99% Core income
1% Self-funded income

Total revenues
FY 2020 = $71,650,391

99% Core expenses
1% Self-funded expenses

Total operating expenses
FY 2020 = $79,660,920
**Investment Company Institute Unaudited Financial Statements**

**Statement of Financial Position**  
**AS OF SEPTEMBER 30, 2020**

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>$1,211,785</td>
<td></td>
</tr>
<tr>
<td>Investments, at market value</td>
<td>72,412,703</td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>1,138,115</td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>2,753,433</td>
<td></td>
</tr>
<tr>
<td>Other assets</td>
<td>3,639,145</td>
<td></td>
</tr>
<tr>
<td>Furniture, equipment, and leasehold improvements, net (less accumulated depreciation of $15,005,937)</td>
<td>3,500,510</td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$84,655,691</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Liabilities and Net Assets**

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll and related charges accrued and withheld</td>
<td>9,059,044</td>
<td></td>
</tr>
<tr>
<td>Accrued pension liability</td>
<td>9,731,410</td>
<td></td>
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<tr>
<td>Accrued postretirement liability</td>
<td>15,389,637</td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>2,713,833</td>
<td></td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>546,176</td>
<td></td>
</tr>
<tr>
<td>Rent credit</td>
<td>1,616,448</td>
<td></td>
</tr>
<tr>
<td>Deferred rent</td>
<td>5,352,618</td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>44,409,166</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net Assets</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Undesignated net assets</td>
<td>39,246,525</td>
<td></td>
</tr>
<tr>
<td>Board designated net assets</td>
<td>1,000,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td><strong>40,246,525</strong></td>
<td></td>
</tr>
</tbody>
</table>

| Total liabilities and net assets                                    | **$84,655,691**|               |

**Statement of Activities and Changes in Net Assets**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

<table>
<thead>
<tr>
<th>Core Income</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Membership dues</td>
<td>$66,705,994</td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td>1,682,280</td>
<td></td>
</tr>
<tr>
<td>Royalty income</td>
<td>777,018</td>
<td></td>
</tr>
<tr>
<td>Program income</td>
<td>1,415,367</td>
<td></td>
</tr>
<tr>
<td><strong>Total core income</strong></td>
<td><strong>70,580,659</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Core Expenses</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative expenses</td>
<td>69,920,349</td>
<td></td>
</tr>
<tr>
<td>Program expenses</td>
<td>6,450,398</td>
<td></td>
</tr>
<tr>
<td>Depreciation and taxes</td>
<td>2,360,867</td>
<td></td>
</tr>
<tr>
<td><strong>Total core expenses</strong></td>
<td><strong>78,731,614</strong></td>
<td></td>
</tr>
</tbody>
</table>

| Change in net assets—core                                           | (8,150,955)   |               |

| Self-Funded Income                                                 |               |               |
| Conferences                                                         | 410,458       |               |
| Other self-funded income                                           | 659,274       |               |
| **Total self-funded income**                                       | **1,069,732** |               |

| Self-Funded Expenses                                               |               |               |
| Conferences                                                         | 664,771       |               |
| Other self-funded expenses                                          | 264,535       |               |
| **Total self-funded expenses**                                      | **929,306**   |               |

| Change in net assets—self-funded                                    | 140,426       |               |

| Change in net assets from operations                                | (8,010,529)   |               |
| Loss on currency conversion                                         | (31,864)      |               |
| Actuarial pension plan gain                                         | 7,729,489     |               |
| Actuarial postretirement plan loss                                  | (1,060,968)   |               |
| **Change in net assets**                                           | (1,373,872)   |               |

| Net assets, beginning of year                                       | 41,620,397    |               |

| Net assets, end of year                                            | **$40,246,525**|               |

These financial statements are preliminary unaudited statements as of September 30, 2020. Audited financial statements for the fiscal year ended September 30, 2020, will be available after February 1, 2021. To receive copies of the audited statements, please contact Mark Delcoco at mdelcoco@ici.org.
APPENDIX B

Fiscal Year 2020 Board of Governors

AS OF SEPTEMBER 30, 2020

George C. W. Gatch2, 3, 4, 6, 7
ICI Chairman
Chief Executive Officer
J.P. Morgan Asset Management

William F. Truscott2, 4, 6, 7
ICI Vice Chairman
Chief Executive Officer
Columbia Threadneedle Investments

Vijay C. Advani2
Executive Chairman
Nuveen

Kyle C. Andersen
Principal, Solutions Coaching and Training
Edward Jones Investments

Andrew Arnott
President and CEO
John Hancock Investment Management

Kathleen Barr1
Independent Director
Professionally Managed Portfolios and William Blair Funds

Mortimer J. Buckley2
Chairman and CEO
Vanguard

Jane K. Carten
President, Director, and Portfolio Manager
Saturna Capital Corporation

James E. Davey1
President
Hartford Funds

Jonathan de St. Paer
President
Charles Schwab Investment Management, Inc.

Thomas R. Donahue3
Chief Financial Officer and Treasurer
Federated Hermes, Inc.

Robert G. Dorsey
Vice Chairman and Cofounder
Ultimus Fund Solutions, LLC

Kenneth C. Eich
Chief Operating Officer
Davis Selected Advisers, L.P.

Thomas E. Faust Jr.2, 4, 6
Chairman and CEO
Eaton Vance Corp.

Martin L. Flanagan2
President and CEO
Invesco Ltd.

David Giunta
President and CEO, US and Canada
Natixis Investment Managers

William J. Hackett1
Chief Executive Officer
Matthews International Capital Management, LLC

Patrick Halter1
Chief Executive Officer
Principal Global Investors, LLC

Brent R. Harris4, 6
Managing Director
PIMCO

Diana P. Herrmann
President and CEO
Aquila Investment Management LLC

Mellody Hobson2, 6
Co-CEO and President
Ariel Investments, LLC

Cynthia Hostetler3
Independent Director
Invesco Funds

Yie-Hsien Hung2
Chief Executive Officer
New York Life Investment Management LLC

Christine L. Hursellers
Chief Executive Officer
Voya Investment Management LLC

Gregory E. Johnson2
Executive Chairman
Franklin Templeton Investments

James L. Johnson Jr.2
Chief Communications Officer and Executive Vice President,
Public Affairs and Policy
Fidelity Investments
Lisa M. Jones
Head of Americas, President and CEO of US Amundi Pioneer Asset Management, Inc.

Robert M. Keith
Head of Global Client Group, President and CEO, AB Funds AllianceBernstein

Marie L. Knowles
Independent Director
Fidelity Fixed Income and Asset Allocation Funds

Susan C. Livingston
Partner
Brown Brothers Harriman & Co.

Shawn K. Lytle
Head of Macquarie Investment Management
Macquarie Investment Management

James A. McNamara
President
Goldman Sachs Mutual Funds

Garry L. Moody
Independent Director
AB Mutual Funds

Mark D. Nerud
President and CEO
Jackson National Asset Management LLC

Catherine Newell
President, Dimensional Funds
Dimensional Fund Advisors LP

Barbara Novick
Vice Chairman
BlackRock, Inc.

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

Andrew N. Owen
President, Wells Fargo Funds
Wells Fargo

Steven J. Paggioli
Independent Director
AMG Funds and Professionally Managed Portfolios

Stuart S. Parker
President and CEO
PGIM Investments

Michael Roberge
Chief Executive Officer
MFS Investment Management

Kristi L. Rowsell
President
Harris Associates, L.P.

Douglas B. Sieg
Managing Partner, President, and CEO of the Lord Abbett Family of Funds
Lord Abbett & Co., LLC

Daniel Simkowitz
Head of Investment Management
Morgan Stanley

Erik R. Sirri
Independent Director
Loomis Sayles, Natixis ETFs, and Natixis Funds

Marijn P. Smit
President and CEO
Transamerica Asset Management, Inc.

William W. Strickland
Chief Operating Officer
Dodge & Cox

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

Cyrus Taraporevala
President and CEO
State Street Global Advisors

Jonathan S. Thomas
President and CEO
American Century Investments

Shundrawn A. Thomas
President
Northern Trust Asset Management

Garrett Thornburg
Chairman
Thornburg Investment Management, Inc.

Ronald E. Toupin Jr.
Independent Director
Guggenheim Funds

Bradley J. Vogt
Chairman
Capital Research Company, Inc.

Dawn M. Vroegop
Independent Director
Brighthouse Funds and Driehaus Funds

George H. Walker
Chairman and CEO
Neuberger Berman

Jonathan F. Zeschin
Independent Director
Matthews Asia Funds

1 Governor on sabbatical
2 Executive Committee member
3 Audit Committee member
4 Investment Committee member
5 Chair of the Independent Directors Council
6 Chairman’s Council member
7 ICI Education Foundation Board member
ICI's Frances Stadler Retires After 30 Years of Service

Frances Stadler, ICI associate general counsel and corporate secretary, joined ICI’s Law Department in February 1990. In the ensuing 30 years, she worked on a wide range of securities law and ‘40 Act issues, with noted work in banking law, financial stability, and the Volcker Rule.

Known for her skills as a legal analyst and writer, Frances played key roles in ICI’s response to the hardest projects. She wrote white papers on valuation, money laundering, international investing, and non-‘40 Act investment restrictions. She has been instrumental for many years in planning ICI’s annual Mutual Funds and Investment Management Conference. Over 30 years, she helped shape the regulatory climate that allowed funds to develop a wave of innovations from money market funds to exchange-traded funds to target date funds. Before ICI, she was an associate at Kirkpatrick & Lockhart in Washington, DC. She graduated from the University of Virginia School of Law in 1985 and from Yale University in 1980.

“Frances combined deep mastery of the substance with a gracefulness in expression that always brought out the best possible case that we could make on behalf of the Institute and its members. From the broad sweep of strategy to the nuanced details, she could capture exactly what we needed to say.”

—Paul Schott Stevens
APPENDIX C

ICI Staff Leadership and Management

AS OF SEPTEMBER 30, 2020

Executive Office
Paul Schott Stevens\(^1\),\(^2\),\(^6\)
President and CEO
Donald C. Auerbach\(^3\)
Chief Operating Officer

Government Affairs
Dean R. Sackett III
Chief Government Affairs Officer
Ashley B. Cavossa
Director, Political Affairs
Peter J. Gunas III
Government Affairs Officer,
Retirement Security and Tax Policy
Kelly S. Hitchcock
Director, Financial Services
Allen C. Huffman
Government Affairs Officer,
Retirement Security and Tax Policy
Kathleen L. Mellody
Senior Government Affairs Officer
Cynthia Q. Pullom
Director, Financial Services

Law
Susan M. Olson
General Counsel
Dorothy M. Donohue
Deputy General Counsel, Securities Regulation
Sarah A. Bessin
Associate General Counsel
Kenneth C. Fang
Assistant General Counsel
Bridget D. Farrell
Assistant General Counsel
Rachel H. Graham
Associate General Counsel
Jane G. Heinrichs
Associate General Counsel
Nhan H. Nguyen
Counsel
Tamara K. Salmon
Associate General Counsel
Frances M. Stadler
Associate General Counsel and Corporate Secretary
J. Matthew Thornton
Assistant General Counsel
David M. Abbey
Deputy General Counsel, Retirement Policy
Elena B. Chism
Associate General Counsel
Shannon N. Salinas\(^4\)
Assistant General Counsel
Keith D. Lawson\(^5\)
Deputy General Counsel, Tax Law
Karen L. Gibian
Associate General Counsel
Katherine A. Sunderland
Assistant General Counsel

Operations
Martin A. Burns
Chief Industry Operations Officer
Linda J. Brenner
Senior Director, Account Management
Ahmed M. Elghazaly
Director, Securities Operations
Joanne M. Kane
Senior Director, Transfer Agency and Operations
Jeffrey A. Naylor
Director, Operations and Distribution
John F. Randall
Director, Operations and Distribution
Peter G. Salmon
Senior Director, Technology and Cybersecurity
Gregory M. Smith
Senior Director, Fund Accounting and Compliance
Public Communications
Mike McNamee
Chief Public Communications Officer
Matthew J. Beck
Senior Director, Media Relations
Jeanne C. Arnold
Director, Media Relations
Garrett D. Hawkins
Director, Media Relations
Stephanie M. Ortbals-Tibbs
Director, Media Relations
Lauri M. Bearce
Senior Director, Content
Miriam E. Bridges
Director, Editorial
Christina M. Kilroy
Director, Digital Media, and Vice President, ICI Education Foundation
Janet M. Zavistovich
Senior Director, Communications Design

Research
Sean S. Collins
Chief Economist
Sarah A. Holden
Senior Director, Retirement and Investor Research
Peter J. Brady
Senior Economic Adviser
Jason S. Seligman
Senior Economist
Rochelle L. Antoniewicz
Senior Director, Industry and Financial Analysis
Christof W. Stahel
Senior Economist
Judith A. Steenstra
Senior Director, Statistical Research
Sheila M. McDonald
Director, Statistical Research

Administration
Vincent D. Banfi
Director, Systems Support and Operations
Ramesh Bhargava
Director, Information Technology
Paul R. Camarata
Director, Electronic Data Collection
Mark A. Delcoco
Chief Financial Officer

Patricia L. Conley
Director, Accounting
Laurie A. Cipriano
Senior Director, Conferences
Mary D. Kramer
Chief Human Resources Officer
Suzanne N. Rand
Senior Director, Human Resources
Anne S. Vandegrift
Director, Benefits
Sheila F. Moore
Director, Office Services
Michelle M. Kretsch
Senior Director, Membership Services
Brent E. Newton
Director, Subscription Programs and Membership

ICI Global
Patrice Bergé-Vincent
Managing Director, ICI Global
Alexa Lam
CEO, Asia-Pacific
Jennifer S. Choi
Chief Counsel
Anna A. Driggs
Director and Associate Chief Counsel, Global Regulation Affairs
Linda M. French
Assistant Chief Counsel, Securities Regulation
Eva M. Mykolenko
Associate Chief Counsel, Securities Regulation
Giles S. Swan
Director, Global Funds Policy

Independent Directors Council
Thomas T. Kim
Managing Director
Annette M. Capretta
Deputy Managing Director
Lisa C. Hamman
Senior Associate Counsel

1 Executive Committee of ICI’s Board of Governors
2 Chairman’s Council (ex officio)
3 Chairman’s Council and Treasurer to ICI PAC
4 Secretary to Chairman’s Council
5 Assistant Treasurer to Chairman’s Council
6 ICI Education Foundation Board
APPENDIX D

ICI Standing Committees and Chairs

AS OF SEPTEMBER 30, 2020

Accounting/Treasurers
Toai Chin
Head of Fund Accounting Policy
Vanguard

CCO (Chief Compliance Officer)
Katherine M. Primas
Chief Compliance Officer
Dodge & Cox

Chief Information Security Officer
Mike Catlin
Senior Vice President, Head of Technology Services, and Chief Information Security Officer
Capital Research and Management Company

Chief Risk Officer
Rhonda K. R. Cook
Chief Risk Officer
SEI Investments Management Corporation

Closed-End Investment Company
David Lamb
Managing Director, Closed-End Funds
Nuveen

ETF (Exchange-Traded Funds)
Adam Phillips
Chief Operating Officer
Van Eck Global

ICI Global Exchange-Traded Funds

ICI Global Information Security Officer, London

ICI Global Information Security Officer, Tokyo

ICI Global Public Communications

ICI Global Regulated Funds

ICI Global Retirement Savings
Michael Doshier
Senior Defined Contribution Strategist
T. Rowe Price Associates, Inc.

ICI Global Tax

ICI Global Trading and Markets

Internal Audit
Jeffrey D. Coaxum
Senior Vice President
Brown Brothers Harriman & Co.

Investment Advisers

Operations
Peter G. Callahan
Senior Vice President and Head of Global Transfer Agent Operations
AB Global

Pension
Jason Bortz
Senior Counsel and Senior Vice President
Capital Research and Management Company

Public Communications
Lisa M. Gallegos
Senior Vice President, Corporate Communications–Global Franklin Templeton Investments

Research
Paul D. Schaeffer
Director
IndexIQ ETF Trust

Sales and Marketing
Jeffrey O. Duckworth
President of US Intermediary Distribution
John Hancock Investment Management

SEC Rules
Joshua D. Ratner
Executive Vice President
PIMCO LLC

Small Funds
Jane K. Carten
President, Director, and Portfolio Manager
Saturna Capital Corporation

Tax
Jonathan G. Davis
Assistant Treasurer, Fidelity Funds
Fidelity Investments

Technology
Joe Boerio
Senior Vice President, Chief Technology Officer, and Head, IM Data Science and Fintech Franklin Templeton Investments

Unit Investment Trust
W. Scott Jardine
General Counsel
First Trust Advisors, L.P.
APPENDIX E

IDC Governing Council

AS OF SEPTEMBER 30, 2020

Dawn M. Vroegop*
IDC Chair
Independent Director
Brighthouse Funds and Driehaus Funds

Kathleen T. Barr*
IDC Vice Chair
Independent Director
Professionally Managed Portfolios and William Blair Funds

Julie Allecta
Independent Director
Litman Gregory Masters Funds and Salient Funds

Donald C. Burke
Independent Director
Duff & Phelps Funds and Virtus Funds

Gale K. Caruso
Independent Director
Matthews Asia Funds and Pacific Life Funds

Robert J. Chersi
Independent Director
Thrivent Funds

David H. Chow
Independent Director
MainStay Funds and VanEck Vectors ETF Trust

Sue C. Coté
Independent Director
SEI Funds

William R. Ebsworth
Independent Director
Wells Fargo Funds

Susan C. Gause
Independent Director
Brighthouse Funds and HSBC Funds

Anne M. Goggin
Independent Director
Pax World Funds

George J. Gorman
Independent Director
Eaton Vance Funds

Keith F. Hartstein
Independent Director
PGIM Funds

Cecilia H. Herbert
Independent Director
iShares Funds and Thrivent Church Loan & Income Fund

Mary Davis Holt
Independent Director
American Funds

Cynthia Hostetler*
Independent Director
Invesco Funds

Marie L. Knowles*
Independent Director
Fidelity Fixed Income and Asset Allocation Funds

Thomas P. Lemke
Independent Director
JP Morgan Exchange-Traded Fund Trust and SEI Funds

Joseph Mauriello
Independent Director
Fidelity Equity and High Income Funds

Garry L. Moody*
Independent Director
AB Mutual Funds

Joanne Pace
Independent Director
Invesco Exchange-Traded Fund Trusts

Steven J. Paggioli*
Independent Director
AMG Funds and Professionally Managed Portfolios

Cynthia R. Plouché
Independent Director
Barings Funds and Northern Funds

Sheryl K. Pressler
Independent Director
Voya Funds

Karla M. Rabusch
Independent Director
Lord Abbett Funds

Erik R. Sirri*
Independent Director
Loomis Sayles Funds, Natixis ETFs, and Natixis Funds

Ronald E. Toupin Jr.*
Independent Director
Guggenheim Funds

Jonathan F. Zeschin*
Independent Director
Matthews Asia Funds

* On ICI Board of Governors

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APPENDIX F

ICI Global Policy Council

AS OF SEPTEMBER 30, 2020

Atlantic

James M. Norris
ICI Global Atlantic Policy Council Chairman
Managing Director, International Operations
Vanguard

Clive Brown
Chief Executive Officer, International
RBC Global Asset Management

Clarke Camper
Executive Vice President, Head of Government Relations
Capital Group Companies Global

Arnaud Cosserat
Chief Executive Officer
Comgest S.A.

Gregory Dulski
General Counsel
Federated Investors (UK) LLP

Stephen Fisher
Managing Director
BlackRock Investment Management (UK) Limited

Massimo Greco
Managing Director, Head of European Fund Business
J.P. Morgan Asset Management (UK) Limited

Tjalling Halbertsma
Managing Director
Eaton Vance Management (International) Limited

Robert Higginbotham
President, Global Investment Management Services
T. Rowe Price International Ltd.

Alex Hoctor-Duncan
Head of EMEA Distribution
Aberdeen Asset Management PLC

Susan Hudson
Managing Director
UBS Asset Management (UK) Ltd.

Kathleen Hughes
Global Head of Liquidity Sales and Head of European Institutional Sales
Goldman Sachs Asset Management International

Terry Mellish
Senior Advisor, Institutional Sales, Government Relations, Diversity and Inclusion
Natixis Investment Management UK Limited

Andrew Nicoll
Global Head of Insurance
Columbia Threadneedle Investments

Jed Pfafker
Executive Vice President, Global Alliances and New Business Strategies
Franklin Templeton Investments

Doug Sharp
Senior Managing Director and Head of EMEA
Invesco Asset Management, Ltd.

Tim Stumpff
Chief Executive Officer
Principal Global Investors (Europe) Ltd.

Pacific

David J. Semaya
ICI Global Pacific Policy Council Chairman
Executive Chairman
Sumitomo Mitsui Trust Asset Management

Pedro Bastos
CEO, Hong Kong, and Regional Head, Asia Pacific
HSBC Asset Management (Hong Kong) Ltd.

Mark Browning
Head of Asia Pacific
Franklin Templeton Investments Singapore

Chen Ding
Chief Executive Officer
CSOP Asset Management Limited

Jessica Jones
Managing Director, Head of Asia ex-Japan Third Party Distribution
Goldman Sachs (Asia) LLC

Ajai Kaul
CEO, Asia ex-Japan
AllianceBernstein Singapore Ltd.

Andrew Lo
Chief Executive, Asia Pacific
Invesco Hong Kong Limited

Angus N. G. Macdonald
Executive Director
Baillie Gifford Asia (Hong Kong) Limited

Junko Nakagawa
President and CEO
Nomura Asset Management Co., Ltd.

Winnie Pun
Head of APAC Public Policy
BlackRock Asset Management North Asia Limited

JungHo Rhee
Chief Executive Officer
Mira Asset Global Investments (HK) Limited

Kimberley Stafford
Managing Director, Head of Asia Pacific
PIMCO Asia Limited

Akira Sugano
President and CEO
Asset Management One Co., Ltd.

Daniel Watkins
Chief Executive Officer, Asset Management Asia Pacific
J.P. Morgan Asset Management (Hong Kong)
APPENDIX G

Events and Webinars

ICI offers extensive opportunities for learning and networking by organizing conferences, seminars, and other events around the world to enable members and other stakeholders to gather, discuss the latest challenges and opportunities, and share ideas and information. In addition to the opportunities highlighted below, ICI’s global division also holds regional chapter meetings—Atlantic and Pacific chapters—where senior business leaders from member firms offer feedback on high-priority issues and global initiatives. The Independent Directors Council also provides many opportunities for directors to come together for education and meaningful dialogue with each other—for example, in this fiscal year, IDC had approximately 35 chapter meetings and conference calls. For more information, visit www.ici.org/events.

Events

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Location</th>
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<tbody>
<tr>
<td>October 1, 2019</td>
<td>The State of the Fund Industry¹</td>
<td>Lone Tree, CO</td>
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<tr>
<td>October 21–23, 2019</td>
<td>Fund Directors Conference²</td>
<td>Chicago</td>
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<tr>
<td>November 7, 2019</td>
<td>Closed-End Fund Conference</td>
<td>New York</td>
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<tr>
<td>December 3, 2019</td>
<td>Securities Law Developments Conference³</td>
<td>Washington, DC</td>
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<tr>
<td>March 2–3, 2020</td>
<td>Foundations for Fund Directors⁴</td>
<td>Los Angeles</td>
</tr>
<tr>
<td>July 22, 2020</td>
<td>Independent Counsel Roundtable²</td>
<td>Virtual</td>
</tr>
<tr>
<td>September 16–17, 2020</td>
<td>Foundations for Fund Directors⁴</td>
<td>Virtual</td>
</tr>
<tr>
<td>September 22, 2020</td>
<td>Tax and Accounting Conference⁵</td>
<td>Virtual</td>
</tr>
<tr>
<td>September 24, 2020</td>
<td>Securities Law Developments Conference³,⁶</td>
<td>Virtual</td>
</tr>
</tbody>
</table>

Webinars

- Accessing the US Fund Market: Issues and Considerations for Asian Asset Managers
- Achieving Operations Excellence: The Power of Transformation
- After the Pandemic: The Future of the Global Fund Industry
- Board Oversight of the LIBOR Transition
- Changing Workforce Dynamics
- China Capital Market Developments: What You Need to Know
- Fair Valuation Trends and Practices
- Fund Board Oversight in the Age of COVID-19
- Fund Board Oversight of Securities Lending
- Fund Governance Trends
- The Fund Industry in the Pandemic Era
- How to Prepare for the EU 909/2014 Central Securities Depository Regulation
- Navigating the New ESG Landscape: How US and EU Policy Developments Affect Fund Managers
- New Common Terminology for ESG Fund Investing Strategies
- The New ESG Landscape: How Recent Policy Developments Affect Fund Investing
- SEC Emergency Relief in Light of COVID-19: An Overview for Fund Directors
- SEC’s Fair Valuation Proposal: An Overview for Fund Directors
- Trends in Evaluating Active Management and Other Strategies
- 2019 Fall Update on BDAC and BTRAC
- Understanding Japan’s New Foreign Investment Laws
- Understanding the New Indian Regulations for Foreign Portfolio Investors

¹ Cosponsored with the Denver Area 1940 Act Group.
² Sponsored by IDC.
³ Sponsored by the ICI Education Foundation.
⁴ Foundations for Fund Directors® is sponsored by IDC.
⁵ The 2020 Tax and Accounting Conference was held virtually over three days: September 22, September 29, and October 6.
⁶ The 2020 Securities Law Developments Conference was held virtually over two days: September 24 and October 1.

Note: The 2020 Mutual Funds and Investment Management Conference and the 2020 General Membership Meeting were cancelled because of the COVID-19 pandemic.
APPENDIX H

Publications and Statistical Releases

ICI is the primary source of analysis and statistical information on the investment company industry. ICI publications are available on the Institute’s website at www.ici.org.

Industry and Financial Analysis

• Preferences and Costs Associated with Disclosure Reform Options, October 2019
• Analysis of Fund Proxy Campaigns: 2012 Through 2019, December 2019
• Trends in the Expenses and Fees of Funds, 2019, ICI Research Perspective, March 2020
• Recommendations Regarding the Availability of Closed-End Fund Takeover Defenses, March 2020
• The Closed-End Fund Market, 2019, ICI Research Perspective, May 2020
• Funds’ Use of ESG Integration and Sustainable Investing Strategies: An Introduction, July 2020

Retirement and Investor Research

• Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2019, ICI Research Perspective, October 2019
• Characteristics of Mutual Fund Investors, 2019, ICI Research Perspective, October 2019
• Defined Contribution Plan Participants’ Activities, First Half 2019, ICI Research Report, December 2019
• Profile of Mutual Fund Shareholders, 2019, ICI Research Report, December 2019
• The Role of IRAs in US Households’ Saving for Retirement, 2019, ICI Research Perspective, December 2019
• American Views on Defined Contribution Plan Saving, 2019, ICI Research Report, January 2020
• Defined Contribution Plan Participants’ Activities, First Three Quarters of 2019, ICI Research Report, February 2020
• Ten Important Facts About 401(k) Plans, March 2020
• The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at ERISA 403(b) Plans, 2016, April 2020
• Defined Contribution Plan Participants’ Activities, 2019, ICI Research Report, April 2020
• What US Households Consider When They Select Mutual Funds, 2019, ICI Research Perspective, April 2020
• The Myth of Under-Annuitization: Managing Income and Assets in Retirement, April 2020
• Defined Contribution Plan Participants’ Activities, First Quarter 2020, ICI Research Report, May 2020
• Ten Important Facts About IRAs, May 2020
• The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2019, ICI Research Perspective, July 2020
• The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans, 2017, August 2020
• Defined Contribution Plan Participants’ Activities, First Half 2020, ICI Research Report, August 2020

Operations

• Red Flag Indicators: Warnings of Potentially Fraudulent Activity, March 2020
• Mutual Fund Share Class Conversions: A Matrix of Possibilities, May 2020
• Estimating Omnibus Account Dividend and Capital Gains Disbursements, May 2020
• ICI Transfer Agent/Fund Disclosure Survey Report to Participants, July 2020
• Financial Intermediary Controls and Compliance Assessment Engagements, August 2020
• Consider This: Interval Fund Operational Practices, September 2020
Independent Directors Council
- Directors Practices Study, August 2020

Investment Company Fact Book
ICI’s annual data and analysis resource, 2020 Investment Company Fact Book: A Review of Trends and Activities in the Investment Company Industry, provides current information and historical trends for registered investment companies, reporting on retirement assets, characteristics of mutual fund owners, use of index funds, and other trends. It is available in both PDF and HTML versions at www.icifactbook.org. The HTML version provides downloadable data for all charts and tables.

ICI Viewpoints
The Institute’s blog, ICI Viewpoints, features analysis and commentary from Institute experts in economics, law, fund operations, and government affairs on the key issues facing funds, their shareholders, directors, and investment advisers. ICI Viewpoints is available on the Institute’s website at www.ici.org/viewpoints.

Statistical Releases
The ICI Research Department released more than 300 statistical reports in this fiscal year. The most recent ICI statistics and an archive of statistical releases are available at www.ici.org/research/stats. To subscribe to ICI’s statistical releases, visit www.ici.org/pdf/stats_subs_order.pdf.

- Trends in Mutual Fund Investing
- Estimated Long-Term Mutual Fund Flows
- Estimated Exchange-Traded Fund (ETF) Net Issuance
- Combined Estimated Long-Term Mutual Fund Flows and ETF Net Issuance
- Money Market Fund Assets
- Monthly Taxable Money Market Fund Portfolio Data
- Retirement Market Data
- Mutual Fund Distributions
- Institutional Mutual Fund Shareholder Data
- Exchange-Traded Fund Data
- Unit Investment Trust Data
- Worldwide Regulated Open-End Fund Data

APPENDIX I

ICI Mutual Insurance Company

ICI Mutual Insurance Company, RRG, is an independent company formed by the mutual fund industry to provide various forms of liability insurance and risk management services to mutual funds, their directors, officers, and advisers. An organization must be an ICI member to purchase insurance from ICI Mutual.
ICI Action on Select Policy Developments, Fiscal Year 2020

COVID-19 Response

ICI’s COVID-19 response: In March, the World Health Organization (WHO) declared COVID-19—a disease caused by a novel coronavirus—a pandemic, as cases surged around the globe. The spread of the pandemic has caused many sectors, including the fund industry, to change many aspects of how they conduct their business.

In early March 2020, ICI began conducting surveys to understand members’ response to COVID-19. To date, ICI has conducted three surveys. The first, which was conducted when the virus was largely off US shores, focused on the travel restrictions members were imposing on their employees. The second survey was conducted later in March as members contemplated how to transition to a remote work environment. The third, most in-depth survey was conducted in late June and focused on issues members are considering in the transition of employees back to an office environment.

In addition, ICI continues to hold frequent member calls with many ICI member committees, review and disseminate regulatory actions, and maintain a comprehensive COVID-19 resource center on the ICI website.

In summer 2020, an ICI working group conducted a wide-ranging study of the pandemic’s effect on the financial markets and how regulated funds and their investors reacted, and coordinated with policymakers and offered critical member services as the pandemic took hold.

COVID-19 relief for funds: The COVID-19 pandemic and measures taken to counter it caused significant disruptions in the economy, which caused market dislocations in March 2020. Funds requested relief from certain provisions of Rule 17a-9 under the Investment Company Act of 1940 to enhance their liquidity and better meet their shareholder redemptions.

In March, ICI requested, and secured, two pieces of important relief for the industry: a staff letter permitting advisers of long-term mutual funds to purchase debt securities from the fund and another permitting certain affiliates of money market funds to purchase securities from their funds.

See the following sections for more information on COVID-19 as it relates to fund governance, regulatory relief, global financial stability, cybersecurity, legislation, and taxation.

Financial Markets

Implementation of initial margin requirements for uncleared swaps: Consistent with guidelines issued by the Basel Committee on Banking Supervision (BCBS) and the board of the International Organization of Securities Commissions (IOSCO), global regulators have adopted margin requirements for uncleared swaps to be phased in according to the swap activity level of the covered entity. While the implementation deadlines for the largest firms have passed, the dates for the final two margin implementation phases, which affect some ICI members, remain.

Due to challenges caused by the COVID-19 pandemic, ICI joined 19 other trade associations in a letter to BCBS and IOSCO in March 2020 requesting an extension of these deadlines. In April 2020, BCBS and IOSCO agreed to extend the deadline for completing these implementation phases by one year. ICI is continuing its advocacy on initial margin implementation with US regulators, including the CFTC.

LIBOR transition: The Financial Conduct Authority (FCA), the UK regulator of the London Interbank Offered Rate (LIBOR), has confirmed that it will not compel panel banks, which contribute rates for the calculation of LIBOR, to submit LIBOR rates beyond 2021. As a result, market participants and regulators are actively preparing for transition from LIBOR to alternative rates.

ICI is working closely with members to address the regulatory and operational challenges that registered funds face in transitioning from LIBOR to the Secured Overnight Financing Rate (SOFR) by forming a new working group for members to hear from experts and discuss concerns. ICI is engaging in ongoing discussions with SEC staff about how registered funds are approaching LIBOR transition, and promoted members’ views in a July 2020 comment letter to the US Treasury recommending that it consider the need for standardized rate conventions in its potential issuance of SOFR-indexed floating-rate notes. ICI staff continues to monitor developments by engaging in joint industry discussions.

Market Structure

- Cboe speed bump proposal: In June 2019, Cboe Global Markets filed a proposed rule with the SEC to create a trading “speed bump” on the Cboe EDGA Exchange that would delay certain liquidity-taking stock orders. The delay was intended to protect liquidity providers against certain high-frequency trading strategies.

ICI submitted a comment letter in October 2019 opposing the delay on the basis that it would unfairly discriminate against liquidity-taking investors. In February 2020, the SEC issued an order disapproving the proposal.

- Market data infrastructure proposal: In February 2020, the SEC proposed rules to modernize the content of and speed in which the public consolidated feed is provided to investors. These rules would expand the current scope of data in the feed to include stock quote information such as smaller “round lot” sizes and “depth of book” information; and allow other market data providers to compete against the exclusive securities information processors (SIPs) in collecting and disseminating those data. The proposed rules aim to improve the NMS market data infrastructure by reducing the disparity in content and latency between the public consolidated feed and the proprietary data feeds that exchanges sell directly to market participants.

ICI submitted a comment letter in May 2020 conveying strong support for the proposed rules and recommending that the SEC take further steps to provide greater transparency into the exchanges’ market data fees.

- National Market System (NMS) plan fee amendment: In October 2019, the SEC proposed a rule to ensure that any new fees or fees changes to an NMS plan are fair and reasonable before they go into effect. Current SEC rules allow such fees to become effective automatically upon filing to the SEC. The proposed rule would instead allow the public to comment on these filings and require the SEC to approve them first.

ICI submitted a comment letter in December 2019 supporting this change, specifically noting that the rule would provide consumers of the public consolidated feed with prior notice and a say in the costs of those data.

- NMS governance final order: In January 2020, the SEC proposed an order requiring the exchanges to develop a single new NMS plan that would enhance the role of asset managers and other market participants in governing the public consolidated feed. This plan would allow non-exchange participants to weigh in on important operational matters by granting representation on the operating committee and voting rights under an augmented majority voting system. The order was intended to address conflicts of interest between the exchanges’ own commercial interests in providing market data and their regulatory obligation to operate the public consolidated feed for the benefit of investors.

ICI submitted a comment letter in February that strongly supported the proposed changes and urged the SEC to closely monitor the progress in adopting these reforms. In May 2020, the SEC unanimously adopted the order as proposed.

- Transaction fee pilot amicus brief: In December 2018, the SEC adopted a Transaction Fee Pilot Program to determine whether exchange fees for matching stock orders—the “maker-taker” system—harm the equity markets. ICI has held that this pricing model is harmful because it increases market complexity and causes brokers to route orders based on capturing exchange fees and rebates, rather than execution quality on behalf of investors.

After the exchanges filed a legal challenge against the pilot program in a federal appeals court, ICI submitted an amicus brief explaining how the pilot benefits investors and equity markets, and why it fits squarely within the SEC’s mission. In June 2020, however, the court ruled in favor of the exchanges and invalidated the pilot program. ICI continues to advocate for similar equity market structure reforms as appropriate to improve market quality.
Prohibition of post-trade name give-up: Through a practice called “post-trade name give-up,” some swap execution facilities (SEFs) disclose the identity of each swap counterparty to the other counterparty after a trade has been matched anonymously on the SEF. This practice harms regulated funds and their shareholders by resulting in information leakage and less-favorable trading terms. After an earlier request for comment, in December 2019, the CFTC issued a proposed rule that would prohibit post-trade name give-up for certain swaps.

ICI filed comment letters in January 2019 and March 2020 urging the CFTC to abolish this practice, and engaged in further advocacy with the CFTC commissioners and staff. The CFTC unanimously adopted a final rule in June 2020 that prohibits this harmful practice.

Reform of commodity broker bankruptcy rules: In April 2020, the CFTC proposed amendments to its rules governing the bankruptcy of a futures commission merchant (FCM) or a derivatives clearing organization. These rules, which have not been updated for 37 years, are critical to protect regulated funds when they engage in derivatives transactions.

In July 2020, ICI filed a comment letter with the CFTC supporting the aspects of the proposal that would enhance customer protection and bring needed clarity and modernization to the commodity broker bankruptcy process. ICI expressed concern, however, that certain aspects of the proposal would harm customers and cause uncertainty and market disruption in a time of stress. ICI is continuing its advocacy on this important rulemaking.

Fund Regulation

Advertising requirements for advisers and private funds: In December 2019, the SEC proposed changes to the advertising and cash solicitation rules that apply to investment advisers and private funds. While the proposed changes to those rules were not intended to apply directly to registered fund advertising, the proposal, if adopted, would conditionally permit advisers and private funds to report hypothetical and related performance and to use testimonials and social media.

ICI submitted a comment letter in February 2020 recommending that the SEC more closely align requirements for registered fund advertising with any final requirements for advisers and private funds to enhance investor understanding and facilitate comparisons among products. ICI also urged the SEC to explicitly exclude registered fund communications that are already regulated under the Investment Company Act from the scope of any final advertising or cash solicitation rules under the Investment Advisers Act to eliminate unnecessary overlap in compliance burdens.

Commodity pool operators: SEC-registered advisers to some registered funds are also required to register as commodity pool operators (CPOs) with the CFTC. These dual registrants face overlapping requirements in areas such as regulatory reporting. In April 2020, the CFTC issued a proposal to streamline the periodic reporting requirements for CPOs.

ICI has long urged the CFTC to reduce unnecessary regulatory burdens for CPOs to registered funds. In October 2019 and February 2020, IICI President and CEO Paul Schott Stevens met one-on-one with CFTC Chairman Heath Tarbert to engage directly on this issue. In addition, in June, IICI reinforced the message with a letter endorsing the CFTC’s reporting proposal and urging its swift adoption.

Expedited process for exemptive relief: In October 2019, the SEC proposed an expedited 45-day review for exemptive relief applications that are substantially identical to relief that it had recently granted, a 90-day nonbinding time frame for staff to take action on other applications, and a requirement to publish on EDGAR staff comments on applications and responses regarding an application after its final disposition.

ICI filed a comment letter strongly supporting this proposal as a whole but requesting additional flexibility for applicants and recommending that the SEC eliminate its proposal to publish staff comments and applicant responses. The SEC adopted the final rule in July 2020, largely reflecting ICI’s comments by adding more flexibility for applicants to use the expedited procedures and deferring a decision on whether to publish staff comments and applicant responses, pending further consideration.

Financial Stability Oversight Council (FSOC) approach to exercising authorities: In March 2019, the FSOC proposed prioritizing an “activities-based approach” to evaluating and addressing potential risks to financial stability. It further proposed enhancing the process by which it would consider designating nonbank financial companies as systemically important financial institutions (SIFIs)—reserving this designation power for rare instances.

ICI’s May 2019 comment letter strongly supported the proposal and suggested ways to improve it. The FSOC finalized its revised interpretive guidance in December 2019, following years of advocacy by ICI and its members. As ICI has long urged, an activities-based approach provides a more effective way to address underlying sources of risk, enhances the role of primary regulators with frontline expertise, and capitalizes on the FSOC’s valuable convening and coordinating powers. In those unusual circumstances when it considers SIFI designation, it will do so under a process that is more analytically rigorous, transparent, and accountable.

Funds’ use of derivatives: In November 2019, the SEC issued its long-awaited repropose to reform the regulation of US-registered funds’ use of derivatives, aiming to consolidate 40 years of guidance, no-action letters, and informal comments into a single, comprehensive rule. The repropose would permit funds to use derivatives in more than a minimal amount, if they implement a derivatives risk management program and if their derivatives use does not exceed specific risk-based leverage limits.

ICI submitted a comment letter in April 2020 commending the SEC for crafting a proposal that would both protect investors and preserve fund managers’ ability to use these practical portfolio management tools. The letter recommended several targeted adjustments to enhance the proposal, such as increasing the leverage limits and amending the proposal to lessen the impact on funds and their shareholders. The Institute continues to engage closely with the SEC and staff to incorporate the recommendations pending a final rule.

Proxy Voting

• Fund proxy reform: The SEC’s recent proxy work—began in 2018—initially contemplated addressing only proxy advice, the shareholder proposal rule, and “proxy plumbing” reform (i.e., actions to modernize the overall proxy system to promote greater efficiency and accuracy). In July 2020, however, the SEC added fund proxy reform to its rulemaking agenda.

ICI submitted two documents to the SEC in 2019 that made the case for SEC reform of the fund proxy system. The June 2019 letter described the unique challenges that funds as issuers face in seeking shareholder approvals and offered several recommendations for improving the system. The December 2019 report, which included seven years of survey data on fund proxy campaigns, examined proxy cost information together with shareholder voting data and demonstrated that the current proxy system is failing to facilitate a cost-effective fund governance process. In July 2020, the SEC added fund proxy reform to its rulemaking agenda.

• Proxy advice: In November 2019, the SEC proposed proxy voting advice amendments. The proposal would have granted companies conducting proxy campaigns the right to review and comment on proxy advisory firms’ draft advice before funds and other clients received it.

ICI’s February 2020 comment letter opposed this aspect of the proposal, maintaining that such a review framework would adversely affect the timeliness and cost of proxy advisory firms’ advice, and thus its overall value to funds. ICI recommended an alternative whereby funds would receive proxy reports concurrent with their release to companies for review and comment. The final amendments, adopted in July 2020, incorporated a review and comment framework similar to ICI’s recommendation.

• Shareholder proposals: In November 2019, the SEC proposed changes that would slightly raise the eligibility and resubmission standards in the shareholder proposal rule. This rule conditionally permits a company’s shareholders to include proposals (i.e., recommendations or requirements that a company and/or its board take action) on a company’s proxy statement.

ICI’s February 2020 comment letter generally supported these changes as reasonable to preserve access to the company proxy for smaller shareholders while seeking to align the interests of shareholder proponents with those of long-term shareholders generally. ICI also recommended applying a different vote-counting methodology for shareholder proposals resubmitted to closed-end funds to account for the unique attributes and characteristics of those funds and their shareholders.
• SEC’s fair value proposal: In April 2020, the SEC issued its proposal on the fair valuation responsibilities of a fund and its board and investment adviser. The SEC last addressed valuation under the 1940 Act comprehensively in 1969 and 1970.

ICl’s July 2020 comment letter generally supported the proposal’s process-oriented framework, its deference to accounting standards, and its acknowledgment of the complementary and essential roles that investment advisers and fund boards play in valuing portfolio securities. ICI recommended several improvements to the proposal to reduce compliance costs and to better reflect funds’ current valuation practices and the 1940 Act’s flexible standard.

Standards of Conduct

• DOL fiduciary rulemaking: In June 2020, the DOL issued its proposed prohibited transaction exemption that would permit investment advice fiduciaries to receive compensation for their advice on retirement plans and IRAs. The DOL also reinstated its five-part test to determine whether a person is an investment advice fiduciary and restored several exemptions to their pre-2016 content. The proposal is dramatically narrower in scope than the 2016 fiduciary rulemaking, which significantly expanded the range of persons treated as fiduciaries to retirement plans or IRAs.

While this latest effort from the DOL represents an important step toward aligning standards of care for all investors saving in a retirement account or other investment accounts, ICI’s August 2020 letter commenting on the proposal urged that the DOL clarify certain statements it made in the preamble to the proposal on the application of the five-part test. ICI also suggested changes to the conditions needed under the exemption to meet the DOL’s intended goals and provide retirement savers with the benefits of an aligned regulatory structure.

• Implementation of SEC Regulation Best Interest (Reg BI) and Form CRS: June 30, 2020, marked the compliance date for Reg BI and Form CRS. Reg BI creates an enhanced “best interest” standard of conduct for broker-dealers providing recommendations to retail investors, while Form CRS requires a two-page summary outlining key aspects of the relationship between the investor and the investment professional.

ICI has continued to assist members in understanding the compliance implications of these rules for their businesses and provides an ongoing forum, through the member working group, for members to discuss issues with their peers.

• State fiduciary developments: Many state regulators strenuously opposed Reg BI, asserting that it would not adequately protect their residents. Various states have proposed laws or regulations that would impose a fiduciary duty or enhanced disclosure requirements on financial professionals. In addition, the attorneys general of seven states and the District of Columbia filed an unsuccessful lawsuit against the SEC seeking to invalidate Reg BI.

ICI members and other market participants remain highly concerned about a potential proliferation of state fiduciary initiatives that may be inconsistent with federal standards. ICI has been tracking state activity on standards of conduct for financial professionals, and submitted comments in response to a number of state proposals, including letters in January and March 2020 on proposed regulations in Massachusetts and Oklahoma, respectively. Both letters reminded the states to consider how the preemptive provisions of the National Markets Improvement Act of 1996 may affect their proposals.

• Summary prospectus for variable insurance products: In March 2020, the SEC adopted a new rule to allow issuers of variable annuity contracts and variable life insurance contracts to use a summary prospectus to satisfy their prospectus delivery obligations.

The final rule reflected many of ICI’s previous recommendations. ICI was particularly pleased that the final rule permits a “notice and access” method of delivery for underlying fund prospectuses. Under this approach, the summary prospectus must include an appendix with key information about the underlying funds offered through the insurance product, along with links to where the underlying fund prospectuses may be found online. The simplified disclosure and delivery requirements will benefit investors by allowing them to receive information in a more reader-friendly manner.

• Volcker Rule reform: Enacted as part of the reforms after the 2007–2009 financial crisis, the Volcker Rule restricts banks from using their own resources to trade for purposes unrelated to serving clients. It generally prohibits banks from engaging in “proprietary trading” and from sponsoring or investing in hedge funds, private equity funds, or other similar funds—collectively referred to as “covered funds.” While Congress did not intend for the Volcker Rule to apply to US-registered funds and their foreign counterparts, the implementing regulations adopted in 2013 have negatively affected some of these funds.

In February 2020, the five agencies responsible for Volcker Rule implementation proposed changes to the covered fund provisions, including the exclusion for “foreign public funds,” that were consistent with ICI’s views. In an April 2020 comment letter, ICI strongly supported the foreign public fund changes. The final rule adopted in June 2020 reflects concrete progress in ICI’s long-standing efforts to advance reforms that avoid impeding the activities and investments of ICI member funds while still achieving the intended purposes of the Volcker Rule.

Closed-End Funds

Activist campaigns: In 2010, the SEC staff issued a no-action letter that limited the ability of closed-end funds to defend themselves against activist investors seeking short-term profits.

In March 2020, ICI submitted a comprehensive report to the SEC, countering the letter’s legal conclusions and providing detailed data and context on the history of the closed-end fund market, recent activist campaigns, and the harm those campaigns have caused to closed-end funds and their long-term shareholders. The Institute met with policymakers to explain the report’s findings and to highlight the benefits of closed-end funds—including their ability to offer retail investors more exposure to private offerings. The SEC staff withdrew the letter in May 2020 and is analyzing how closed-end funds can help give retail investors greater access to private markets.

Offering reform: In response to legislation that ICI strongly supported, in 2019 the SEC proposed rules that would modify the registration, communications, and offering processes for business development companies and registered closed-end funds. The rules would simplify the offering process for eligible funds, permit them to engage in more forms of public communication, and allow delivery of written notices in lieu of final prospectuses. In addition, the SEC proposed amendments to harmonize the regulatory framework of these funds with other issuers. Among other things, those amendments would require closed-end funds to file current reports when specified events occur.

ICI filed a comment letter supporting the proposed streamlined registration process, enhanced communications options, and modified prospectus delivery methods. The letter recommended, however, that the SEC eliminate the current report requirement, given the numerous filings and timely information closed-end funds already provide. The SEC adopted final rules in April 2020, largely as proposed, but followed ICI’s recommendation and eliminated the current report requirement.

Access to private markets: In 2019, the SEC issued a concept release seeking input on expanding private market access while maintaining investor protection. Building on ideas from that concept release, in 2020, it proposed to expand the definition of accredited investor, the threshold that investors generally must meet to invest in the private market.

ICI filed comment letters in response to the concept release and accredited investor proposal, urging the SEC to carefully consider investor protection measures in expanding private market access. The letters highlighted that regulated funds provide investors with both access to the private markets and strong investor protections and recommended that the SEC modify regulations and certain staff positions to encourage private market exposure through these vehicles. SEC staff recently indicated that they are exploring ways to provide enhanced access to private investments through regulated fund structures, such as target date and closed-end funds.

Goverance

COVID-19 response: During the COVID-19 pandemic, IDC has focused on delivering resources to assist the independent director community in navigating these unprecedented times.

IDC has taken proactive steps to communicate regularly with fund directors during the crisis, developed specialized programming and outreach, and provided opportunities for virtual engagement. For example, in lieu of its
Engagement with the SEC: The Investment Company Act requires fund boards to approve certain matters, including the fund’s contract with its adviser, at an in-person meeting. The coronavirus pandemic, however, has restricted travel and limited the ability of boards to meet in person.

IDC engaged with SEC staff to seek relief for funds from the in-person board meeting requirement. In March 2020, the SEC issued a temporary exemptive order granting this relief, which built upon no-action relief IDC had previously obtained on the in-person meeting requirement. IDC also sought an extension of the temporary exemptive relief, and the SEC issued a new exemptive order in June granting the temporary relief until further notice.

Regulatory initiatives: The SEC proposed four rules affecting independent fund directors: fair valuation, auditor independence, derivatives, and proxy voting advice. IDC submitted comment letters that supported each proposal’s overall goals and offered suggestions on ways to improve the final rules and amendments:

IDC supported each proposal’s overall goals and offered suggestions on ways to improve the final rules and amendments:

• Good faith determinations of fair value: IDC strongly supported the proposal’s framework giving fund boards the option to assign determinations of fair value to the investment adviser, but urged the SEC to make modifications to address the proposal’s prescriptive, one-size-fits-all elements.

• Auditor independence: In a joint comment letter, IDC and ICI supported the SEC’s proposed amendments to its auditor independence rule. These amendments are intended to modernize the rule so that relationships and services that do not pose threats to the auditor’s objectivity and impartiality do not trigger non-substantive violations or potentially time-consuming audit committee reviews of immaterial matters.

• Funds’ use of derivatives: IDC strongly supported the SEC’s reproposed derivatives rule, which addressed many of the concerns raised by IDC and others about a previous SEC proposal. IDC, however, expressed reservations about the proposed reporting relationship of the derivatives risk manager to the board, suggesting modifications to better reflect an appropriate oversight role for fund boards.

• Proxy voting advice: IDC supported the proposal’s essential goal to help ensure that investors, like funds, who use proxy voting advice receive more accurate, transparent, and complete information to make voting decisions. IDC, however, stated concerns about the proposed framework and timeline for companies to review and comment on proxy advisory firms’ draft advice before that advice is provided to clients, including funds. The SEC adopted rule amendments reflecting substantial revisions to its proposed review and comment framework, consistent with comments made by IDC and others.

International

Common ownership: The "common ownership" hypothesis is the notion that institutional investors holding small, noncontrolling stakes in competing companies in concentrated industries, such as airlines or banks, decrease competition and raise consumer prices.

ICI remains engaged with policymakers, regulators, and other interested parties to rebut unproven claims of anticompetitive effects under this hypothesis. In response to questions from the Federal Trade Commission (FTC), in November 2019, ICI submitted a comment letter further explaining how investment advisers—which act as fiduciaries to thousands of funds and other clients with different investment goals—lack both the incentive and mechanism to affect price competition. The letter details why investment advisers and the managers of commonly held firms likely could not discern a competitive strategy that maximizes returns among diverse investors. ICI also continues to stay abreast of recent developments abroad on common ownership. For example, the European Parliament recently published a study about common ownership in the EU banking sector that declined to conclude that common ownership harms competition.

Data privacy in Canada: The Canadian government is considering sweeping updates to its privacy and data protection laws, including amendments to the Personal Information Protection and Electronic Documents Act (PIPEDA), in which it will address treatment of transborder dataflows.

In March 2020, ICI Global submitted a letter offering recommendations based on "lessons learned" from members' experience with data privacy laws in the United States and European Union. ICI expects to provide more detailed feedback when the government releases proposed text of any legislative amendments to PIPEDA.

Due diligence questionnaire: Funds face unique challenges in performing intermediary oversight, especially in light of MiFID II requirements, changing regulatory landscapes, and the absence of an agreed-upon industry standard between funds and their distribution channels.

To help address these challenges, ICI Global brought together an industry working group, joining with distributors and fund managers to issue a common protocol for distribution oversight. The resulting due diligence questionnaire serves as the standard for UCITS and alternative investment funds (AIFs) in performing onboarding and ongoing oversight of distribution channels.

ESG: As part of the EU Action Plan on Sustainable Finance, policymakers adopted new environmental, social, and governance (ESG) disclosure requirements for asset managers and funds. Policymakers also continue to propose additional requirements for ESG disclosure, the consideration of ESG in the investment process, and the distribution of ESG funds. These requirements will create substantive new obligations for managers.

Global derivatives/leverage: In March 2020, ESMA proposed guidelines that regulators in EU member states would use: a) to assess how alternative investment funds’ use of leverage contributes to systemic risk in the financial system; and b) to design, calibrate, and implement macroprudential leverage limits for those funds. The assessment phase would include a two-step framework that would identify funds that may cause risks to financial stability, then determine for which funds leverage limits are appropriate. The guidelines would set high-level principles on the timing and level of such limits.

ICI Global filed a comment letter generally supporting the two-step assessment framework, providing specific recommendations for the framework to serve as a screening tool to meaningfully narrow the group of funds that would be subject to further analysis. The letter discussed how national regulators should consider imposing appropriate leverage limits to address the specific risks they identify in their jurisdictions.

Global financial stability: The role of regulated funds in financial stability continues to draw policymakers' attention, especially in Europe. Open-end funds invest, as well as money market funds, in less-liquid assets, as well as non-investment grade debt, and remain areas of focus. Some policymakers contend that market stress or other events could trigger heavy redemption activity, necessitate "fire sales" of portfolio assets, or both. More broadly, bank-oriented policymakers have called for extending "macroprudential policy" beyond the banking sector.

ICI continues to engage actively with policymakers, providing data on the experience of regulated funds to help inform policy decisions. ICI representatives met with officials from the FSB (including FSB Chair Randal Quarles), IOSCO, the European Central Bank, and the European Systemic Risk Board, among others. ICI concurred and cosponsored (with BVI, the German funds association) a March 2020 conference on how regulated funds manage liquidity and leverage risks. At the FSB's invitation, ICI President and CEO Paul Schott Stevens shared preliminary data on US fund flows during the COVID-19 crisis.

Global pensions: Policymakers worldwide are considering pension system reforms to help citizens build more retirement savings.

ICI provided extensive input to the Working Party on Private Pensions (WPPP), a group of national pension regulators from Organisation for Economic Co-operation and Development (OECD) member countries that conducts research on retirement systems around the world. Specifically, ICI offered feedback on WPPP research papers, including perspective on the design of DC plans, the US retirement system, and the role of effective disclosure.

India's new rules for foreign portfolio investors (PFIs): After extensive consultation, the Securities and Exchange Board of India (SEBI) adopted new regulations in September 2019 for PFIs, replacing the FPI regulations from 2014. The revised rules streamline and rationalize the FPI framework to align it closer to international standards and ease foreign investment in India.
ICI Global was very supportive of SEBI’s efforts to reform the FPI framework, but also sent comment letters highlighting unresolved challenges for regulated funds. The final rules, adopted in late September, were welcomed by the industry as they resolved many challenges that ICI had raised.

Japan foreign investment restrictions amendments: In November 2019, the Japanese National Diet passed an amendment bill to the Foreign Exchange and Foreign Trade Act (FEFTA), lowering the threshold for requiring preapproval for the acquisition of shares of restricted companies from 10 percent to 1 percent. The Ministry of Finance (MOF) draft rules implementing the bill included an exemption for certain foreign financial institutions, but not all regulated funds were within the scope of the exemption.

ICI met with the MOF in Tokyo and subsequently submitted two letters expressing concerns with the limitations of the exemption and requesting that regulated funds be included. The MOF addressed ICI’s request in the final implementing rules by specifically including within the scope of the exemption US-registered investment companies, UCITS, and registered investment companies similar to those authorized under Japanese law, regardless of legal form.

Pacific Policy Council (PPC) working group on retirement savings: In August 2019, the PPC recommended that ICI set up a working group on retirement savings with representatives appointed by each PPC member. The group met its initial objective by developing recommendations for the PPC on the countries and issues ICI should prioritize with respect to retirement policy in Asia. The PPC approved the working group’s plan in November 2019.

ICI presented several documents at the PPC’s June 2020 meeting, including a pamphlet illustrating the status of the Japanese retirement system. ICI also presented examples of “keys” or short documents to facilitate members’ discussions with regulators and policymakers. Each key describes one design feature of a successful retirement savings system.

PEPP: Policymakers continue to work on the pan-European personal pension (PEPP) product—a voluntary savings vehicle that investors can take with them across member states.

Though ICI Global is hopeful that PEPP can succeed, it is unclear if the regulatory framework will translate into a viable product, as the framework may be too rigid to foster a competitive marketplace. One impediment is a legally required fee cap on the basic investment option, and ICI Global will continue to encourage EU policymakers to remove the fee cap as part of their work on relaunching the Capital Markets Union.

Operations

Auditor independence: In December 2019, the SEC proposed amendments to its auditor independence rule to ensure that relationships and services that do not pose threats to the auditor’s objectivity and impartiality do not trigger non-substantive violations or potentially time-consuming audit committee reviews of immaterial matters. For example, the amendments would exclude certain investment advisers and the funds they manage from the investment company complex entities from which a fund’s auditor must be independent.

ICI and IDC filed a joint comment letter in March 2020 supporting the proposed amendments. The letter argued that the non-substantive violations the amendments seek to address amount to “false positives” and that the amendments would enable audit committees to more effectively focus on accounting and auditing matters of importance to the integrity and reliability of the fund’s financial statements.

Cybersecurity: Beginning in mid-March 2020, tens of thousands of mutual fund employees, not only in the United States but around the world, were sent home to work remotely due to COVID-19. While constant planning and testing of business continuity plans by firms enabled members to transition without interruption to fund operations, the threat landscape expanded dramatically.

ICI’s Chief Information Security Officer Committee, which typically meets three times per year, began meeting every two months. This community of peers discussed new challenges and risks faced by the remote workforce, and member participation in the meetings increased significantly. Concurrently, the committee and ICI updated and disseminated, in the United States and globally, its annual Cybersecurity Survey, which includes a new section on COVID-19.

Fraud prevention: Fraudulent schemes—identity theft, romance scams, COVID-19 cures, and a host of other swindles—continue to pose threats to fund shareholders. ICI members have reported that fraud and fraud attempts have increased significantly and that the methods for perpetrating fraud have evolved and become more sophisticated.

ICI continued its critical role supporting members’ fraud prevention efforts on several fronts, including work from its Fraud Prevention Working Group, launched in 2018. ICI Operations developed a mechanism to provide members with a year-over-year comparison of key fraud statistics and trends gathered on a quarterly basis from working group participants. In March 2020, ICI Operations published a comprehensive white paper, Red Flag Indicators: Warnings of Potentially Fraudulent Activity, to help funds and transfer agents identify red flags that may be indicative of fraud, identify possible enhancements to their fraud prevention and Reg S-ID: Identity Theft Red Flag programs, and augment their internal fraud prevention training resources. Finally, ICI continues to serve as a conduit for members to share real-time fraud alerts with working group participants.

Interval fund operational efficiencies: A significant barrier restraining the growth of interval fund distribution is the lack of standardized operational practices for managing interval funds, resulting in disjoined processes, manual strategies to compensate for lack of automation, and inefficient processing.

ICI’s Broker-Dealer Advisory Committee (BDAC) has embarked on a multiyear strategy to expand interval fund distribution through improved operational efficiencies that reduce operational risk. The committee’s Interval Fund Task Force has published a paper, Consider This: Interval Fund Operational Practices, to encourage common practice adoption in interval fund operations. The committee’s desire to standardize interval fund communication resulted in the addition of an Interval Fund Transaction Schedule to DTCC’s Multi-Party Info Xchange, a real-time solution that centralizes communication of critical operations information between funds and intermediaries. The task force is currently working through proposed changes to DTCC Fund/SERV® to allow interval fund repurchases (redemptions) to be sent throughout a repurchase period—eliminating the risks associated with order warehousing and facilitating efficient, straight-through order processing.

Small Funds Sales and Marketing Subcommittee: Sales and marketing activities present unique challenges for small funds. Smaller staffs and smaller budgets restrict distribution efforts. The ever-accelerating move to third-party distribution and rationalization of products on these distribution platforms adds to the demands sales and marketing professionals face. The rapid evolution of available technology in a highly regulated business presents opportunities and additional complexity.

To address these needs, the Small Funds Committee formed the Small Funds Sales and Marketing Subcommittee. The goal is to bring sales and marketing professionals at small funds together to explore key issues. The newly formed group is currently focusing on sales technology, effective use of social media, and market trends. These will be examined using presentations, workshops, and peer discussions.

Retirement

CARES Act: In March 2020, Congress enacted the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) to provide emergency assistance and healthcare response for individuals, families, and businesses affected by the COVID-19 pandemic. The CARES Act included several welcome changes to rules affecting retirement plans and IRAs.

ICI advocated for the suspension of required minimum distribution rules for defined contribution plans and IRAs for 2020. Ultimately included in the CARES Act, along with special rules permitting penalty-free retirement plan distributions and expanded plan loan availability, ICI immediately began outreach to the IRS and Treasury Department to alert them to guidance needed to implement the CARES Act provisions.

Electronic delivery: In 2020, the DOL finalized a regulation it had proposed in October 2019, creating a new safe harbor, using a “notice and access” structure. The new safe harbor allows retirement plans to use electronic delivery as the default for notices sent to participants and beneficiaries, while still allowing participants and beneficiaries to opt for paper delivery.
ICI submitted a comment letter in November 2019 in response to the proposed regulation, voicing strong support for the proposal and encouraging the DOL to finalize it without delay. The letter described the many advantages of using electronic delivery and offered specific suggestions, several of which the DOL incorporated in the final regulation.

Environmental, social, and governance (ESG) investing: In June 2020, the DOL proposed a regulation on selecting ESG investments for retirement plans. The proposal broadly treats any fund that includes environmental, social, corporate governance, and/or “any similarly oriented assessments or judgments in their investment mandates” as “ESG investments” subject to heightened scrutiny and increased administrative burden. In addition, the proposal would add new requirements applicable to all plan investments, including a troubling requirement to compare each plan investment to all “available alternative investments or investment courses of action.”

In July, ICI submitted a letter urging the DOL to withdraw the proposal, explaining that mutual funds’ portfolio managers—even those of funds that do not include ESG-related terms in their names or market themselves as ESG funds—routinely include ESG considerations in their decisionmaking to enhance performance, manage investment risks, and identify emerging investment risks and opportunities. Singling out one investment category for special treatment is inconsistent with long-standing DOL precedent and will have far-reaching effects on the selection of all plan investment options.

Multiple employer plans (MEPs): The DOL continued its work on MEps, issuing two requests for information (RFIs) in 2019 and 2020. The 2019 RFI sought views on whether the DOL should allow “open” MEPs (a single 401(k) plan adopted by two or more unrelated employers). The second RFI, in June 2020, specifically pertained to pooled employer plans (PEPs)—a new type of open MEP created by the Secure Act—seeking information on the possible parties, business models, and conflicts of interest that might be involved in the formation and ongoing operation of PEPs.

In response to the 2019 RFI, ICI urged the DOL to permit unrelated employers to participate in open MEPs supported by financial services firms. ICI explained that financial services firms offer unique qualifications that make them ideal candidates to sponsor MEps. In response to the 2020 RFI, ICI urged the DOL to provide guidance needed to implement the Secure Act’s PEP provision and to ensure that no barriers will stand in the way of financial services firms participating in the PEP market, noting that their involvement is crucial to ensure a robust competitive marketplace for PEPs.

Secure Act: On December 20, 2019, the president signed into law the Further Consolidated Appropriations Act, 2020 (H.R. 1865), which includes the Setting Every Community Up for Retirement Enhancement Act (the Secure Act). The Secure Act makes several changes intended to encourage greater participation and savings in defined contribution plans and IRAs and to allow savers to better manage their assets in retirement.

Many provisions of the Secure Act became effective within days after enactment, and ICI quickly approached the IRS and Treasury Department for guidance and relief urgently needed by financial institutions and their clients to implement the legislation. In the months following, ICI continued engaging with member companies to communicate implementation issues to the IRS, Treasury Department, and the DOL.

Tax

COVID-19 tax challenges: The novel coronavirus pandemic raised tax issues for regulated investment companies (RICs) as the federal government, fund complexes, and service providers closed their offices to prevent the spread of the virus. The closures made it nearly impossible for funds to file timely tax returns and obtain from the IRS certificates of residence (CoRs) needed to recover certain foreign taxes. Stress in the credit markets also created distribution issues for business development companies (BDCs) and some closed-end funds, as interest payments on debt securities held by the funds were postponed.

ICI sought and received from the IRS filing extensions until July 15, 2020, for RIC tax returns. ICI also sought relief permitting the use of digital signatures and received some relief extending the validity of funds’ CoRs. After discussions with the IRS, the IRS provided relief to BDCs and closed-end funds by permitting such funds temporarily to pay up to 90 percent of their dividends in stock.

Financial transaction taxes (FTTs): The United States and Europe have both advanced proposals to tax financial transactions. FTTs would harm fund investors, especially those saving for retirement and other long-term needs.

ICI and members provided policymakers in the United States and in Europe with detailed explanations, both in writing and in person, of the negative impact of FTTs on fund investors. ICI continues to strongly oppose FTTs despite minor changes responding to a few concerns.

India surcharge tax: The 2019 Indian budget proposed a significant tax increase on capital gains of all FPIs organized in noncorporate form (e.g., as trusts). The 2020 Indian budget included a new mechanism to impose the tax surcharge on dividends paid to noncorporate FPIs.

ICI Global sent comment letters to and met with Finance Ministry officials and other senior government officials in New Delhi to oppose the application of the surcharge tax to capital gains of noncorporate FPIs. The government later withdrew this proposal. ICI Global also has sent comment letters to government officials opposing the application of the tax to dividends.

Maryland services tax proposal: A 5 percent sales tax on services (including professional services such as legal, accounting, and investment management) was proposed in the Maryland legislature. This tax would have placed Maryland-based firms at a competitive disadvantage.

ICI submitted written testimony opposing this bill, recommending that the tax not apply to any services consumed by funds and their advisers. ICI further urged that a comprehensive study must be conducted before any services tax proposal advances to prevent fund investors and their advisers from suffering unintended consequences. The bill was subsequently defeated.

OECD initiative to expand taxing rights: The Organisation for Economic Co-operation and Development (OECD) is crafting global solutions to tax challenges arising from the “digitalizing economy.” These initiatives are not limited to “digital” companies, but instead will affect all firms that operate globally by fundamentally changing the existing international tax regime.

ICI prepared detailed submissions to the OECD, presented concerns at the public consultation in Paris, and advanced its concerns with the US Treasury Department. While no final agreements have been reached, senior OECD officials have confirmed publicly that funds are not intended targets of the proposed “minimum tax.” Related assurances also have been received.

Recovering European taxes: The “free movement of capital” article of the Treaty on the Functioning of the European Union prevents discrimination favoring EU taxpayers over comparable non-EU taxpayers. Two favorable decisions by the European Court of Justice have been cited by funds claiming that EU member states cannot tax dividends paid to US funds while exempting “comparable” local funds from the same tax.

For many years, ICI has been helping members recover taxes imposed by some EU member states on US funds while those countries exempted comparable local funds from those taxes. By working with members, meeting with foreign tax officials, submitting detailed memoranda, and testifying in court, ICI achieved three significant victories for funds and their shareholders this year. France, which had the largest amounts at issue, began conceding claims and paying refunds. In Spain and Sweden, the highest courts ruled in favor of US claimants. ICI's members’ funds are recovering more than $3.5 billion dollars from these three countries, and ICI continues its efforts elsewhere.

Regulatory guidance implementing 2017 tax legislation: The 2017 tax legislation enacted a provision allowing individuals to deduct 20 percent of their real estate investment trust (REIT) dividends but did not specifically permit RIC shareholders to deduct 20 percent of their RIC dividends attributable to REIT investments. Changes to the rules governing the timing of income for tax purposes also raised uncertainties about certain types of discounts on debt, possibly creating administrative burdens for RICs and other taxpayers. The legislation also placed new limits on interest expense deductions for corporations.

ICI submitted comment letters and met with Treasury and IRS officials seeking regulatory guidance on these issues. The government recently issued final regulations, as requested by ICI and National Association of Real Estate Investment Trusts (Nareit), permitting RICs to pass through to shareholders REIT dividends eligible for the 20 percent deduction. Also, in response to ICI requests, the IRS proposed regulations providing that the new income timing rules generally do not apply to market discount and original issue discount. Finally, in addition to finalizing the interest expense limitation regulations to address issues raised by ICI, the IRS also proposed regulations to permit RICs to pass through certain interest dividends.

These proposed regulations will provide a RIC’s corporate shareholders with interest income that will increase the amount of their deductible interest.