

A large, stylized graphic element consisting of two diagonal bands. The upper band is blue and the lower band is orange, both sloping upwards from left to right across the page.

18

The year "18" is prominently displayed in the center-right area. The number is composed of white digits with blue and orange fills. The "1" has a blue circle in its upper loop and an orange circle in its lower loop. The "8" has a blue circle in its upper loop and an orange circle in its lower loop.

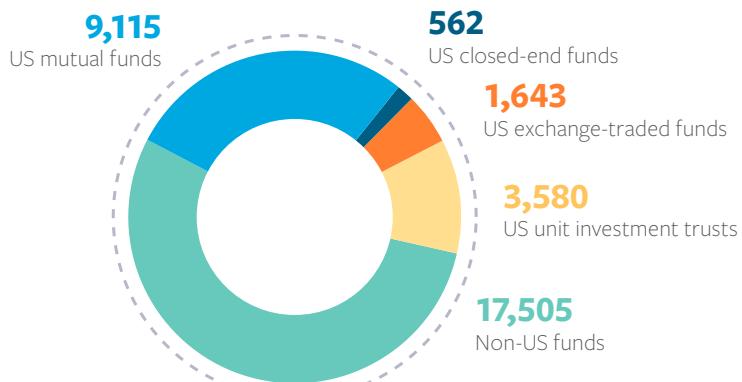
# ANNUAL REPORT

TO MEMBERS

## ICI Represents...

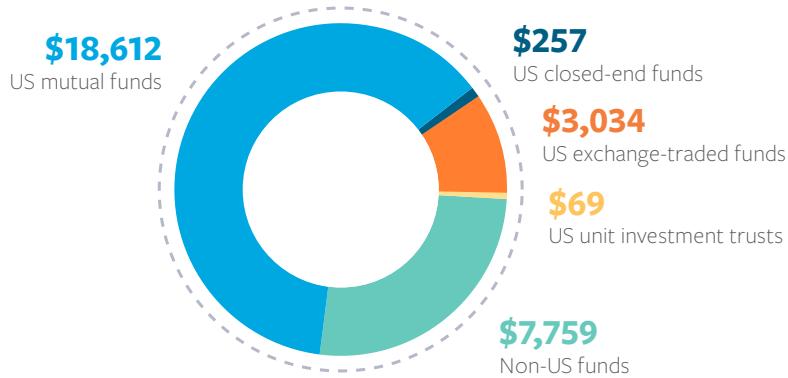
### MORE THAN 32,000 FUNDS

Number of investment companies by type\*



### WITH \$29.7 TRILLION IN ASSETS

Investment company assets, billions of dollars\*



### SERVING MORE THAN 100 MILLION SHAREHOLDERS

US ownership of funds offered by investment companies\*

**44.8**

PERCENT  
of US households  
own funds

**57.2**

MILLION  
US households  
own funds

**101.6**

MILLION  
individuals  
own funds

\* Data for mutual funds, closed-end funds, exchange-traded funds, and non-US funds are as of June 2018. Data for unit investment trusts are as of December 2017. Data for ownership of funds are as of mid-2018.

# Contents

- 03** Leadership Messages
- 11** Fund Regulation
- 21** Retirement
- 33** Exchange-Traded Funds
- 37** Research
- 45** Financial Markets
- 49** ICI Global
- 57** Independent Directors Council
- 61** Operations
- 67** ICI Political Action Committee
- 73** General Membership Meeting
- 79** ICI Education Foundation
- 83** Appendices
- Gatefold** ICI Action on Select Policy Developments
- Inside Back Cover** ICI by the Numbers



# Leadership Messages

## IN THIS SECTION

- » A Conversation with the Chairman
- » President's Letter: The Year in Review



**WILLIAM F. "TED" TRUSCOTT**

CHAIRMAN, INVESTMENT COMPANY INSTITUTE  
CEO, COLUMBIA THREADNEEDLE INVESTMENTS

# A Conversation with the Chairman

As Ted Truscott wrapped up his final year as the Institute's chairman, he sat down with ICI staff to discuss the events of his tenure.

## Your term as chairman has been an eventful two years. What do you see as some of the top achievements?

Tax reform was obviously a big issue for the nation, and I think ICI deserves credit for the role it played there. I was very concerned when we started hearing about potential restrictions on tax-deferred contributions in 401(k)s as a way to pay for tax cuts. Tax reform could have potentially ended up hurting the retirement system, rather than helping it. It was ICI's great contribution to help ensure that tax reform didn't turn the retirement savings system into a source of revenue to offset tax cuts.

State-run retirement plans are still out there, and they carry the risk of heading down roads that could conflict with the 401(k) system. I am a big believer that the national system has worked well, as ICI's research has shown, and so I'm glad that ICI and others worked with Congress to restore ERISA [Employee Retirement Income Security Act] protections to state-run plans.

It's a positive development that the SEC [Securities and Exchange Commission] is reasserting its jurisdiction on standards of conduct for financial professionals. It has been an ICI priority to promote good regulations to ensure that financial advisers act in the best interest of their clients, but with one set of standards under the SEC for all retail investors. So, ICI's engagement once again was very helpful to members.

Of course, ICI Global is doing more and more, which has created great value for members. Brexit has been a huge issue—working to ensure that neither Europe nor Britain takes actions that would inadvertently harm funds or their investors around the world, and helping members prepare for a range of outcomes [see page 51].

## Financial stability has been another significant issue during your term. Where do we stand?

Well, we have seen significant progress in the past few years in helping regulators understand funds' role in financial stability. We are still working to make the FSOC [Financial Stability Oversight Council] more accountable. And financial stability regulation remains more of a challenge in Europe, where they want to be sure that they have a line of sight into our businesses.

I come back to them and say, "Where has the mutual fund industry caused instability?" And I think it's clear that we are a stabilizing force in the markets. But the challenge

for us is to continue to communicate how the industry works, our fiduciary role managing money for customers, the already high degree of regulation, and the fact that we must constantly work to earn our customers' trust. That structure—it's still not as well understood as we wish.

## The SEC's agenda has also shifted during your term.

We've seen modifications in the liquidity risk management rule, which was a good step. The modified disclosures will serve investors better.

Rule 30e-3 has finally been enacted, and you have to credit the SEC for that. It marks a significant step toward modernizing the delivery of fund disclosures, and it's a step we can continue to build upon. The paper and printing industries fought back hard, and it was more of a political issue for some time. But now that struggle is behind us, and the SEC has moved ahead.

Coming up, the ETF [exchange-traded fund] rule is important and should be very interesting, and the Commission is still thinking about funds' use of derivatives. ICI provided thoughtful comment letters on these items and more. But I give a lot of credit to [SEC Chairman] Jay Clayton and [Investment Management Division Director] Dalia Blass. They've been quite willing to visit these various areas to make sure that regulations benefit the shareholder but aren't excessive.

Of course, you can't ignore the international implications of these issues. Take derivatives trading—it crosses all borders.

## Another upcoming item at the SEC is a review of fund directors' duties.

With every new regulation, there has been this tendency to shift more duties onto fund boards. So we have trustees telling us they need to cover more and more issues as a result.

Directors need the ability to focus on their primary responsibility of oversight, including governance. It would be helpful for the SEC to help right-size directors' responsibilities by taking some of the duplicative and outdated items off their plates. Fortunately, we have IDC [the Independent Directors Council], and IDC has a perfect window into what's being asked of directors. We're in the perfect place to help the SEC with that agenda.

**ICI has spoken out on the “common ownership” hypothesis—the idea that institutional investors that hold stock of companies in concentrated industries, such as airlines or banks, decrease competition and raise consumer prices, even when their holdings are small. How do you see that issue playing out?**

Look, it's simply not the case that fund managers' common ownership of companies in certain industries suppresses competition or otherwise makes things easier for the companies they invest in. In our company, there is no “house view” on airlines or banks or any other industry. We could have one set of investors selling a given security on a given day, while another one is buying it, for whatever reasons are appropriate to those portfolios.

Clearly, the role of funds is to give our customers the best risk-adjusted return we possibly can. Now, are the environmental, social, and governance aspects of business becoming a larger and larger consideration? Absolutely. As long-term investors, we have to consider how those issues can affect companies' ability to thrive. The governance piece is very significant, because the companies that aren't governed well tend to become the ones that end up in trouble. But I really don't understand how funds' engagement on these considerations can lead to this notion that our investing affects competition.

### **What do you see as the big trends in the industry?**

Globally, we continue to see an increasing shift toward defined contribution pension plans. Funds can be an important part of that trend, which would provide a significant benefit to underserved investors worldwide, as well as a major source of growth for funds. So promoting that trend is a high priority for ICI Global.

The biggest trend in the US fund industry is this: the customer wins. Competition in our industry is intense. We are seeing fee pressure. There are more features, probably more choice, in the fund world today than ever before. So, customers are getting better value for a lower price, and competition to win those customers over is fierce. Sounds like an industry that is functioning well to me.

Those pressures are going to lead to further consolidation. That said, a lot of people have come into the industry, and the economies of scale only go so far. So, there is always going to be room for smaller niche players who are very good at what they do.

### **But fee pressure means all of these firms will need to be lean and efficient.**

Operational efficiency is going to be an increasingly important part of the industry. ICI's Operations team is providing a tremendous amount of information to help people with the many complexities of operating investment advisers. If you look at the leadership of the industry, it has been mostly former investment people like yours truly, some distribution people, and the occasional lawyer. Well, going forward, you're going to see more of the operations people at the top of the shop—and they will do well. Operational efficiency, modern client reporting, derivatives processing, portfolio accounting—all that done in an efficient, lower-cost way is going to be in high demand. Almost every firm is talking about how to serve customers in a more customized way. You cannot do that without operational efficiencies because you won't be able to handle the cost of it.

### **When you talk to members, what do you tell them about your involvement in ICI?**

When I joined the ICI board, at one of the early Mutual Fund Leadership Dinners, I was sitting out at—well, it felt like Table 5,000, but maybe it was Table 42. So I said to myself, “I want to figure out what I can contribute to ICI so that I am sitting up at Table 1, instead of Table 42.”

It quickly became clear to me that what you put into ICI is what you get out of it. The more you get involved—helping drive the policies, planning the General Membership Meeting, or serving on the Investment Committee or the Chairman's Council—the better ICI becomes, and the more value you get from your membership. It's not just me personally—my colleagues at Columbia Threadneedle have been active participants on many ICI groups. For instance, we were one of the first backers of ICI Global—the minute that was proposed. We were proud to be an early backer, and ICI Global has helped us in fantastic ways over the past few years.

I think ICI's members are getting tremendous value. But it has to be a reciprocal relationship—the more we give back, the more ICI has to offer. ♦

**“ICI’s members are getting tremendous value. But it has to be a reciprocal relationship—the more we give back, the more ICI has to offer.”**

William F. “Ted” Truscott  
Chairman, Investment Company Institute  
CEO, Columbia Threadneedle Investments



**PAUL SCHOTT STEVENS**

PRESIDENT AND CEO  
INVESTMENT COMPANY INSTITUTE

# The Year in Review

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

Of primary importance was Congress's consideration of major tax reforms, including changes in the taxation of retirement savings (page 26). For many years, we had been concerned that Congress eventually would turn to the retirement system as a potential source of tax revenue, and therefore we worked to underscore the strengths and successes of the defined contribution system and the crucial role that tax deferral plays.

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

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

So too will our efforts to improve fund disclosure (page 15). The Securities and Exchange Commission (SEC) adopted Rule 30e-3, which authorizes US-registered funds to deliver shareholder reports online as the default option. This proposition is so sensible that you might think it would be free from controversy. Far from it. Over two annual appropriations cycles, we battled a coalition of paper producers and their allies, who lobbied Congress to incorporate a provision in federal spending bills to prohibit the SEC from moving forward with any e-delivery rule.

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

The SEC also approved an important modification to its liquidity risk management rule (page 19). In place of public disclosure of the “bucketing” data that funds will report to the Commission, funds will provide shareholders with narrative disclosure concerning their liquidity risk management program. We strongly concurred with the SEC that disclosure of this kind will be far more meaningful and understandable to the investing public than the initial requirement would have been.

More recently, the Commission voted to propose new standards of conduct for investment professionals (page 17). We welcomed this step out of our conviction that the SEC is the appropriate authority to establish and enforce such standards for the protection of all retail investors. This rulemaking is a high priority for SEC Chairman Jay Clayton, and though the initial package of proposals was not perfect, we know that the SEC is committed to setting an appropriately high bar while preserving retail investors' access to the investment products and services they depend on to reach their savings goals. This is precisely what the Department of Labor's fiduciary rule failed to do.

Exchange-traded fund members can take heart in the Commission's proposed rule to codify and streamline the ETF approval process (page 34). A top priority for us this year, the rule should make the ETF regulatory framework more consistent, transparent, and efficient.

Our international program, ICI Global, continues to expand in scope and importance (page 50). This year, we gained good ground on numerous critical initiatives. As negotiations over Brexit have played out, we responded strongly to proposals that threaten to undermine the successful UCITS fund model by restricting the delegation of functions outside the European Union. We also engaged in a close dialogue with Hong Kong's securities regulator to demonstrate how funds use derivatives for the benefit of their shareholders.

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

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

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

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

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





# Fund Regulation

## IN THIS SECTION

- » A Conversation with the General Counsel
- » ICI Secures Disclosure Victory for Fund Shareholders, Presses for Further Enhancements
- » Continuing to Inform the Discussion on Common Ownership
- » In Standards of Conduct Saga, a Promising New Direction
- » New Law Modernizes Closed-End Fund Regulation
- » Liquidity Risk Management: Strengthening an Imperfect Rule
- » Advocating for Appropriate Resolution Powers in Europe



**SUSAN OLSON**  
GENERAL COUNSEL  
INVESTMENT COMPANY INSTITUTE

# A Conversation with the General Counsel

As Susan Olson nears the end of her first year leading ICI's Law Department, she discusses the regulatory environment for the fund industry.

**Susan, you've been general counsel for just about a year now, and we've seen some notable advances in fund regulation since your tenure began. How would you describe the fund industry's regulatory progress this year?**

Well, I'd say that this year certainly has been one of great progress for regulated funds and their shareholders—especially as it relates to issues at the SEC [Securities and Exchange Commission]. I feel pretty fortunate to have been in this position during this time.

The SEC and staff have had so much on their plate—as they so often do—but they managed to set out an ambitious agenda and have been getting important work done. At ICI, we've been engaging closely to provide information and industry perspective that is essential to the rulemaking process.

**Tell us about that agenda. What important work has the SEC gotten done?**

Quite a lot, really—and probably way too much to talk through in the short time we have. But to list a few highlights, I'd have to mention Rule 30e-3, the standards of conduct proposals, and the ETF [exchange-traded fund] rule proposal. And then, of course, there are the important amendments they've adopted and guidance they have provided to smooth the industry's implementation of a couple of rules. The energy has been remarkable over there, and it's kept us so busy here.

**30e-3—that's the rule that will allow funds to deliver shareholder reports online as the default option. That was a great step for funds, wasn't it?**

It was—we worked for years to get this rule adopted. And for a while there—with Congress weighing a provision in its government spending bill to block the SEC from adopting the rule—we weren't sure that the Commission would even have a chance to do so.

But I think the bigger winners here are fund shareholders. They're the ones who've had to pay for printing and mailing those reports, which can be dense and difficult to get through. Once the rule is fully implemented, shareholders are the ones who will save

money and—if they want—will have easier access to more modern, user-friendly disclosure. We hope the rule lays a foundation for the Commission to modernize fund disclosure more broadly.

**Well then, you must've been pleased to see the SEC request comment on ways to enhance fund disclosure—in the same release as the adoption of Rule 30e-3, no less.**

That we were. We've long been interested in modernizing disclosure for a wide range of fund materials—not just the delivery, but also the content and design. It's good to see that both the commissioners and the Division of Investment Management are making this a priority.

A big part of our response to the request is our recommendation for a summary shareholder report, which we derived from our work with members and through a survey that tested a prototype with mutual fund shareholders. Our findings tell us that a useful summary shareholder report would mirror the SEC's design of the summary prospectus, which is a proven success. It would be short enough that shareholders would be likely to read it, but enable those who do want more detailed information to find it easily.

**Do you also see progress in the standards of conduct proposals?**

That's a tough one. For years, we had been advocating for the SEC to take the lead in this area, and for it to propose a best-interest standard for broker-dealers providing recommendations to all retail investors—whether they're saving for retirement or other goals.

To its considerable credit, the SEC has proposed this. But as a whole, the package of proposals is not perfect. It needs to better explain how investment professionals would comply with their obligations under the proposals. It also can do more to preserve investors' ability to choose the investment professionals and products they prefer. In our commentary to the Commission, we recommended refinements toward those ends.

## The ETF rule has been a long time coming, too. What do you make of it?

We're strongly supportive of it. The fallout from the financial crisis rightly tabled the ETF rule proposed by the SEC in 2008. Now though, with ETF growth showing no signs of slowing down, it's high time the SEC codify and streamline the ETF regulatory framework.

The proposal does need some adjusting. But—big picture—it promises to make the ETF regulatory framework more consistent, transparent, and efficient.

## You mentioned implementation. What progress has the industry made there?

We never stop working to help the industry with regulatory implementation and compliance. This year, our efforts on the liquidity risk management rule stand out.

On the strength of our members' observations and insights, we were able to show the SEC why "bucketing"—meaning the rule's asset-classification provisions—had been so challenging and expensive to implement. And we persuaded the Commission to allow funds more time to comply.

We also explained how the rule's public disclosure regime would likely mislead fund shareholders. This prompted the Commission to adopt a more practical solution—having funds explain the operation and effectiveness of their liquidity risk management programs in a narrative disclosure—which will better help shareholders understand how their funds manage liquidity risk.

Regulation is global now. And before you took on the general counsel role, you focused heavily on international issues—at both ICI and the SEC. Is that global experience helping you in your work today?

Absolutely—I learned so much from my earlier global work. Most countries don't approach fund regulation as the United States does. And the hierarchy of regulatory bodies can be more complex elsewhere—not to mention the regulations themselves.

That's taught me to keep an open mind to ideas I'm not so familiar with, to be thorough with the Law Department's approach to regulation, and to be patient when we don't see regulatory progress as fast as we'd like.

I do my best to incorporate those things—being open and thorough, yet patient—into my work as general counsel. Now that I think about it, those make for some pretty good life principles too.

## Just one more thing before wrapping up. Looking back on your college days and early career, did you think you'd one day find yourself in a job like this?

It's actually not too far off from what I expected. ICI's work—at least the Law Department's—is essentially an effort in solving a series of puzzles. That's a task I've always been drawn to.

As a philosophy major, I enjoyed thinking through problems of logic, ethics, and politics. And in law school, I enjoyed puzzling over the nuances of cases and opinions. This background helped me fit pieces together as a corporate attorney—and, later at the SEC, to serve investors.

Now, of course, I focus on the puzzles facing regulated funds and their shareholders. So I guess you could say that my whole professional life has been leading up to this point. ♦

**I'd say that this year certainly has been one of great progress for regulated funds and their shareholders—especially as it relates to issues at the SEC....At ICI, we've been engaging closely, to provide information and industry perspective that is essential to the rulemaking process.**

SUSAN OLSON

# ICI Secures Disclosure Victory for Fund Shareholders, Presses for Further Enhancements

Resolute ICI advocacy both in Congress and at the SEC this year spurred the SEC to adopt an important rule allowing registered funds to deliver shareholder reports online as the default option, earning for US fund shareholders a hard-fought victory in a heavily contested policy debate.

On Capitol Hill, ICI fended off yet another attempt by the paper industry to defeat the rule through government spending legislation. As lobbyists for the rule's opponents pressured Congress to include a provision in its omnibus spending bill that would block the SEC from adopting the rule, ICI countered by educating members of Congress about how the rule would benefit fund shareholders, and by targeting commentary and advertising to urge them to reject the provision.

Having cleared a path for the SEC to adopt the rule, ICI met with commissioners and staff to reaffirm the rule's main strengths. When fully implemented, it stands to afford fund shareholders meaningful cost savings, provide them with easier access to more modern and user-friendly disclosure, and spare millions of trees a year.

At the same time, the SEC issued requests for comment on

- » the “processing” fees that brokers and other intermediaries charge for delivering shareholder reports; and
- » ways to enhance fund disclosure more broadly.

In pursuit of fairer costs for fund shareholders, ICI called on the Commission to reform the deeply flawed framework governing the fees. As the Institute has long contended, the framework's misaligned incentives cause funds to pay artificially high costs for delivering materials to shareholders investing in funds through intermediaries.

With an eye toward making fund disclosure more useful for shareholders, ICI worked with member firms to develop and test a prototype for a summary shareholder report, and submitted recommendations to the SEC based on its findings.

ICI stands ready to work with the Commission and staff as they consider next steps on these initiatives—and, in the months ahead, will continue engaging with member firms as they work to implement the shareholder report delivery rule. ♦

## DON'T LET PAPER TAKE OVER

You can help the SEC bring mutual fund investors into the digital age

Americans go online to get their news, to shop, to book travel, and to manage their finances. But 100 million mutual fund shareholders remain stuck in a pre-internet world of thick paper shareholder reports, which land with a thud in mailboxes twice a year.

It's time for change. The SEC's proposed Rule 30e-3 would improve delivery of mutual fund reports, while fully preserving shareholders' right to choose to continue to receive reports on paper.

Adopting Rule 30e-3 would:

- » Save fund shareholders \$2 billion over 10 years
- » Provide easy access to important fund information
- » Reduce waste and environmental damage

Unfortunately, an array of special-interest lobbyists representing those who profit from paper reports

have persuaded the Senate Appropriations Committee to include a rider that would block the SEC from spending any money to advance this small, commonsense step.

Paperless delivery is the default for government employees' Thrift Savings Plan quarterly statements and health benefits brochures. Of course, they can receive paper if they request it—just as fund shareholders could under Rule 30e-3.

America's 100 million fund shareholders deserve that same choice.

Please oppose any appropriations rider that would hamstring the SEC's efforts to modernize how mutual fund investors receive shareholder reports.

The paper rider should end up where today's paper reports all too often land—in the recycling bin. Let's bring mutual fund disclosure into the digital age.



For more information, visit [www.ici.org/digital\\_age](http://www.ici.org/digital_age)

## Don't Let Paper Take Over

You can help the SEC bring mutual fund investors into the digital age

Americans go online to get their news, to shop, to book travel, and to manage their finances. But 100 million mutual fund shareholders remain stuck in a pre-internet world of thick paper shareholder reports, which land with a thud in mailboxes twice a year.

It's time for change. The SEC's proposed Rule 30e-3 would improve delivery of mutual fund reports, while fully preserving shareholders' right to choose to continue to receive reports on paper.

Adopting Rule 30e-3 would:

- » Save fund shareholders \$2 billion over 10 years
- » Provide easy access to important fund information
- » Reduce waste and environmental damage

Unfortunately, those who profit from paper reports have persuaded the Senate

Appropriations Committee to include a rider that would block the SEC from spending any money to advance this small, commonsense step.

Paperless delivery is the default for government employees' Thrift Savings Plan quarterly statements and health benefits brochures. Of course, they can receive paper if they request it—just as fund shareholders could under Rule 30e-3.

America's 100 million fund shareholders deserve that same choice.

Please oppose any appropriations rider that would hamstring the SEC's efforts to modernize how mutual fund investors receive shareholder reports.

The paper rider should end up where today's paper reports all too often land—in the recycling bin. Let's bring mutual fund disclosure into the digital age.



For more information, visit [www.ici.org/digital\\_age](http://www.ici.org/digital_age)

## Continuing to Inform the Discussion on Common Ownership

Over the past year, the Institute pursued multiple opportunities to inform and shape the ongoing discussion of the “common ownership” hypothesis—the notion that institutional investors holding small, non-controlling stakes in competing companies in concentrated industries, such as airlines or banks, decrease competition and raise consumer prices.

In February, ICI hosted a salon dinner, featuring leaders in the fund industry, antitrust experts, and academics, to discuss the growing body of academic research detailing the shortcomings of studies claiming that common ownership reduces competition. Recent papers call into question the theoretical basis and empirical findings of the preliminary research and explain the likely harms that would result from proposed measures to limit the purported effects of common ownership.

ICI incorporated this emerging research into a letter filed in response to the Federal Trade Commission’s request for comment on hearings on competition and consumer protection in the 21st century. ICI’s letter promoted a greater understanding of how the asset management industry functions, raised awareness of the flaws of the research linking common ownership to decreased competition, and explained why measures to reduce common ownership are inappropriate.

The Institute also responded to press coverage touting the common ownership hypothesis. In a letter to the editor published in *Barron’s*, ICI Chief Economist Sean Collins warned that self-styled “radical” proposals to limit institutional ownership in certain industries would harm 100 million fund shareholders.

As debate on this issue continues in the United States and Europe, the Institute remains engaged with policymakers, regulators, and other interested parties to help ensure the discussion is based on real-world evidence, rather than unproven hypotheses. ♦

**“ICI welcomes healthy discussions on the role of regulated funds and asset managers in the capital markets and the economy. But such discussions must be anchored in an accurate understanding of how asset management works. Proponents of the common ownership hypothesis lack that understanding, and their assertions don’t stand up in the face of the facts.”**

*ICI VIEWPOINTS, “COMMON OWNERSHIP’ HYPOTHESIS IS UNCONVINCING”*

## In Standards of Conduct Saga, a Promising New Direction

Even though it never fully took effect, the Department of Labor (DOL) fiduciary rulemaking managed to sow disruption in the market for retirement advice, leaving many retirement savers paying higher costs for that advice and with fewer places to get it.

In proposing a new, potentially more workable approach to crafting standards of conduct for investment professionals, the SEC could yet deliver a much-needed change of course.

Much in line with what ICI has long recommended, the package of SEC proposals would establish a new best-interest standard of conduct for broker-dealers who provide recommendations to retail investors, whether they are investing for retirement or other goals. It also would establish an interpretation of the fiduciary duty that investment advisers owe to their clients and require both types of professionals to provide retail investors with a standardized, short-form disclosure document describing their business relationship.

As ICI explained in commentary to the SEC, the proposals would lay a foundation for the Commission to achieve its objectives—protecting retail investors, preserving their access to a wide range of investment products and services, and strengthening their understanding of their relationship with their investment professionals. Yet the proposals need refining to ensure that the Commission achieves those goals.

Among other recommendations, the Institute urged the SEC to

- » clarify that broker-dealers may direct customers to a fund's prospectus for detailed, standardized information about its fees and expenses, and need not separately calculate them or provide personalized fee disclosure at the outset of the customer relationship;

- » confirm that broker-dealers may consider factors other than an investment's costs in determining whether to recommend it;
- » let broker-dealers address material conflicts of interest at the firm level by disclosing them, while requiring broker-dealers to mitigate material conflicts that create financial incentives for a broker-dealer associate making a recommendation to put his or her interests ahead of the customer's; and
- » make its interpretation of an investment adviser's fiduciary duty more consistent with existing law—by distinguishing retail from institutional advisory relationships and confirming the existing standard for client consent under the Investment Advisers Act.

Even as the SEC—as the primary regulator of broker-dealers and investment advisers—rightly takes the lead in this space, the DOL still has an important role to play. To that end, ICI is encouraging the DOL to recognize the SEC's proposed best-interest standard for broker-dealers by proposing a new streamlined exemption for investment professionals who are subject to any SEC-governed standard of conduct—and to coordinate with the Commission in doing so.

The SEC has advanced its standards of conduct proposals at a critical juncture: a federal appeals court struck down the DOL fiduciary rule and its exemptions in early 2018, and several state legislatures are now looking at expanding fiduciary standards of their own. The stakes will be high for the Commission to adopt a final package that does right by investors—and, for as long as the rulemaking process plays out, ICI will commit itself fully in support of that cause. ♦

## New Law Modernizes Closed-End Fund Regulation

Closed-end funds will soon enjoy modernized rules around registration, offering, reporting, and communications, thanks to the Economic Growth, Regulatory Relief, and Consumer Protection Act.

Leading up to the law's passage in May, ICI's Law and Government Affairs departments worked with ICI member firms to identify areas of closed-end fund regulation—particularly offering and proxy rules—that would benefit significantly from reform, and to communicate the need for reform to congressional staff. ICI President and CEO Paul Schott Stevens testified before a subcommittee of the House Financial Services Committee, detailing how closed-end fund modernization would enhance financing for the US economy while maintaining stringent protections for investors.

The law directs the SEC to propose rules by May 2019 that will allow eligible closed-end funds to use the more streamlined securities offering and proxy rules that are available to other issuers, and to adopt those rules by May 2020. ICI staff continues to work closely with member funds and consult with SEC staff as the rulemaking progresses.

These rules would simplify the offering process for eligible closed-end funds, allowing them to file automatic shelf registration statements and to incorporate future filings by reference. They would also modernize closed-end fund communications by permitting closed-end funds to rely on additional safe harbors to communicate with the public during a public offering and to deliver a written notice in lieu of a final prospectus for shares sold during a public offering.

Approximately 3.6 million households own closed-end funds—and they value closed-end funds' ability to provide enhanced income and cash flow, after-tax efficiency, and broad diversification. With the new act, closed-end funds will continue to benefit investors, as well as the capital users that fuel innovation, growth, and job creation. ♦



*ICI President and CEO Paul Schott Stevens testifies at a hearing—"Legislative Proposals to Improve Small Businesses' and Communities' Access to Capital"—before the House Capital Markets, Securities, and Investment Subcommittee on November 3, 2017.*

## Liquidity Risk Management: Strengthening an Imperfect Rule

Even as it worked to help members implement the liquidity risk management rule adopted by the SEC in 2016, ICI engaged constructively with the Commission this year to lighten the burden on funds and to make the rule's related disclosure regime more useful for fund shareholders.

In comments to the Commission, ICI explained how the rule's asset classification—or “bucketing”—provisions have proven highly challenging and time-consuming to implement. Fund complexes and their vendor partners needed more time, the Institute contended, to build and test systems capable of meeting the requirement for funds to classify each of their securities into one of four buckets based on how long it would take to sell without significantly moving the price. The Commission responded by allowing an extra six months to comply with these provisions and others.

ICI also urged the SEC to rethink its requirement for funds to report to their shareholders every quarter how much of their portfolios they have classified into each bucket. Because funds will make these hypothetical classifications using a wide range of sophisticated methodologies and assumptions, they will not all come to the same conclusion about every security. That easily could mislead fund shareholders, who might mistakenly conclude that the classifications can be compared accurately across funds, as expense and performance data can.

The Commission again responded favorably, replacing the quarterly reporting requirement with language obligating funds to describe in shareholder reports how—and how well—their liquidity risk management programs worked over the past year. This narrative disclosure will enable funds to provide their shareholders with much clearer, more meaningful, and more useful information than what would have been possible under the initial reporting requirement. ♦



## Advocating for Appropriate Resolution Powers in Europe

In recent years, EU lawmakers have been revisiting the scope of powers available to help resolve systemically important banks. Bank resolution powers, however, may significantly affect other capital market participants, including funds and their investors. Currently, if an EU bank is in resolution, the Bank Recovery and Resolution Directive enables EU authorities to suspend a bank's payment and delivery obligations, and its right to terminate financial contracts, for up to two business days.

In November 2016, the European Commission proposed giving authorities two additional broad moratorium powers, which could increase the suspension time from two days to 12 days or longer. Last year, in a joint comment letter, ICI Global and the Asset Management Group of the Securities Industry and Financial Markets Association (SIFMA AMG) explained that increasing the suspension time would negatively affect banks' counterparties,

including regulated funds and their investors. An expanded moratorium would

- » deprive investors of access to their funds and investments during a suspension;
- » deny investors the benefit of the collateral associated with these investments; and
- » possibly cause funds and their investors to end their relationships with EU banks to avoid these unnecessary risks.

In January, ICI Global and SIFMA AMG submitted another letter, providing empirical data to illustrate the size of the markets that would be affected by the proposed powers and the outsized impact those powers would have on EU and US funds and their investors. The letter urged EU lawmakers to maintain the existing two-day moratorium powers. Lawmakers are debating the Commission's proposal and alternative approaches, and negotiations seem to be moving in a positive direction. ICI Global will continue to advocate for the shortest possible moratorium.



# Retirement

## IN THIS SECTION

- » Informing Public Discussion on the Strength of the US Retirement System
- » A Years-Long, Persistent ICI Effort Pays Off for Retirement Savers
- » ICI Launches **FactsOnRetirement.org** to Highlight Retirement System Strengths
- » Supporting Research on Electronic Delivery for DC Retirement Plans
- » Promoting the Role of Funds in China's Third Pillar
- » Highlights of ICI's 2018 Retirement Research



**SARAH HOLDEN**

SENIOR DIRECTOR, RETIREMENT AND INVESTOR RESEARCH  
INVESTMENT COMPANY INSTITUTE

# Informing Public Discussion on the Strength of the US Retirement System

Sarah Holden, senior director of retirement and investor research, and Peter Brady, senior economist, discuss ICI's retirement research program and how ICI shares its research with the world.



PETER BRADY

SENIOR ECONOMIST  
INVESTMENT COMPANY INSTITUTE

**ICI Research has long produced data and analysis about Americans' retirement savings. Tell us a little about your work in this area.**

**Holden:** ICI takes a multipronged approach to understanding not only how much Americans have saved for retirement, but also the plan designs that have worked for them and how they navigate this important financial goal. We do this with data that we gather from our members, from recordkeepers and plan sponsors, and from household surveys where we can ask retirement savers directly how they feel about retirement savings plans.

**Brady:** Much of our research is focused on two questions. First, are people saving enough for retirement? Second, is America's retirement system working for people? To answer those questions, you really need to take a holistic view of household resources.

To do this, we analyze data that the government collects in addition to the data we gather, which allows us to look at retirement savings in a broader context. The government data we use most often are household surveys conducted by the Census Bureau, the Federal Reserve Board, and other government agencies. But there is growing evidence—including research done by ICI—that these surveys underestimate the importance of retirement

plans. So I have been working to supplement these surveys by using data on retirement plan participation and income reported to the IRS [Internal Revenue Service]. We also have a joint research project with the IRS Statistics of Income [SOI] division that uses tax data to measure the income of people who recently claimed Social Security. This research shows that household surveys dramatically undercount the amount of income retirees get from employer plans and IRAs [individual retirement accounts].

**The two of you are researchers first and foremost. How do you share your work with your research community in the academic world?**

**Brady:** Well, we both author or coauthor research, and we put out working papers that are circulated in the academic world. We also serve as referees for academic journals and outside reviewers for government agency reports. We present our research and discuss the research of others at various academic conferences, policy forums, and industry events. We also engage with the Washington community of academics, government economists, and think tank researchers through regularly scheduled informal presentations.

**Holden:** I'd also add, for example, I'm on the editorial board of the *Journal of Retirement*. ICI feels that it is important to work with organizations like the Employee Benefit Research Institute [EBRI] and Wharton's Pension Research Council, so we often are involved with program content. We are also highly engaged with the National Tax Association, where typically every year we are organizing a session, discussing papers, or presenting papers. Pete is also a member of the IRS's SOI Consultants Panel. All of these activities and interactions get our voices and our research out into the academic community.

## How do you deliver your messages to the policymakers who will be applying your analysis in a concrete way?

**Brady:** It's a comprehensive approach—we put out the research, we distill it into smaller pieces on the *ICI Viewpoints* blog, and we share it on episodes of ICI's video series [*Focus on Funds*]. Often, we present it on Capitol Hill. For example, we presented research on the US retirement system to Republican members of the House Committee on Education and the Workforce in October and to the New Democrat Coalition in March.

**Holden:** We work a lot with two sets of policymakers: Congress and regulators. We will often accompany ICI's Government Affairs team to the Hill to present our research in meetings with individual representatives, senators, or staffers. Our research is also an important component of testimony given on the Hill—such as the testimony Paul Stevens delivered in May [see page 29] and June of this year. Our research and analysis are also an integral part of many of the comment letters that ICI submits to regulators and the Hill.

## Sarah, you've been doing research for years into what American workers value in their defined contribution [DC] plans, and you testified in August before the ERISA Advisory Council about lifetime income options in DC plans. Tell us about your analysis on this issue and your message.

**Holden:** Shannon Salinas [ICI assistant general counsel, pensions] and I were invited by the council to testify about whether Americans are under-annuitized and if we need policies that promote annuities in DC plans. To answer these questions, we traced the academic research back to

1965 and followed the evolution of the economic models about the annuitization decision. These models did not reflect the reality of households' decisions. A look at the empirical data highlighted that there is already a lot of annuitization occurring through Social Security. Research finds that delaying Social Security is really the best thing you can do for yourself, rather than purchasing an annuity in the market. The key message is there is really no one-size-fits-all here. This is such an important decision, and such a household-specific decision, that it really should be a choice.

## The media focus robust attention on retirement issues. Tell us how you engage with the media to help inform public discussion.

**Holden:** We do very active outreach through our Public Communications Department and with the ICI Education Foundation [ICIEF]. For example, Tina Kilroy [vice president, ICIEF] and I did radio tours to promote understanding of IRAs and 401(k)s twice this year—around tax time in April and 401(k) Day in September. Both of these radio tours allowed us to share key facts and tips for savers to promote saving for retirement. Input from ICI Research figured prominently in ICI's new FactsOnRetirement.org website, which was launched around 401(k) Day [see page 28].

But a lot of our time with the media is spent defending the system in a world where article after article touts the “retirement crisis” rhetoric. Through correspondence with reporters, letters to editors, and ICI blog posts, we work to set the narrative straight about the status of Americans’ retirement savings and try to propose some ways to build on the strengths of the system.

## How do you reach out to “Main Street”?

**Holden:** One way is through the radio tours I just mentioned. We also do podcasts. I had the opportunity to talk about how to really make the most of your 401(k) plan on *Best Ever You*, a lifestyle podcast. During the course of that interview people were tweeting questions, so I was answering questions about the basics of 401(k) plans and investing in real time.

ICI does a social media campaign that breaks down our bigger research pieces into little bite-sized messages. We do these around tax time, 401(k) Day, 529 Day in May, and America Saves Week in February.

## What is the global retirement policy community most interested in learning?

**Brady:** The rest of the world is very interested to learn about the US system. And it is not always explained very well to them. They are not aware of some of its key features, such as the progressivity of the Social Security system. In many countries, “social security” refers to means-tested welfare programs. But our Social Security system is really a pension. I have been very involved in work at the OECD [Organisation for Economic Co-operation and Development] making this point—and others—about our system.

I also went to Beijing in September to help launch the Mandarin translation of *How America Supports Retirement* [see page 41], a book that I wrote and ICI originally published.

**Holden:** In Toronto this year, I met with Brazilian pension providers to answer their questions about the US system. We also provide our research to our ICI Global leaders as they visit regulators around the world. For example, I sent a great deal of information for presentations in China about IRAs. They are very interested in how IRAs are set up and what folks have done with their IRAs in the United States.

Although we are younger as a nation than many of the nations in Europe, we have the older, more mature defined contribution system. We are often invited to speak about what we have learned through the evolution of our system. For instance, we have learned that not everyone is a do-it-yourself investor, so now we have target date funds. We've learned that not everybody takes the initiative to sign up, so now we have auto-enrollment. These changes make saving for retirement easier, while still maintaining choice, a key feature that we've always had in

the system. We are also often asked about fees—sharing data showing that US investors are concentrated in lower-cost funds and our fees have been falling over time. The rest of the world asks, “How do you get there?” And we say, “A lot of disclosure and a competitive and innovative market.”

**During the debate that finally led to the tax reform law, one idea under consideration that ultimately didn't make it into the bill was to pay for lower tax rates by limiting the amount of tax-deferred contributions workers could make. Would you tell us how ICI Research helped make the case to preserve the current tax treatment of retirement savings contributions?**

**Brady:** The work ICI Research did this year leading up to the tax reform bill was based on years of research on these issues. Our research helped explain what the tax benefits of deferral are, who gets them, and how deferral fits into the whole system. We had that work available; we could explain what it meant and what the benefits were, and that allowed us to discuss the issue better.

**Holden:** We also had years of surveys showing how important the tax treatment of retirement plans is to individuals. We have been surveying US households on this issue since the financial crisis in 2008. The vast majority of those who have a DC plan indicate that the tax treatment of the plan is important to their decision to participate and contribute to the plan. We highlighted for policymakers that when we spoke to American households, we found that they appreciate what they have now. And what they have now is tax deferral and, in some plans, the choice to make Roth contributions. ♦



**ICI takes a multipronged approach to understanding not only how much Americans have saved for retirement, but also the plan designs that have worked for them and how they navigate this important financial goal. We do this with data that we gather from our members, from recordkeepers and plan sponsors, and from household surveys.**

SARAH HOLDEN



# A Years-Long, Persistent ICI Effort Pays Off for Retirement Savers

ICI's persistent efforts over many years of supporting tax-deferred retirement savings saw fruitful resolution when the Tax Cuts and Jobs Act of 2017—signed by the president in late December—preserved the tax-deferred treatment of retirement savings contributions.

Congress's latest interest in reforming the tax code dates back several years—and so has the Institute's vigorous advocacy against proposals to pay for lower tax rates by impairing tax deferral for retirement savings. This advocacy succeeded thanks to a long-term team effort and close coordination among ICI staff, members, and key allies at other associations.

## Multiyear, Multipronged Effort

Preserving retirement savings incentives is a long-standing ICI priority. ICI's mission is to show the economic and social value of tax deferral—efforts that are supported by the work of ICI Research, Law, Government Affairs, and Public Communications.

Drawing upon research and legal analysis, ICI's Government Affairs team educated Congress on the strengths of the voluntary, employer-based retirement system, while Public Communications staff educated the media and countered misinformation. In congressional testimony, speeches, commentaries, press interviews, publications, and internet communications, ICI pressed the research-driven case that the 401(k) system encourages Americans to save. For example:

- » ICI economists briefed House and Senate staff with illustrations of the strength of the US retirement system, the public support for DC plans, and the distinction between tax deferrals and deductions or exclusions.
- » ICI Government Affairs and ICI Board and Executive Committee members advocated on Capitol Hill, leveraging ICI research, for the benefits of preserving deferral, including targeted meetings with key policymakers.
- » ICI was active in the Save Our Savings (SOS) Coalition to advance outreach on behalf of preserving tax incentives. ICI joined other groups engaged in promoting retirement security—

including AARP, the American Benefits Council, Plan Sponsor Council of America, and the American Retirement Association—as well as several ICI member firms in successful outreach to House and Senate leadership, tax-writing committees, and nearly every congressional office.

- » ICI delivered testimony and statements to both Senate and House tax-writing committees, and actively participated in various working groups focused on tax reform.

As tax reform efforts reached a crescendo in 2017, ICI's years of work and preparation came to fruition. The favorable outcome was a result of the multiple years of ICI's sustained outreach.

## Municipal Bonds and FIFO

The new law also substantially maintains the tax-exempt treatment of interest on municipal bonds, which provides an important incentive for investors to help finance state and local governments. ICI informed this debate through

- » statements to tax writing committees highlighting the problems for investors if the tax incentives for municipal bonds were removed;
- » “Hill Days” with ICI Government Affairs accompanying ICI members to Capitol Hill to educate policymakers about the importance of maintaining the tax exemption; and
- » education of federal policymakers about the importance of keeping tax-exempt bonds part of any major tax overhaul through participation in coalition efforts with Municipal Bonds for America and Don’t Mess with Our Bonds.

The law also does not require any investors selling securities to use a first-in, first-out (FIFO) accounting method to calculate capital gains. The FIFO requirement, embedded in various versions of the Senate's bill, would have stripped investors of their ability to manage their investments in the most tax-efficient manner possible.

The successful resolution of these issues is evidence of the impact of ICI's dedicated work, the rigor of ICI's research, and ICI's ability to rally members and other stakeholders to ensure that the interests of investors are protected. ICI will remain steadfast in its efforts to support retirement security and to support improvements for the US retirement system by working closely with policymakers and others to build on its proven strengths. ♦

**“Congress has once again affirmed its strong support for the voluntary, employer-based system of tax-deferred savings for retirement. The incentives this system offers draw strong support from across the nation because they have encouraged and enabled millions of Americans to save for retirement.”**

**Paul Schott Stevens  
President and CEO  
Investment Company Institute**

# ICI Launches FactsOnRetirement.org to Highlight Retirement System Strengths

America's retirement system is strong and working well for most workers, according to research highlighted on a new website ICI launched in September.

FactsOnRetirement.org presents ICI's in-depth research and data on the US retirement system, takes on common misconceptions about retirement preparedness, and provides tips for those who want to learn more about saving for retirement.

The website is divided into four sections.

» **“Retirement by the Numbers”** guides users through ICI's comprehensive research on the resources Americans have accumulated for retirement. As the site notes, total retirement assets have increased from \$469 billion in 1975 to \$28 trillion today—seven times as much per household, after inflation.

» **“Myths vs. Facts”** responds to misleading claims frequently made about the retirement system. For instance, ICI responds to the claim that most workers are not covered by a workplace retirement plan by showing that nearly three-quarters of individual tax filers with incomes of \$20,000 or more, and joint filers with incomes of \$40,000 or more, participate in retirement plans either directly or through a spouse.

» **“Tips for Savers”** offers a step-by-step explanation of how workers can better take advantage of workplace and individual retirement plans.

» **“Additional Resources”** links visitors with more extensive research and source materials that can be found at ICI.org. ♦

## Retirement by the Numbers

Our retirement system is working well for most American workers. Here are some key findings from ICI's research.

Americans have significant retirement accumulations.

Americans have accumulated **\$28 trillion** for retirement—that's seven times more saved per household than in 1975, after accounting for inflation.

## Tips for Savers

Did you know that Americans have saved \$28 trillion for retirement? Here are some tips that can help you be a part of this robust retirement savings system.

Enroll Learn more.	Max out the employer match Learn more.	Determine your investment approach Learn more.	Preserve your nest egg Learn more.
Stick with it Learn more.	Contribute More to Catch Up Learn more.	Plan ahead Learn more.	Save for retirement even without a 401(k) Learn more.

[Read more tips for savers.](#)

## Myths vs. Facts

There are a lot of misconceptions about how America's retirement system works. Let's look at some of the most common myths.

<b>MYTH</b> America faces a retirement crisis.	<b>MYTH</b> Today's retirees are worse off than previous generations.	<b>MYTH</b> The decline of traditional "defined benefit" pensions has made it harder to retire.
---	--	--

[Read more myths and facts.](#)

## Additional Resources

ICI is a leader in research on the US retirement system. See below for more information on our publications and work.

<b>Investment Company Fact Book</b> Each year ICI publishes its Fact Book, which provides key data on America's retirement system. <a href="#">Visit the Fact Book online »</a>	<b>ICI Education Foundation (ICIEF)</b> ICIEF works to develop, deliver, and promote investment education programs. <a href="#">Learn more at www.iciief.org »</a>	<b>ICI Retirement Resource Center</b> Drawing on data and analysis, this resource center highlights key points about the US retirement system. <a href="#">Visit our resource center today »</a>	<b>ICI Media Contacts</b> For media inquiries regarding this site, please contact a member of ICI's media relations team. <a href="#">View ICI's media relations contacts »</a>
---	--	--	---

## **Supporting Research on Electronic Delivery for DC Retirement Plans**

ICI has long been at the forefront in urging the Department of Labor (DOL) to modernize its rules to allow retirement plans to make electronic delivery for participant disclosure and notices the default, as long as participants can request paper instead.

This year, partnering with the American Retirement Association, ICI commissioned an update to a 2011 white paper detailing the compelling reasons to shift the default disclosure delivery method to electronic delivery for DC plan participants. The paper, by Peter P. Swire and DeBrae Kennedy-Mayo of the Georgia Institute of Technology, lays out how electronic delivery helps investors understand, manage, and act on information. Electronic delivery improves access for the visually impaired and others with disabilities, increases access through translation software for those who prefer to use a language other

than English, allows access anytime with the device of the user's choosing, and can lead to increased saving and investing through participant interactivity. The 2018 update—*Delivering ERISA Disclosure for Defined Contribution Plans*—concluded that the reasons to shift to electronic delivery have become even stronger during the intervening seven years.

ICI President and CEO Paul Schott Stevens shared this research before the House Committee on Education and the Workforce in a May 2018 hearing on proposals to simplify and modernize retirement plan administration. Stevens testified that the rules for using electronic delivery must be updated to reflect the increased technological availability over the past decade, and that Congress should permit electronic delivery as the default method for disclosure (while still allowing participants to opt for paper), thus enhancing the effectiveness of ERISA communications and producing significant cost savings for 80 million retirement investors. ♦

## **Promoting the Role of Funds in China’s Third Pillar**

“China will grow old before it gets rich” is a familiar refrain, as China’s population ages at a rate that appears likely to outpace the country’s economic growth. Facing the prospect that their retirement system may not be able to adequately support retirees, Chinese policymakers are studying other jurisdictions’ retirement systems and reforms—especially changes to third pillars, which often encompass individual savings accounts. ICI Global has long advocated for further development of China’s third pillar, and last December, Anna Driggs, associate chief counsel for retirement, met with senior officials from China’s Ministry of Finance and Ministry of Human Resources and Social Security to help them better understand the US system. Among other things, Driggs’s presentation focused on individual retirement

accounts, the crucial role that regulated funds play in them, and the importance of tax incentives in fostering retirement savings.

In May, China began developing its third pillar by launching a pilot program allowing individual savers to open tax-advantaged retirement savings accounts at financial institutions. Though ICI Global is pleased that China is making progress toward improving its retirement system, the scheme currently only offers insurance products. Next year, however, the government will assess whether it will open the program to mutual funds. ICI Global is cautiously optimistic that China will include them, enabling investors to access long-term saving benefits and build more retirement savings.

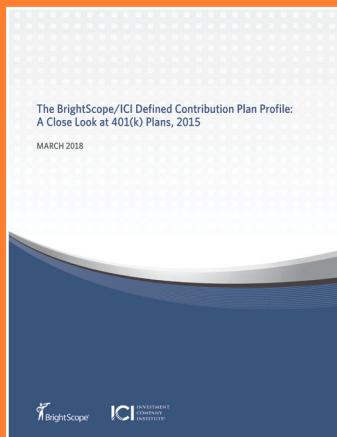


# Highlights of ICI's 2018 Retirement Research

ICI is home to one of the country's preeminent research departments devoted to the study of how Americans save for retirement. Every year, this team publishes research and analysis that inform policymakers around the world, ICI members, and the public about the state and strengths of the US retirement system. Here are several highlights from this year's work:



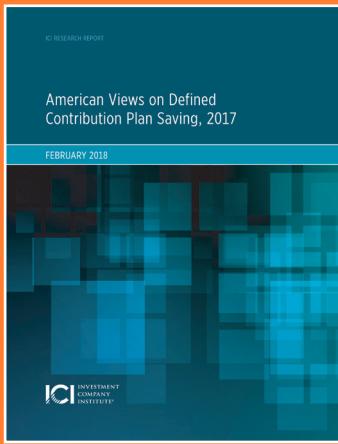
**Savers remain committed to their DC plans.** Since the depths of the financial crisis in 2008, ICI has tracked contributions, withdrawals, rebalancing, and loan activity for participants in employer-sponsored DC plans. This year's study reporting on participants' activities in 2017, published in May, analyzed more than 30 million plan accounts and found that almost all plan participants contributed to their plans, with only 2.7 percent of DC plan participants discontinuing their contributions in 2017.



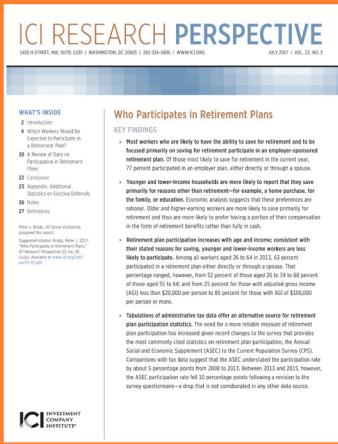
**401(k) plan design makes saving and investing for retirement more automatic, yet flexible.** BrightScope and ICI work together to analyze 401(k) data in the BrightScope Defined Contribution Plan Database. The latest edition of the comprehensive study, published in March, shows that large plans have increasingly offered target date funds—among a wide array of more than 20 investment options, on average—and that most plans are offering employer contributions and loan features. Plans also are increasingly using auto-enrollment to boost participation.



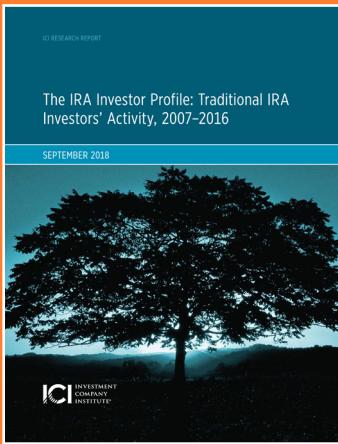
**Young workers are taking advantage of target date funds.** The EBRI/ICI 401(k) database includes statistical information on 27.1 million 401(k) plan participants and is compiled through a collaborative research project undertaken by ICI and the Employee Benefit Research Institute since 1996. Using this database, ICI found that at year-end 2016, 64 percent of 401(k) participants in their twenties held target date funds, compared with 45 percent of 401(k) participants in their sixties.



**Americans have confidence in their employer-sponsored retirement plans.** With millions of US households personally directing their retirement savings, ICI has tracked retirement savers' actions and sentiment through surveys of American adults. This year's edition of the study found that, overall, 77 percent of US households were confident that 401(k) and other employer-sponsored retirement plan accounts can help individuals meet their retirement goals. In addition, the survey revealed that a strong majority of US households disagree with proposals to remove or reduce tax incentives for retirement savings.



**Tax data show that participation in employer-sponsored retirement plans is high.** ICI analyzed administrative tax data published by the IRS Statistics of Income division, which offer insights into participation in employer-sponsored retirement plans. In April, ICI published a report showing that 63 percent of workers aged 26 to 64 in 2014 (the most recent year of data available) participated in an employer plan or had a spouse who participated.



**IRAs continue to be successful savings vehicles for American savers.** ICI released two reports shedding light on the characteristics of IRA investors. The reports, published in September, analyze data from The IRA Investor Database™, which contains account-level data for more than 17 million IRA investors. The reports show that traditional IRAs are popular for savers looking to roll over workplace retirement plan accounts, while Roth IRAs are often started with contributions. (See “The IRA Investor Profile: Traditional IRA Investors’ Activity, 2007–2016” and “The IRA Investor Profile: Roth IRA Investors’ Activity, 2007–2016.”)



**Traditional IRAs remain the most common type of IRA.** In December, ICI published a report that examines contribution, rollover, withdrawal, and retirement planning activities by IRA-owning households. The study, which reports information from household surveys, found that traditional IRAs were owned by 35.1 million, or 27.8 percent, of US households in mid-2017. Roth IRAs were the second most common type of IRA, held by 19.7 percent of US households.



# Exchange-Traded Funds

## IN THIS SECTION

- » Representing the Interests of ETFs
- » ICI Publishes New Paper About ETF Households
- » ICI Global ETF Committee Hosts First In-Person Meeting in London

## Representing the Interests of ETFs

ICI has been at the forefront of efforts over many years to deliver vigorous representation for the interests of exchange-traded funds (ETFs) and the investors who use them. This year was no different as ICI continued to count ETF developments as a major priority—and continued its active engagement with the public, lawmakers, regulators, and the media to educate and inform them about ETFs.

### A Welcome SEC Proposal to Streamline ETF Approval

In June, the Securities and Exchange Commission (SEC) advanced one of ICI's long-sought priorities—proposing a rule to modernize the regulatory framework for ETFs. Under the proposed rule, most ETFs will be permitted to operate within the scope of the Investment Company Act of 1940 without applying for individual exemptive orders. In response to the proposal, ICI submitted a comment letter strongly supporting the SEC's efforts. ICI believes the new rule will provide ETFs with a much-needed consistent, efficient regulatory framework—and strengthen investor protections.

### Building Awareness, Presenting New Research

ICI continued its focus on educating policymakers and the public about ETFs. To build further insight into ETF-owning households, Sarah Holden, ICI senior director of retirement and investor research, partnered with Strategic Business Insights to publish *A Close Look at ETF Households*, comparing ETF-owning households with retail mutual fund-owning households and all US households (see opposite page). The report explores demographic characteristics of ETF households, including their age, education, and income profile. It also analyzes their motivations for saving and provides insights into their financial decisionmaking processes.

### Providing Strong Advocacy

During the year, ICI experts weighed in on ETF issues through analysis and speaking engagements. For example, Jane Heinrichs, ICI associate general counsel, and Shelly Antoniewicz, ICI senior director of industry and financial analysis, spoke at several ETF industry events. At the January 2018 Inside ETFs conference, a gathering of roughly 2,000 financial advisers and ETF strategists, Heinrichs participated on a panel discussing the regulatory environment for ETFs and Antoniewicz moderated a

panel on increasing competition within the ETF industry and financial advisory space. In May 2018, Antoniewicz participated on a panel discussing liquidity in fixed-income ETFs at the ETFs Global Markets Roundtable hosted by the research firm ETFGI. Heinrichs and Antoniewicz also were on the program at Inside ETFs' Smart Beta and Active ETFs Summit in June 2018. Antoniewicz participated in an ETF forum panel for The TRADE—a London-based industry news service—in September, where she shared insights on secondary market trading and index fund growth.

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 February *ICI Viewpoints* that pushed back on the claim that index funds—particularly ETFs—contributed to the spike in volatility in the stock market.

### Expanding Global Efforts, Bringing Stakeholders Together

As ETF growth has expanded in regions spanning the globe, the ICI Global ETF Committee held its first in-person meeting in September in London (see opposite page). The meeting included a session with major European ETF regulators and a session with various participants in the European ETF ecosystem—including 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 US and global policymakers better understand ETFs. In this effort, Antoniewicz participated in a House Financial Services ETF roundtable on Capitol Hill. In addition, ICI met with staff at many regulatory and government agencies, including the SEC and Treasury Department in the United States; the Autorité des Marchés Financiers and Trésor Public in France; the Bank of England and Financial Conduct Authority in the United Kingdom; the Central Bank of Ireland; the Commission de Surveillance du Secteur Financier in Luxembourg; and the International Organization of Securities Commissions (IOSCO). In these meetings, ICI discussed the ETF structure and provided analysis to help allay perceived concerns about negative effects on the financial markets from ETFs. ♦

## ICI Publishes New Paper About ETF Households

This year, in ongoing efforts to educate policymakers and the public about the ETF market, ICI published a new paper focusing on ETF households and their approach to saving and investing. The report, *A Close Look at ETF Households*, published in partnership with Strategic Business Insights, offers information on demographic characteristics of ETF households, exploring their age, education, and income composition, as well as their life stage. It also provides insights on their motivations for

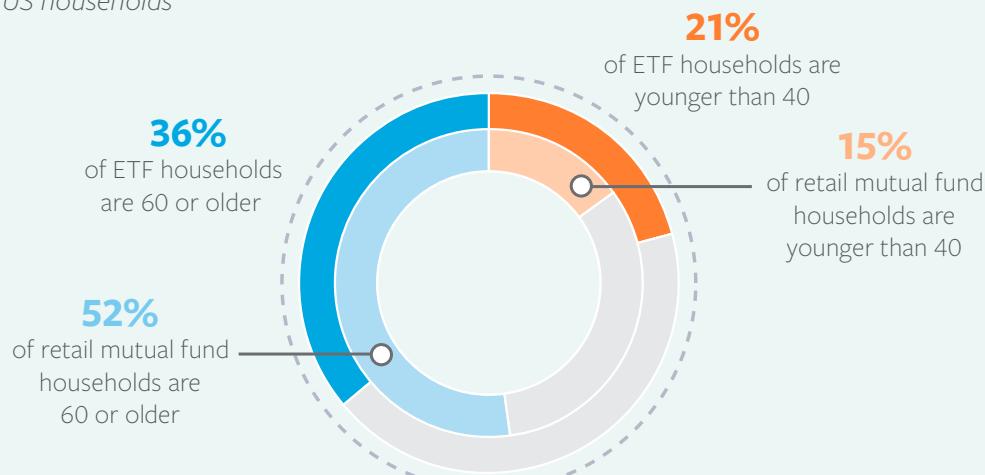
saving, processes for financial decisionmaking, use of financial strategies, and attitudes on investment risk.

The new report showed that households that own ETFs tend to be younger than households that hold mutual funds outside of retirement accounts. It also showed that ETF households are more confident when investing, are self-reliant when making investment decisions, and are comfortable doing so using the internet. ♦

To find this paper and other ETF resources, visit [www.ici.org/etf](http://www.ici.org/etf).

## ETF HOUSEHOLDS TEND TO BE YOUNGER THAN RETAIL MUTUAL FUND HOUSEHOLDS

Percentage of US households



## ICI Global ETF Committee Hosts First In-Person Meeting in London

The ICI Global ETF Committee, which examines the regulatory and business issues affecting the management and operation of ETFs at a regional and global level, held its inaugural in-person meeting in September. More than 20 committee members and various participants in the EU ETF ecosystem (including EU regulators, authorized participants, market makers, electronic trading platforms, and exchange personnel) gathered at the offices of

BlackRock in London for a daylong program exploring ETF regulatory priorities and the unique issues of ETF trading in the European Union.

The committee launched in 2012 and now has nearly 60 participants. Each ICI member firm may have up to three representatives on the committee, which is coordinated by ICI Associate General Counsel Jane Heinrichs.





# Research

## IN THIS SECTION

- » A Conversation with the Chief Economist
- » ICI's Retirement Research Published in China
- » A Spotlight on the Work of ICI's Research Department
- » ICI Research by the Numbers, 2018
- » The 2018 *Investment Company Fact Book* Goes Global



**SEAN COLLINS**  
CHIEF ECONOMIST  
INVESTMENT COMPANY INSTITUTE

# A Conversation with the Chief Economist

As Sean Collins nears the end of his first year leading ICI's Research Department, he discusses ICI Research's work for members and their shareholders.

**One of the most important things ICI does to serve members is collect sound, reliable data from the industry so that we can speak with authority. Tell us a little about ICI Research's efforts—and do you see any challenges on that front?**

One of the biggest challenges we face is collecting increasing amounts of data. The SEC [Securities and Exchange Commission] is going to be collecting more new data through data reports called N-PORT and N-CEN. It's going to be a massive amount of data on all kinds of things that the SEC never had access to previously—such as funds' monthly portfolio holdings, various risk metrics, liquidity measures. And the SEC is gearing up to analyze and use all these data in its regulatory work.

I believe it would be very important for us to have access to the same information so that we can conduct our own research and analysis, verify what the government may produce in terms of summary statistics, help interpret the data, or help provide information to the fund industry and the public about trends in the industry. Historically, this has been of immense importance to our members, and it stands to grow even more important.

The SEC collection of Form N-MFP data on money market funds is an excellent example of how our research serves the interests of our members in a similar way. Members voluntarily supplied the data to us on the same basis as they gave them to the SEC, and that was really important for us, because it allowed us to do analysis, push back on inappropriate aspects of rules that the SEC was putting in place for money funds, and challenge the notion that the money market fund industry poses financial stability concerns. We hope members will see the value of a similar arrangement with respect to N-PORT data.

**ICI has been very active in pushing back on the misguided “common ownership” hypothesis. Would you tell us how ICI Research supported this initiative?**

I would say there are probably two major strands. One is that we helped in finding academics, former government officials, and professional economists who understood antitrust policy very well to challenge this misguided theory with independent analysis.

Another really important strand is that we helped craft and get out the message about why these studies are misguided in terms of institutional details about the fund industry. For example, “common ownership” itself is a misnomer. It suggests our big member firms commonly own all of the stocks or other assets that they are managing for investors. But they don't own any of them. That's common asset management, not common ownership. We have met with regulators around the world, media, and academics, and pointed out the serious flaws in the “common ownership” hypothesis [see page 16].

**You've spoken a lot about how ICI has challenged the theory that funds pose significant risks to the financial system. Where are we on this issue today?**

Well, I would say the fund industry is much better positioned. We've come a long way from where we were in the immediate aftermath of the crisis.

One of the things that ICI Research has helped do is use facts and institutional details to scrutinize the propositions that funds pose financial stability concerns and that fund investors are prone to panic when the markets go against them. The battle isn't over, but I think we are getting regulators to understand that there are a lot of factors with respect to funds that help protect against systemic risk and that fund investors stay the course through market downturns, volatility, and crises.

**“One of the things that ICI Research has helped do is use facts and institutional details to scrutinize the propositions that funds pose financial stability concerns and that fund investors are prone to panic when the markets go against them.”**

**SEAN COLLINS**

## What big projects are underway in your department?

One project we will be working on is European fund fees. I think we've done a very good job of keeping on top of that issue in the United States. That's given us institutional knowledge that we bring to bear on issues related to distribution or fund fees in Europe.

Another project that we are reigniting is proxy voting. We published a paper on funds' proxy voting in 2009. We will be revisiting that work—shedding some new light on how members vote proxies in the interest of fund shareholders. It's a big project.

A third area we're keeping an eye on is the raft of regulatory issues emerging in Europe. One example is a regulatory requirement that funds disclose new information about fund transaction costs alongside fund fees—something we believe will be very misleading. We'd like to be involved in providing information about how these transaction costs are constructed and demonstrating that they just aren't very meaningful for fund investors and should be reconsidered. Another big regulatory focus will be ETFs [exchange-traded funds]. As they grow, they will continue to attract attention from regulators and the media. This is a big education task that we've been tackling, helping stakeholders understand how ETFs work and the benefits they can provide to investors and the financial markets in general.

We also have a project underway to help people better understand shareholder behavior in Asian markets. For the near term we are focusing the project on two markets—Japan and China—and comparing them to the United States. It's a project to share what we know about how the US market developed to perhaps help regulators and investors abroad better understand how their markets could develop. It goes the other way as well—I think we can learn from other countries about how things might develop here. For example, other countries can in some ways be nimbler at adopting financial technology. China, for instance, is further along in using cell phones for retail transactions.

## Would you tell us a little about what you learned as an economist at the Reserve Bank of New Zealand that you've carried into your work today?

I spent almost five years there, and I learned things that I wouldn't have expected. You get a very different perspective about how economies work globally. New Zealand is a relatively small country; it opens your eyes to just how important some things are, like capital flows or the effects that actions in a big country can have on a small country. By the same token, you learn things about changes or improvements that could be made really quickly in a small country because it is small. By contrast, the United States is like a super tanker. It takes miles, you know, for a turn to be executed.

It also helps you think about how people conduct their finances around the world. It depends a lot on culture and the financial structure of the industry. You learn what economic news people pay attention to. I joke that before I went to New Zealand I didn't know what an exchange rate was. When you get down there, that's all anyone wants to talk about: "What's the exchange rate doing?" This perspective is certainly important for our job because ICI has taken on, through ICI Global, more global activities, and a large part of what we do in ICI Research these days is in support of our global effort. ♦

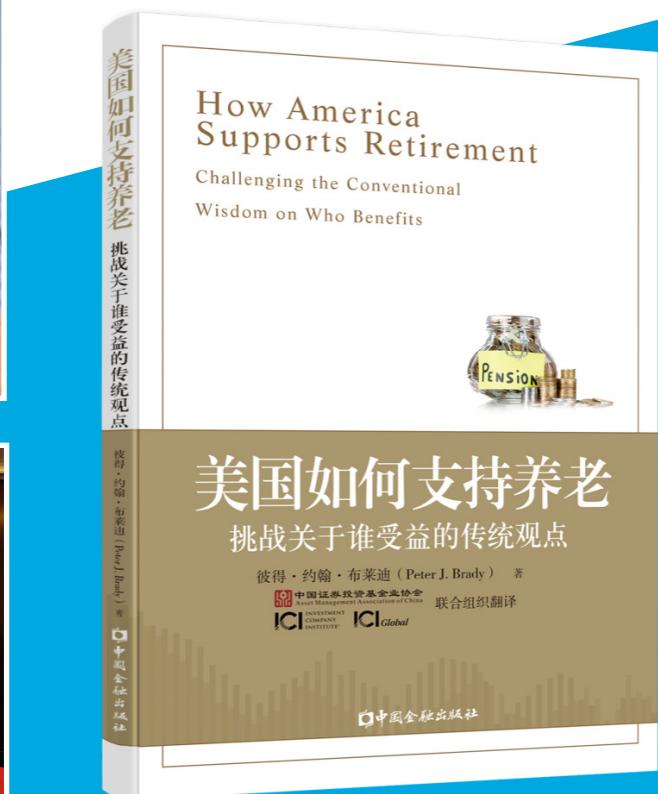
## ICI's Retirement Research Published in China

In September, a Mandarin translation of ICI's 2016 book, *How America Supports Retirement: Challenging the Conventional Wisdom on Who Benefits*, was published by the Asset Management Association of China (AMAC).

This innovative work is the first to use a consistent metric—estimates of tax expenditures—to give a

comprehensive view of how Social Security and tax deferral work together to provide retirement resources to American workers.

AMAC hosted the book's author, ICI Senior Economist Peter Brady, in Beijing, where he presented his work and participated in a roundtable discussing construction and development of pension systems. AMAC is distributing the book to policymakers, academics, and other stakeholders in retirement policy in the People's Republic of China. ♦



*Top:* ICI Senior Economist Peter Brady discusses the US retirement system in Beijing at the launch of the Mandarin translation of *How America Supports Retirement*.

*Bottom:* Qiumei Yang (CEO, ICI Global, Asia-Pacific; second from left) and Peter Brady (ICI senior economist, third from right) celebrate the publication of *How America Supports Retirement* with representatives of the Asset Management Association of China.

# A Spotlight on the Work of ICI's Research Department

ICI conducts research on a scale that few industry associations can match. As the primary source of statistical information and analysis on the investment company industry, ICI's data are cited by publications around the globe virtually every day. In 2018, the 40 members of ICI's Research Department engaged in data collection, analysis, and original research on all types of registered investment companies, deepening the understanding of fund shareholders, the economics of investment companies, and the retirement and education savings markets.

## ICI Research's Comprehensive Data Collection

ICI compiles 17 distinct surveys each year, ranging from daily snapshots of flows from nearly 5,000 share classes to annual measurements of institutional investments to household surveys of more than 10,000 US households. Many of these collections are made possible by the cooperation of ICI members that provide the raw data for these reports. In addition, ICI analyzes data for two large repositories covering millions of individual retirement account (IRA) investors and, in a collaborative effort with the Employee Benefit Research Institute, millions of 401(k) plan participants.

Out of these surveys and databases, in fiscal year 2018, ICI Research published 22 research and policy publications, as well as more than 300 statistical reports, covering developments in the retirement market and US-regulated funds, including mutual funds, ETFs, closed-end funds, and unit investment trusts (UITs).



**The *Investment Company Fact Book* remains one of ICI Research's most visible products, garnering more than 93,000 page views and downloads in 2018.**

**VIEW THE FACT BOOK AT [WWW.ICIFACTBOOK.ORG](http://WWW.ICIFACTBOOK.ORG)**

ICI offers more publicly available data on regulated investment companies than any other private source, and the Institute's data provide near-universal coverage (ICI's most frequent statistical collections routinely cover more than 95 percent of industry assets). Members have access to the aggregate industry data. The Institute also provides data to the Federal Reserve, the Securities and Exchange Commission, and the US Treasury. ICI's data collection allows us to provide members, regulators, policymakers, academics, the media, and the public with complete and reliable statistics.

## ICI Economists at Work to Educate

Every day, ICI economists work to educate policymakers, regulators, journalists, and academics on the unique features of the funds that the Institute's members offer. ICI economists are in constant contact with members, and their analysis of industry trends and policy proposals is informed by a deep understanding of how funds, distributors, retirement plans, and investors actually operate.

They do this through:

- » providing analysis and commentary on the Institute's blog, *ICI Viewpoints*, and video series, *Focus on Funds*;
- » engaging with the media;
- » serving on industry conference panels; and
- » publishing numerous papers.

## The *Investment Company Fact Book*

The *Investment Company Fact Book* provides the public and policymakers with a comprehensive summary of ICI's data and analysis. It remains one of ICI Research's most visible products, garnering more than 93,000 page views and downloads in 2018. ♦

## ICI Research by the Numbers, 2018



### 40 members

of ICI's Research Department engaged in data collection, analysis, and original research on all types of registered investment companies



**17**

distinct surveys each year,  
including daily flows and  
annual measurements



**22**

research and policy  
publications



**300+**

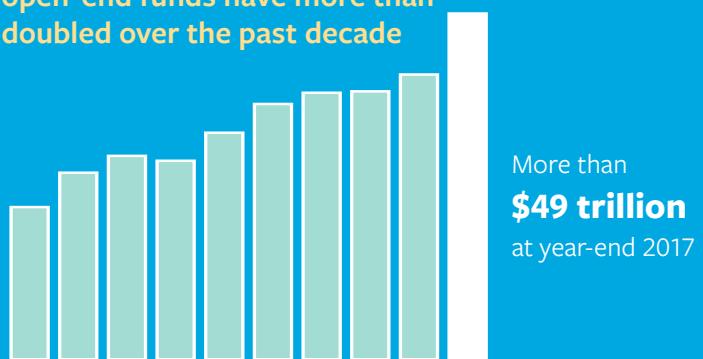
statistical  
reports



## The 2018 *Investment Company Fact Book* Goes Global

As financial regulation has gone global in new ways that affect the fund industry, the 58th edition of ICI's *Investment Company Fact Book* introduced a new chapter focusing on trends in the flows and assets of funds globally. The chapter covers investor demand for worldwide regulated funds, factors influencing this demand, and the size of worldwide regulated funds in global capital markets. The new chapter builds upon ICI's long-standing collection of data about the global funds market on behalf of the International Investment Funds Association.

**Total net assets of worldwide regulated open-end funds have more than doubled over the past decade**





# Financial Markets

## IN THIS SECTION

- » Fostering Fairer and More Efficient Markets
- » Corporate Bond Markets: Striking a Balance Between Transparency and Liquidity

## Fostering Fairer and More Efficient Markets

As institutional investors that collectively manage more than \$29 trillion in assets on behalf of millions of shareholders, ICI members have a strong interest in ensuring the dynamism and integrity of financial markets. In fiscal year 2018, ICI engaged fully with regulators in efforts to examine and improve funds' ability to invest in fairer and more efficient markets throughout the world.

### Encouraging Market Transparency in the United States

In the United States, ICI continued to advocate reforms to minimize potential conflicts of interest that harm investors in financial markets. ICI carried out much of this policy work through meetings, letters, and other direct engagement with US regulators.

In March, the Securities and Exchange Commission (SEC) proposed a pilot program to study how transaction-based pricing structures of national securities exchanges affect equity market quality. The pilot would run for between one and two years and would test several different restrictions on transaction fees and rebates.

ICI has long supported such a pilot program because of concerns that exchange transaction pricing fosters opacity, needless complexity, and conflicts of interest. Responding to the proposal, ICI offered its broad support but urged the SEC to mitigate the potential for the pilot to distort competition among exchange-traded products and to provide details about the metrics to be used for assessment of market quality.

ICI also welcomed SEC action to improve market transparency. The SEC moved forward in July with a set of rules mandating new public disclosures for alternative trading systems (ATS) that offer trading in stocks. The disclosures will provide new information about the broker-dealer that operates an ATS as well as about an ATS's operations. These new disclosures will allow market participants to better assess information security and conflicts of interests of an ATS. ICI strongly supported these disclosures when they were first proposed and had urged the SEC to adopt them.

In another step toward enhancing market transparency, ICI continued to push for reforms to National Market System (NMS) plans that the SEC uses in lieu of

rulemakings to govern key aspects of equity market structure. ICI has urged the SEC to involve a broader range of market participants, including regulated funds, in governance of NMS plans. Governance is currently limited to self-regulatory organizations—the national securities exchanges and the Financial Industry Regulatory Authority (FINRA).

ICI also has advocated for greater transparency into revenues generated by NMS plans. In early 2018, the NMS plans that operate the public data feeds for the equity markets agreed voluntarily to make certain revenue information available. ICI welcomes this incremental step toward greater transparency and will continue to advocate for reforms to NMS plans.

### Harmonizing Global Derivatives Regulation

ICI's policy work on global markets was characterized by one overarching theme: promoting efficiency. For instance, ICI has continued pushing for harmonization of derivatives margin requirements across jurisdictions, and progress has been made in the European Union. In November 2017, the European Supervisory Authorities (ESAs) announced efforts to bring EU margin requirements for certain physically settled foreign exchange derivatives transactions closer to those in other jurisdictions, including the United States. EU legislators are working on a parallel effort.

In another sign of progress, US and EU authorities have continued to collaborate on derivatives market reforms. In December 2017, for example, the US Commodity Futures Trading Commission (CFTC) and the European Commission (EC) adopted equivalence and comparability determination regarding margin requirements for uncleared swaps and agreed to a common approach to the registration and supervision of certain CFTC- and EU-regulated trading venues.

In late 2017, these regulators took further action to ensure that the implementation of trading obligations for derivatives would not disrupt markets. ICI had urged authorities to cooperate on this issue so that regulated funds and other market participants would not lose access to the global derivatives market. The European Securities and Markets Authority (ESMA) provided further guidance in March to ensure the feasibility of trading obligations related to the treatment of package orders and package transactions.

ICI also welcomed progress on the EC's proposed amendments to the European Market Infrastructure Regulation (EMIR)—the EU law that regulates clearing and reporting of derivatives. ICI submitted a comment letter in support of proposals to streamline some clearing and reporting requirements to eliminate disproportionate costs and burdens and simplify rules without compromising regulators' objectives. ICI also recommended additional steps that the EC should take to facilitate cross-border derivatives transactions.

In Hong Kong, the Securities and Futures Commission (SFC) proposed margin requirements for uncleared derivatives that generally are in line with those in other jurisdictions. ICI submitted a comment letter supporting the SFC's efforts but sought assurances that the SFC would not require funds to provide margin for physically settled foreign exchange derivatives transactions, consistent with global practices.

## Bringing Market Participants Together

In December 2017, ICI Global brought market participants together in London for a conference to discuss public markets. More than 90 senior industry leaders discussed an array of topics, including the decline in initial public offerings and trends in exchange-traded fund activity in the United States and Europe.

Attendees heard from a range of regulators and other market experts, including Verena Ross, executive director of ESMA, who provided an opening address on Brexit and issues surrounding delegation. Megan Butler, a director with the Financial Conduct Authority, delivered the closing address, which examined the constantly evolving cyberthreats facing the asset management industry.

ICI Global also partnered with Chatham House for a conference on the post-Brexit regulatory landscape. The conference, held in London in March, focused on what the future might hold for international financial institutions, investors, and global capital markets in a shifting environment. ♦

## Corporate Bond Markets: Striking a Balance Between Transparency and Liquidity

Corporate bond and other fixed-income markets are a critical source of financing for economic growth. Regulated funds are steady investors in these markets and have a strong interest in ensuring their quality and integrity. In 2017, the International Organization of Securities Commissions (IOSCO) published a consultation on regulatory reporting and public transparency in the secondary corporate bond markets. ICI Global has long supported the report's objective: to make secondary corporate bond markets more transparent to regulators and the public without unduly disturbing market liquidity. In a comprehensive comment letter, ICI Global offered suggestions on how to strike that difficult balance, emphasizing that IOSCO's final report should:

- » Encourage regulators to improve their understanding of secondary corporate bond markets by implementing comprehensive regulatory reporting requirements.

- » Recommend that regulators put those reporting requirements in place before taking measures to further increase public transparency.
- » Suggest that regulators take an incremental and data-driven approach toward fostering greater transparency to reduce the risk of harming liquidity.

IOSCO released its final report in 2018, reflecting ICI Global's input by recognizing the importance of comprehensive regulatory reporting and encouraging regulators to carefully consider how their actions to foster greater transparency could affect liquidity. National regulators are currently reviewing their secondary corporate bond markets and reforming them as appropriate, in accordance with IOSCO's recommendations.





# ICI Global

## IN THIS SECTION

- » A Conversation with ICI Global's Chief Counsel
- » Delegation Under UCITS: A Global Success Story
- » Advocating Against Inappropriate Capital Gains Taxes in Korea
- » Leadership Changes



JENNIFER CHOI  
CHIEF COUNSEL  
ICI GLOBAL

# A Conversation with ICI Global's Chief Counsel

Jennifer Choi discusses how ICI Global is addressing the challenges and opportunities facing regulated funds and their investors worldwide.

## You became chief counsel last December. What do you enjoy most about ICI's international work?

The most gratifying part of my job is seeing how our policy and advocacy efforts are helping members run their global operations efficiently and effectively on behalf of investors worldwide, which is one of ICI's core missions. Key to advancing this mission is making sure that regulations in one region are not inconsistent with standards in other regions. Whether we are meeting with EU policymakers about the need to maintain the value of UCITS to investors globally or submitting comments to Hong Kong regulators on derivatives proposals, we are constantly emphasizing the international nature of asset management and the need for appropriate and right-sized regulation so that funds can best meet investors' needs.

## One of ICI Global's policy priorities continues to be Brexit and how it could affect asset managers and investors worldwide. Tell us about ICI Global's advocacy work.

ICI Global is focusing on ensuring that actions by policymakers in the European Union and the United Kingdom do not inadvertently harm funds and their investors around the world. For example, UCITS funds help investors save for long-term financial goals while fostering robust EU and global capital markets. Some Brexit-related policies, however, could result in collateral damage to UCITS and their investors. In meetings with EU policymakers, high-profile speeches, and media interviews, ICI Global emphasized the importance of preserving UCITS' strengths, including their ability to delegate portfolio management [see page 53].

A second Brexit-related issue that ICI Global is focusing on is a European Commission proposal that could require some clearinghouses in the United Kingdom and other third countries to relocate to the European Union. Derivatives are an important tool for regulated funds to efficiently manage their portfolios to provide long-term value for investors. In a comment letter, ICI Global explained how the relocation requirement could fragment liquidity, increase costs, and make clearinghouses and the derivatives markets less resilient.

## Many funds and their investors are increasingly interested in environmental, social, and governance [ESG] investing. How is ICI Global engaging on this important issue?

ICI Global has long emphasized that sustainable finance should be investor focused, and that policymakers should ensure that any rules strengthen—not stifle—product innovation and investor choice. Throughout the year, we worked with EU policymakers on sustainable finance initiatives to ensure that potential regulatory measures do not stifle the growing market for ESG investing. In meetings, comment letters, media interviews, and speaking engagements, we cautioned policymakers not to take a prescriptive approach toward ESG investing, explaining that investors have a wide range of ESG preferences that asset managers are meeting with various product offerings and investment strategies. Finally, we highlighted the need to focus on the disclosure of material information.

## In the United States, our members and their products play a significant role in helping investors save for retirement. How is ICI Global championing the role that funds can play in building retirement savings in other jurisdictions?

In Europe, ICI Global continued to engage on an EU proposal to establish a voluntary, pan-European personal pension [PEPP] product, which would help EU citizens increase their long-term savings while fostering more robust capital markets. The product's success, however, depends upon EU policymakers creating a workable regulatory framework. For example, the rules must offer strong investor protections, but enable different providers to create competitive and commercially viable products that meet savers' diverse needs. In meetings and comment letters, we argued that inappropriately rigid rules governing savers' investment choices would undermine the PEPP's goals. Having appropriate tax treatment is another important issue, and we are hopeful that Member States will afford a PEPP the same tax treatment as national products.

China is another jurisdiction where policymakers are seeking ways to boost individuals' retirement savings. During the year, ICI Global met with Chinese policymakers to explain the powerful role that regulated funds play in helping savers build retirement resources through defined contribution plans and individual retirement accounts [see page 29].

**In addition to pension reforms, China and Hong Kong have launched various initiatives that could help investors take greater advantage of the long-term benefits regulated funds provide. Tell us about those.**

This year, Chinese policymakers further opened the country's financial markets by relaxing rules governing foreign ownership of a mutual fund management company to allow for majority foreign ownership, and committed to permitting 100 percent foreign ownership beginning in April 2021. Additionally, through the launch of and improvements to Bond Connect, foreign investors are more easily able to participate in Chinese bond markets. These initiatives are providing new opportunities for global fund managers and fund investors, and ICI Global hosted a webinar to help members better understand and navigate these initiatives.

In Hong Kong, the Securities and Futures Commission [SFC] proposed a significant overhaul of its UT Code, which is akin to the UCITS Directive in Europe or the rules under the Investment Company Act of 1940 in the United States. In comment letters, we praised the SFC for ensuring Hong Kong regulations align with key international fund markets, but expressed concern

about numerous issues, including the SFC's proposed classification of funds based on their use of derivatives and the associated restrictions. In addition to our engagement on the UT Code, we also commented on the SFC's proposal on margin requirements for non-centrally cleared derivatives [see page 47].

**ICI also started studying regulated funds and their investors' behavior in the Asia-Pacific region this past year. Tell us more about that project.**

Having sound data about funds and their investors is critical to the Institute's advocacy work in the Asia-Pacific region. Given that there are many different markets in the region, we decided to focus initially on two: China and Japan. ICI worked with members to gather information about each country's asset management market, participants, and products, and we plan to publish a research paper on our findings next year.

**You have been chief counsel for nine months, and after this discussion, you clearly have logged more hours and miles than you can count. What do you do in your downtime?**

Downtime? What's that?

All kidding aside, I enjoy my job and the opportunities it gives me to learn about new issues, meet new people, and discover new places. Yet the little downtime I do have is very important to me. I try to make it count by spending time with my twin boys, who are 16, and my husband. ♦

**ICI Global is focusing on ensuring that actions by policymakers in the European Union and the United Kingdom do not inadvertently harm funds and their investors around the world.**

**JENNIFER CHOI**

# Delegation Under UCITS: A Global Success Story

EU policymakers continue to debate proposed legislation that would empower the European Securities and Markets Authority (ESMA) to challenge UCITS' ability to delegate key functions to non-EU countries after Brexit. ICI Global leadership and members of its Brexit Task Force met with EU policymakers throughout the

year to explain the important role that UCITS play in EU and global markets, and why delegation contributes significantly to UCITS' success. Given the complexity of delegation and the far-reaching repercussions of limiting it, ICI Global used various media, including the infographic below, to clearly and powerfully illustrate how delegation works, why limiting it is unnecessary, and how such limitations could harm capital markets and investors worldwide. ♦



# Advocating Against Inappropriate Capital Gains Taxes in Korea

Regulated funds and their managers need stable, certain tax regimes to make optimal investing decisions in foreign countries. Yet the Korean Ministry of Strategy and Finance (MOSF) jeopardized this stability when it proposed dramatically lowering the ownership threshold that triggers a capital gains tax on foreign regulated funds. The ownership threshold applies to individual securities, and when the threshold is triggered, the broker must withhold whichever is lower—either 22 percent of the capital gain or 11 percent of the sales proceeds.

In January 2018, the MOSF proposed lowering the threshold from 25 percent to 5 percent. Given that a broker usually does not know the amount of a fund's gain, a broker would have to withhold 11 percent of the sales proceeds. Recognizing that this proposal would negatively affect foreign funds, impose substantial harm on their investors, and hurt South Korea's capital market, ICI Global organized a coalition of 12 associations and led work on a coalition letter submitted to the MOSF. Among other things, the letter argued that the proposal did not

- » clarify whether the 5 percent threshold would be applied at the fund or investor level;
- » consider the lack of justification for the threshold and the difficulty and consequences of applying it at either level;
- » take into account that a broker would not be able to access the information needed to calculate any gain or loss on a security at either the fund or investor level; or
- » recognize that implementing a 5 percent threshold would increase brokers' concerns about inadvertently withholding too little. Such concerns would likely result in brokers withholding more than necessary, which would damage the Korean market.

Based on responses from ICI Global and other industry experts, the MOSF reviewed and withdrew its proposal. ♦

# Leadership Changes

ICI's Board of Governors established ICI Global in 2011 to effectively advocate on behalf of global regulated funds and their investors. As asset managers have adapted to a rapidly changing marketplace, so too has ICI Global. Initially operating out of one office in London, ICI Global focused on a distinct set of policy areas on behalf of a small number of members in a few key jurisdictions. Today, ICI Global has three offices—in London, Hong Kong, and Washington, DC—and works on a broad range of issues affecting funds with operations around the world.

With the departure of Qiumei Yang, CEO of ICI Global Asia-Pacific, and the impending retirement of Managing Director Dan Waters in December, ICI Global is moving into a new phase under new leadership.

## Leading the Way

Waters came to ICI to organize ICI Global from the London office. With more than 20 years of regulatory and industry experience, he played an invaluable role in shaping the vision of a global fund organization and bringing it to fruition. Upon taking the helm, Waters worked with members to craft an aggressive policy agenda. Knowing the importance of having solid ties with regulators and policymakers, Waters and his colleagues in London and Washington built strong relationships with influential international bodies, including the International Organization of Securities Commissions, the Financial Stability Board, and the Organisation for Economic Co-operation and Development. ICI Global quickly built a name for itself among regulators and the media as the team initially and successfully engaged on such issues as money market fund reform, the Foreign Account Tax Compliance Act, and derivatives regulation.

## Expanding into the Asia-Pacific Region

As ICI Global matured, ICI's Executive Committee recognized the tremendous development and potential growth of asset management throughout the Asia-Pacific region. To help members and their investors take advantage of the opportunities in this dynamic region, ICI Global opened a Hong Kong office, headed by Qiumei Yang, who had extensive experience working with both Chinese and Hong Kong policymakers. Over the next four years, Yang and the ICI Global team were instrumental in helping funds and their investors navigate such issues as cross-border fund initiatives and foreign investment requirements; deepening engagement with regulators and regional associations; and increasing membership. After laying ICI Global's foundation and helping advance its work in the Asia-Pacific region, Yang left in September to join her family's business.



**Daniel F. Waters**  
Managing Director, ICI Global

## A New Leadership Team

Patrice Bergé-Vincent, ICI Global managing director for Europe, and Alexa Lam, former deputy CEO for the Hong Kong Securities and Futures Commission, are taking over Waters's and Yang's respective positions. Both bring extensive regulatory experience with fund issues and will advocate forcefully for the interests of regulated funds, their managers, and their investors worldwide. "As ICI keeps expanding its international work, Bergé-Vincent and Lam will build upon the strong foundation laid," said ICI President and CEO Paul Schott Stevens. "They will lead ICI Global in its next phase of evolution and continue to elevate regulated funds' influence on the international stage." ♦



**Qiumei Yang**  
CEO, ICI Global, Asia-Pacific



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



**Alexa Lam**  
Chief Executive, ICI Global, Asia-Pacific



# Independent Directors Council

## IN THIS SECTION

- » Positioning Directors to Protect Shareholder Interests
- » IDC Drives Efforts to Modernize Director Responsibilities
- » Directors Prepare for MiFID II Fallout

# Positioning Directors to Protect Shareholder Interests

In their work to protect the interests of fund shareholders, fund independent directors benefit when they continually build their knowledge and skills, share insights and experiences with their peers on other boards, and voice their perspective on regulatory initiatives that could affect their work. Over the past year, the Independent Directors Council (IDC) led a range of initiatives to ensure that directors can do all three.

## Learning the Basics—And the Latest

Following a highly successful debut in Boston in September 2017, IDC's *Foundations for Fund Directors*® orientation program held three more in-person sessions this year—in Los Angeles, Chicago, and New York. At each of the sessions—which include two days of instruction, case studies, and group discussion—newer directors deepened their understanding of fund structure and regulation, the guiding principles of fund governance, and the nuances of their complex responsibilities.

At IDC's signature annual events—the Fund Directors Conference in Chicago and the Fund Directors Workshop in Washington, DC—hundreds of fund directors gathered to hear from some of the industry's top minds on an array of important issues facing fund boards. Speakers, panelists, and attendees talked about industry trends, the Securities and Exchange Commission (SEC) regulatory agenda, and Section 36(b) litigation, as well as board composition, relationships with chief compliance officers, and the use of emerging technologies in the fund industry.

To reinforce its educational programming, IDC also held six timely and valuable webinars. This year's lineup covered global investment research requirements (see opposite page); oversight of exchange-traded funds (ETFs); the legislative agenda for financial services, tax, and retirement policy; what happens when a director is involved in litigation; the litigation and regulatory enforcement environment; and oversight of cybersecurity risk.

## Bringing Directors Together

IDC once again crisscrossed the country to bring directors together for substantive discussions. At 17 chapter meetings this year, directors heard from guest speakers on a range of business and regulatory topics, exchanged ideas on those topics, and learned about one another's governance practices. Directors of all levels of experience report benefiting from the insights they gain from the dialogue at these informal, interactive gatherings.

IDC also continued its series of industry segment conference calls, where directors participated in conversations tailored to their specific board roles and focusing on the unique issues they face. IDC held 12 of these calls this year—three each for directors of small fund complexes, governance committee chairs, audit committee chairs, and board leaders.

## A Robust Advocacy Program

IDC focused much of its advocacy efforts this year on modernizing director responsibilities (see opposite page). For example, IDC explained to the new leadership at the SEC's Division of Investment Management why many of the responsibilities imposed on directors today are long overdue for an update—and offered constructive suggestions for revisions.

IDC also weighed in on three important SEC regulatory initiatives:

- » Supporting a proposal to allow most ETFs to begin operating without the cost and delay of obtaining individual exemptive orders, IDC explained how the rule would make the ETF regulatory framework more consistent and efficient, and increase ETF competition and innovation.
- » Praising proposed amendments to reform how funds will report information to the public under the liquidity risk management framework (see page 19), IDC asserted that the narrative approach under the amendments will enable funds to better inform fund shareholders than did the initial approach of requiring funds to report their liquidity classifications every quarter.
- » Applauding proposed amendments to auditor independence rules, IDC joined with ICI in recommending that the SEC tighten the rules by narrowing the scope of the term *audit client* and defining lending relationships to capture only the relationships that raise actual independence concerns. ♦

## IDC Drives Efforts to Modernize Director Responsibilities

Over the years, the workload for fund boards has grown heavier and more complex—due to the fund industry’s continuing growth and evolution, and to the accumulating responsibilities established in SEC rulemakings and other initiatives over the years. Many of these responsibilities have become outdated and counterproductive, and the director community has long identified the need for an update.

IDC took up this pursuit in a letter to the SEC’s Division of Investment Management (IM), asking for a comprehensive review of the responsibilities imposed on fund boards—and laying out ideas for how best to modernize them. Citing a wide range of evidence and examples, IDC’s letter recommended that IM

- » relieve boards of responsibilities that have become ritualistic and duplicative, or are more appropriate for other fund personnel or service providers;
- » revise board responsibilities to reflect how the industry has evolved; and
- » make fund governance requirements more flexible and efficient.

Later in the year, IM announced that SEC staff had begun work on a board outreach initiative—a new project aimed at reviewing and reevaluating what the Commission asks boards to do, with an eye toward whether funds could benefit from a recalibration of directors’ duties. IM also granted an IDC request for no-action relief on some of the board responsibilities that duplicated the work of fund chief compliance officers.

These are encouraging first steps. In the year ahead, IDC will be exploring its recommendations with the staff in greater detail—to ensure that all board responsibilities fit within an oversight role, task directors primarily with overseeing potential conflicts of interest, and strengthen boards’ ability to serve fund shareholders. ♦



## Directors Prepare for MiFID II Fallout

In anticipation of the European Union’s revised Markets in Financial Instruments Directive (MiFID II) going into effect in January 2018, IDC hosted a webinar to explain MiFID II’s investment research requirements—and what they might mean for fund directors’ responsibilities.

Led by ICI Global and featuring outside counsel, the webinar covered

- » the nuances of the requirements and how their extraterritorial reach could affect US-registered funds;

- » the questions US-registered investment advisers might consider in preparing to comply with the requirements; and
- » the matters that could come before fund boards in connection with compliance.



# Operations

## IN THIS SECTION

- » Looking Around Corners with Funds' Operations Professionals
- » Protecting Shareholders' Assets: Addressing Risks of Elder Abuse, Identity Theft, and Fraud
- » Advocating for Funds in the World of Fintech
- » Cybersecurity: It's All About Who You Know

# Looking Around Corners with Funds' Operations Professionals

Helping member funds serve investors effectively and efficiently is the core mission of ICI's Operations Department. That includes helping members anticipate issues on the horizon that could affect—for good or bad—funds' ability to deliver products and services in a timely, cost-effective, secure, and accurate manner. In fiscal year 2018, in addition to a steady workstream on implementing new regulations, ICI worked closely with members' operations professionals on a series of initiatives designed to spark new thinking on upcoming challenges.

## Providing Resources and Support

Operations formed member working groups, for example, to work with ICI staff on white papers on two potential events with significant operational impact. *Servicing and Protecting Shareholders Affected by Disaster* and *Breaching the Debt Limit: Operational Considerations*, both published in December, identify the potential for cataclysmic events, examine the factors that will affect funds' ability to meet shareholder needs, discuss preparations that funds and their service providers have already made, and anticipate additional measures that might be needed should these events occur.

Casting a wide net, the working groups identified concerns that might not be obvious at first glance—for example, the heightened risk of financial fraud against shareholders in the wake of a natural disaster. Members' operations professionals have used the papers to spur internal discussions, as firms review their own systems and preparations against the identified risks.

## Bringing People and Resources Together

Operational issues also arise from developments in the market for regulated funds. ICI recently formed a task force to consider modifications to practices and procedures needed to offer interval funds—funds that provide access to less-liquid assets by offering redemptions only at set times or intervals. This is in response to trends among both portfolio companies—more of which are avoiding the public markets and relying on private equity financing—and investors,

who are seeking access to private equity and other less-liquid asset classes. The task force has gathered baseline data to help develop improved processing through standardized procedures and communication.

ICI's Operations team has also concentrated on middle-office functions. A working group from the Securities Operations Advisory Committee is examining funds' cash management functions—the complex task of reconciling pending and settled trades, corporate actions, redemptions, and purchases of new fund shares, among other factors, to give portfolio managers and traders a clear, real-time measurement of a fund's cash position. Members of the working group have compared notes on how cash management is organized in different firms and the tools those firms use to measure and manage cash. ICI Operations has prepared to field a comprehensive member survey to increase understanding of industry practices.

## Helping Members Implement New Regulations

ICI Operations continues its vital work of helping members address and implement new regulations. Working groups concentrated on helping members deal with two new forms—forms N-CEN and N-PORT—required by the investment company reporting modernization regulation adopted by the Securities and Exchange Commission (SEC) in October 2016. Notably, the SEC voted in December to delay the monthly filing requirement for N-PORT—a comprehensive report on funds' portfolio holdings—for nine months, until April 2019, in response to significant concerns that ICI and others expressed about the SEC's ability to secure the sensitive data. Members continue to work toward full implementation on the new schedule.

After years of wrangling on Capitol Hill (see page 15), the SEC's adoption of Rule 30e-3 in June allowed funds to move toward implementing electronic delivery of shareholder reports. ICI's long advocacy on behalf of the new rule was consistently informed by member input. An Operations working group is engaging members to share techniques for making online delivery the default, realizing substantial savings to benefit fund shareholders.

ICI came out strongly in support of another SEC proposal—modifications to technical auditor independence standards that have threatened funds' ability to comply with financial reporting requirements.

Starting in 2016, the SEC's Office of the Chief Accountant interpreted the “loan rule” to find that an audit firm could lack independence with regard to a fund if a lender to the auditor was the record owner of more than 10 percent of the fund’s shares. The interpretation applied even if the lender’s “ownership” did not reflect any actual control over the fund (e.g., the shares were owned through omnibus accounts held at a brokerage subsidiary). In July, ICI and the Independent Directors Council applauded the SEC’s proposed amendments to the loan rule, which would eliminate record owners from the rule and substitute a test of “significant influence” over portfolio management for the bright-line 10 percent test. SEC action on the final rule is pending.

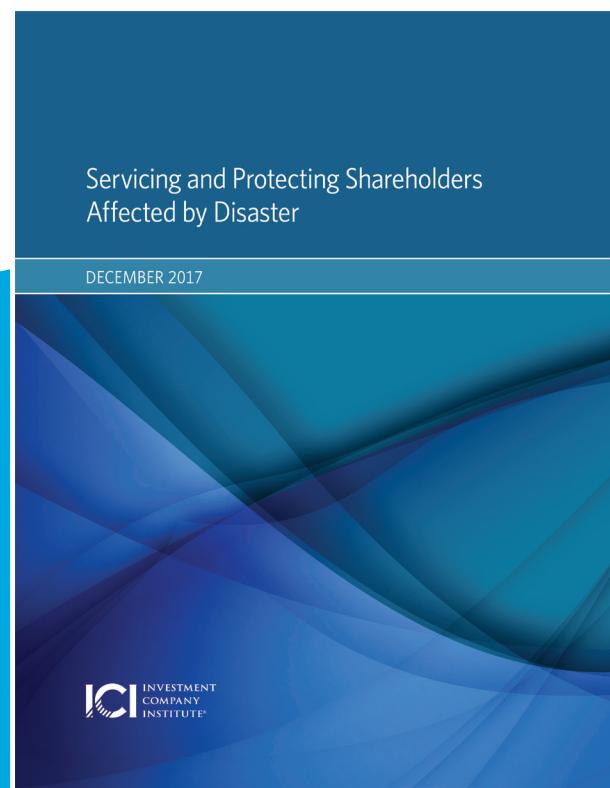
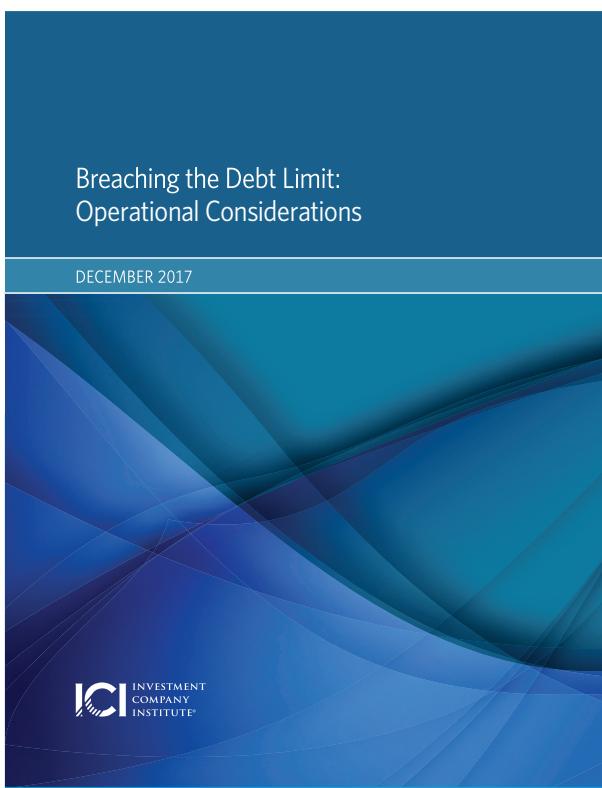
To further help funds maintain strong control environments, the Institute in fiscal 2018 launched a major revision of the Financial Intermediary Controls and Compliance Assessment (FICCA). First unveiled in 2008, FICCA provides a standardized way for funds’ financial intermediaries to report on the effectiveness of their control environment, subject to an assessment by an independent accounting firm, to help funds and directors meet their oversight obligations. While FICCA has created great efficiencies for funds and their intermediaries, a decade of evolution in the accounting profession has created gaps between FICCA’s terminology and the latest

auditing standards. Working with a member task force and audit practitioners, ICI Operations has engaged with the American Institute of Certified Public Accountants to make FICCA’s language more readily accessible to auditors. The new FICCA framework is scheduled for publication and adoption in 2019.

## Keeping Up with Fintech

As financial technology evolves, the Institute’s work with members ranges from the defensive to the visionary. ICI is compiling results from its fourth annual US and global surveys on cybersecurity, the only comprehensive compilation of security practices in investment management. ICI Operations also provides opportunities for members to interact with law enforcement agencies, building vital connections to speed response to any potential security incident.

Meanwhile, ICI Operations and informal member working groups are scanning the horizon for ways to apply new technologies in fund operations. Whether the topic is artificial intelligence, natural language processing, or blockchain, the goal remains the same: to harness the most effective tools to ensure great service for fund investors. ♦



# Protecting Shareholders' Assets: Addressing Risks of Elder Abuse, Identity Theft, and Fraud

Protection of shareholders' assets is a core principle in the regulation of registered investment companies, and is essential for funds to maintain investors' trust. But new technologies and societal changes are presenting new and unique challenges to funds' ability to protect and safeguard shareholder assets. In fiscal year 2018, ICI's Operations Department, with support from Law and Government Affairs, undertook several initiatives to address rising risks of elder abuse, identity theft, and fraud.

## Protecting Elderly Shareholders

The Institute advocated strongly for the Senior Safe Act, signed into law in May as part of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The Senior Safe Act provides federal protection for financial institutions, including regulated funds and their transfer agents, that act in good faith and with reasonable care to disclose suspected exploitation of older persons. ICI worked with the bill's House sponsors to ensure that transfer agents were included in the list of covered financial institutions.

The Institute also pursued measures to help mutual fund transfer agents protect elderly shareholders. In June, the SEC granted ICI's request for no-action relief that would enable a fund to delay disbursement of redemption proceeds up to 15 business days when the fund's transfer agent suspects that an elderly or vulnerable shareholder is subject to financial exploitation. The SEC's action extends a 2017 Financial Industry Regulatory Authority (FINRA) regulation that applied to broker-dealers but not to fund transfer agents.

The SEC's no-action letter specifies procedures that transfer agents must follow if they want to make use of the relief, including the need to request the name of a "trusted contact person" when setting up or updating a shareholder's account. The Institute's Transfer Agent Advisory Committee is working to help members implement the measures—including identifying potential "red flags" for financial abuse.

## ICI's Fraud Prevention Working Group

Data breaches have the ability to expose vast amounts of personal data—but other fraudulent schemes, such as identity theft and romance scams, pose increasing threats to fund shareholders. To help funds strengthen their barriers to fraudsters, ICI's Operations team in January created a Fraud Prevention Working Group and launched a quarterly Fraud Incident Tracking Matrix. In the first report, covering six months ending in March 2018, 28 members confidentially reported a total of 105 incidents—fraudulent checks or fraudulent transactions, executed by telephone, online, or in writing. The report analyzed the incidents by type of account targeted, type of perpetrator, how the fraud was detected, and new controls implemented in response, among other indicators. The second report, covering the second calendar quarter of 2018, included 85 incidents.

Building on this preliminary reporting, Operations has fielded a confidential member survey on fraud prevention practices—the first of its kind—with plans to publish a white paper to share among ICI members some of the best practices, procedures, and technologies to detect and prevent fraudulent transactions against fund accounts. Lessons from the paper will help members advance their never-ending fight to ensure that shareholders keep and enjoy the hard-earned assets entrusted to member funds. ♦

## Advocating for Funds in the World of Fintech

Recent years have seen enormous strides in financial technology—from cloud computing and robotic process automation to blockchain and artificial intelligence—and fund sponsors are monitoring these developments and applying new technologies as appropriate to improve shareholder service, reduce costs, and make their systems more resilient. But the development of “fintech” will also benefit from flexible regulation that advances innovation while protecting investors and markets—an objective that ICI has worked to advance.

As the US Treasury pursued the White House’s core principles for financial regulation, officials approached the Institute for insights into how fintech is affecting regulated funds and asset management. Working with an ad hoc member group, ICI’s Operations and Law teams identified key messages, encouraging regulators to

- » foster innovation in a manner that benefits investors, preserves important protections, and allows use of technology to evolve;

- » enhance security for data that regulators collect and use; and
- » ensure that technology-related regulations do not place US firms at a competitive disadvantage, recognizing the global nature of financial services firms.

Treasury’s report reflects these and other key recommendations, calling for unified state and federal regulatory solutions to permit firms to experiment with innovations; clear channels for industry to engage with regulators; education for regulators’ staff in financial technologies; robust data protection and cybersecurity; and global regulatory engagement to encourage appropriate calibration of regulations.

Fintech’s impact on the evolution of fund operations will continue for years. Its deployment by regulated funds will remain a growing focus for ICI’s Operations team. ♦



## Cybersecurity: It’s All About Who You Know

Increasingly sophisticated cyberthreats are testing fund companies’ information security programs. Defending against these threats, however, is far more than a technological concern. One of the most important keys to a robust information security program is having a trusted network of industry and law enforcement professionals with whom asset managers can share knowledge and consult if there is a cybersecurity incident. ICI Global has long worked with members in the United States, Europe, and Asia to help create these types of networks, and this year ICI Global built upon those efforts by establishing an Information Security Officer Committee in Tokyo.

During the committee’s first two meetings, compliance officers, risk managers, and technologists gathered to learn about the latest threats and defense strategies, and how to improve their firms’ information security programs. Members also discussed the results of ICI’s annual cybersecurity survey, which reports on industry practices and trends. Perhaps the most valuable benefit of these committee meetings, however, is the connections that members made—not just with each other, but also with top cybersecurity investigators at Japan’s National Police Agency. “Having an established relationship with local law enforcement officials is critical,” said Peter Salmon, ICI senior director of operations and technology, “as it ensures a firm won’t have to ‘cold call’ investigators in the middle of a breach.”



# ICI Political Action Committee

## IN THIS SECTION

- » A Conversation with the Chair of the Chairman's Council
- » Political Engagement on Capitol Hill



**SUSAN C. LIVINGSTON**

CHAIR, ICI PAC CHAIRMAN'S COUNCIL  
PARTNER, BROWN BROTHERS HARRIMAN & CO.

# A Conversation with the Chair of the Chairman's Council

Susan Livingston met with ICI staff in September to discuss ICI's political action committee (ICI PAC) and the crucial role it plays in ICI's advocacy.

## Susan, ICI PAC is celebrating its 40th anniversary this year. How have things changed since 1978?

Well, there's no question that ICI PAC formed at a critical time for the industry. Mutual funds were becoming a bigger part of retirement plans, and IRAs [individual retirement accounts] would begin to see tremendous growth shortly thereafter. Industry leaders understood how important it was to have a robust presence in Washington—to have a credible, compelling voice on Capitol Hill—and today, we can see how right they were.

In 1979—at the beginning of the PAC's first election cycle—526 US-registered funds managed only about \$95 billion. Today, more than 9,300 US-registered funds manage nearly \$23 trillion. The PAC has grown as the industry grew. We supported eight candidates in 1979, and last year we supported more than 170.

Fundraising has been another area of growth for the PAC, which recently reached a major milestone: in 2017, it raised more than \$1 million to support candidates for federal office—up from only \$1,000 in 1978. What does this growth tell you?

It tells me that, more and more, our member companies and their employees understand how crucial it is to have a strong presence in DC—just as the PAC founders understood 40 years ago. In the past decade alone, we've seen member company participation in ICI's political program grow more than 20 percent.

We're so grateful for that. ICI PAC is one of the most important mechanisms that we have to help ICI members get directly involved in the issues that matter to them. And it's crucial to building relationships with members of Congress who have demonstrated interest in policy issues facing registered funds and their shareholders. This Congress—which resolved debates on tax reform and fund disclosure in ways that supported the interests of fund shareholders—shows how much it helps for lawmakers to understand our issues.

You've brought so much energy to your role as ICI PAC chair. Tell us about some of the PAC's initiatives this year.

One thing we've been trying to do is to encourage our member companies that are already very involved with ICI to become active in our political program as well. When I look through the lists of all of ICI's committees, I see many member companies that are very active in ICI's policy work. We're working hard to get them to be just as active in the political program.

Another initiative is our efforts to explain how our prior authorization form works. The law requires a member company representative to sign the form so we can communicate with the company about ICI's political activities. Of course, signing the form doesn't obligate a company or its employees to contribute to ICI PAC—it's just the first step in allowing us to talk about the PAC in more detail. We never solicit employees directly.

And how does ICI approach its work on Capitol Hill?

Behind everything we do—fundraising, meetings on the Hill, everything—is a bipartisan approach. And that applies no matter the party in power at the time.

Education is another top priority—we can't forget how complex the financial landscape is these days. For people who aren't experts, it can sometimes be difficult to distinguish among the many types of financial services firms—not to mention the many, many types of financial products out there. One of the most important things the PAC does is help lawmakers grasp those distinctions—how fund complexes differ from banks or insurance companies, for example.

No less important, of course, are our efforts to educate lawmakers on the many benefits that registered funds bring to their shareholders. As I see it, the more people in Congress who understand our industry, the more likely it'll be that policy will work to the benefit of funds and shareholders. ♦



Congressman Blaine Luetkemeyer (R-MO), chairman of the Financial Institutions and Consumer Credit Subcommittee, speaks with attendees at an ICI event held in his honor.

## Political Engagement on Capitol Hill

One of the ways that ICI engages with Capitol Hill is through its political action committee. ICI PAC works to increase awareness among key lawmakers of fund-related issues, and to demonstrate the fund industry's support for elected officials who must closely work on issues that affect fund investing.

Members can support elected officials through ICI's political program in several ways. Employees of member companies can donate directly to ICI PAC, contribute directly to specific candidates by participating in fundraisers hosted by ICI PAC, or contribute directly to lawmakers recommended by the Chairman's Council. Contributions in 2018 have supported reelection campaigns of 202 legislators who have an interest in or oversight of fund industry issues. ♦



Please contact Brittany Starr, who manages the day-to-day operations of ICI PAC, at [brittany.starr@ici.org](mailto:brittany.starr@ici.org) or 202-371-5421 with any questions about ICI's political program. The latest *ICI PAC Report* is available at [www.ici.org/pac](http://www.ici.org/pac).



ICI President and CEO Paul Schott Stevens (left) and Gregory E. Johnson, chairman and CEO of Franklin Resources, Inc. (right), with Congresswoman Lisa Blunt Rochester (D-DE) and Democratic Whip Steny Hoyer (D-MD) at ICI's 2017 congressional reception.



Senator Joe Manchin (D-WV) (right) speaks with ICI President and CEO Paul Schott Stevens (left) and Kelly King Dibble of Northern Trust at an ICI event held in Manchin's honor.



Bradley J. Vogt, chairman of Capital Research Company, Inc. (left), and Gregory E. Johnson, chairman and CEO of Franklin Resources, Inc. (right), with Congressman Alex Mooney (R-WV) at ICI's 2017 congressional reception.



# General Membership Meeting

## IN THIS SECTION

- » Highlights of ICI's 2018 General Membership Meeting

# Highlights of ICI's 2018 General Membership Meeting

Continuing the fund industry's long-standing tradition of gathering key figures—industry leaders, regulators, and policymakers—to discuss policy, trends, and the future of funds, ICI's 60th annual General Membership Meeting (GMM) was held May 22–24, 2018, in Washington, DC. To give attendees the chance to learn about a wide-ranging set of issues, the GMM was held concurrently with three other conferences: ICI's Operations and Technology Conference, ICI's Mutual Fund Compliance Programs Conference, and IDC's Fund Directors Workshop.



**Address to the Fund Industry.** James Gorman, chairman and CEO of Morgan Stanley, spoke about his view of the world as a series of concentric circles, with the firm being represented by the innermost circle and the economy, industry, and political environment being represented by the subsequent circles. To succeed, he said, one needs to work from the inside of each circle outward before moving on to the next.



**Globalization and Technology in the Markets.** In his remarks, GMM Planning Committee Chairman Stuart Parker, president and CEO of PGIM Investments, reflected on the increasing globalization of the fund industry since GMM's inception in 1959, and discussed changing technology and evolving markets.



**Investing Today: Insights, Risks, and More.** Leading strategists discussed key investment opportunities and product trends, market cycles, emerging and global markets, and diversity in the industry. From left to right: Marie A. Chandoha, president and CEO of Charles Schwab Investment Management (moderator); Rupal Bhansali, chief investment officer of international and global equities at Ariel Investments; Sarah Ketterer, CEO and cofounder of Causeway Capital Management; and Teresa Kong, portfolio manager at Matthews Asia.

**“ICI is committed to getting the facts and the law and the analysis right—wherever that may lead. This is one of the great strengths that our trade association provides on behalf of all of us...and to the benefit of the investors we serve.”**

**Chairman’s Address, GMM**

**William F. “Ted” Truscott**

**Chairman, Investment Company Institute  
CEO, Columbia Threadneedle Investments**



**Facing the Future: Fresh Perspectives.** Industry leaders discussed transparency in communication, technology, and talent building, as well as whether the fund industry needs to rethink its traditional operating models. From left to right: Yie-Hsin Hung, CEO of New York Life Investment Management (moderator); Jillian DelSignore, head of ETF distribution at J.P. Morgan; Kirk Moore, head of global research at Columbia Threadneedle Investments; and Matthew O'Connor, president of American Funds Distributors and director of North American distribution for Capital Group.



**Private Equity and the Markets.** David M. Rubenstein, cofounder and co-executive chairman of the Carlyle Group (right), engaged in a spirited discussion with ICI President and CEO Paul Schott Stevens about private equity, emerging markets, the rise of funding outside the United States, and what he views as the keys to success: a willingness to engage in hard work, the ability to be entrepreneurial, and being passionate about one's work.



**Cross-Border Challenges and the Global Convergence of Regulatory Matters.** Experts in global asset management discussed integration in local and global markets, private equity, the effects of Brexit, and the value added by asset management. From left to right: Martin L. Flanagan, president and CEO of Invesco (moderator); David Hunt, president and CEO of PGIM; David J. Semaya, executive advisor of Sumitomo Mitsui Trust Asset Management and former chairman of Nikko Asset Management; and Andreas Utermann, CEO of Allianz Global Investors.



**Opportunities for Networking and Learning.** Those who attended the GMM dinner event explored the Smithsonian National Museum of African American History and Culture, which conveys the history, as well as the community, cultural, and sports achievements, of African Americans from the 1400s to today.



**Regulatory Session: A Conversation with SEC Commissioner Michael S. Piwowar.** Piwowar participated in a dynamic question-and-answer session focused on regulatory actions and plans with ICI President and CEO Paul Schott Stevens, sharing his views on the need for consistency in regulation, the SEC's approach to disclosure, and its proposed Regulation Best Interest.



**Lessons from American History.** Pulitzer Prize-winning author and presidential historian Jon Meacham gave the luncheon keynote speech in which he discussed the virtues that have defined America's best eras: curiosity, empathy, and humility.

The 2019 GMM is scheduled for May 1–3 in Washington, DC.  
To learn more, visit <http://gmm.ici.org>.

For more highlights from the 2018 GMM, see [www.ici.org/gmmhighlights](http://www.ici.org/gmmhighlights).





# ICI Education Foundation

## IN THIS SECTION

- » ICI Education Foundation Encourages Investor Education



## ICI Education Foundation Encourages Investor Education

The ICI Education Foundation (ICIEF), the educational affiliate of the Investment Company Institute, seeks to advance investor education and promote financial education on behalf of the regulated funds industry. Through its history, ICIEF has fulfilled its mission through a variety of initiatives, including funding for adult and youth investment education programs and for teacher training in personal finance.

### Working to Reach Investors Where They Are

ICIEF has continued this history of working to reach investors where they are—including online. The foundation launched a number of digital campaigns during the year to share important information with investors. These included a social media campaign during tax time to promote investor understanding of the tax advantages of individual retirement accounts (IRAs). A similar effort, built around 401(k) Day in early September, promoted the benefits of saving in 401(k)s and other workplace retirement plans through social media and the launch of a new ICI website highlighting research on retirement and offering tips for savers (see page 28). ICIEF Vice President Tina Kilroy and ICI Senior Director of Retirement and Investor Research Sarah Holden participated in nationwide radio tours—reaching investors in a new way for ICIEF—during both the Tax Day and 401(k) Day campaigns.

### Sustaining Long-Standing Partnerships

In recent years, ICIEF has partnered with Junior Achievement (JA) through its Finance Park program to bring investor education to middle school students. ICIEF's Investing Road Trip™, located in both DC-area Finance Parks—in Fairfax County, Virginia, and Prince George's County, Maryland—consists of an exhibit and an interactive, tablet-based “scavenger hunt” that requires students to learn key investment concepts during their daylong visit. ICI staff volunteered their time at the Finance Parks, guiding students as they learn how to navigate real-world financial situations.

ICIEF is expanding into a newly completed JA Finance Park in Montgomery County, Maryland. Here, ICIEF's offerings will not only include the Investing Road Trip, but also a computer game in which students will try to time buying and selling in the market—and will learn why investing for the long term is often the best strategy—based on actual stock market data.

ICIEF continued its partnerships with coalitions committed to issues around saving, investing, and personal finance, including the JumpStart Coalition, the American Savings Education Council, and the Alliance for Investor Education (AIE). ICIEF shared its work with other participants in personal finance, the public, and Capitol Hill staff during JumpStart's annual Hill Day in April, and sponsored AIE's Investor Boot Camp event, held in Washington, DC, in December. AIE's event focused on investors just starting out, and—echoing the themes of ICIEF's new Finance Park game and its digital campaigns encouraging retirement saving—Kilroy spoke on a panel, “What's Next? Investing for the Long Term.” ♦



During tax time, ICI and the ICI Education Foundation promoted investor understanding of IRAs and their tax advantages through a digital campaign and national radio tour.



# Appendices

## IN THIS SECTION

- » Governance and Finances
- » ICI Staff Leadership and Management
- » ICI Board of Governors
- » ICI Standing Committees and Chairs
- » IDC Governing Council
- » ICI Global Policy Council
- » ICI, IDC, and ICI Global Events and Webinars
- » Publications and Statistical Releases
- » ICI Mutual Insurance Company

## 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 (see Appendix B, page 87). The ICI president and staff report to the Institute's Board of Governors, which is responsible for overseeing the business affairs of ICI and determining the Institute's positions on public policy matters (see Appendix C, page 88).

ICI's Board of Governors is composed of 55 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 (see page 67). The council includes nine 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 (see Appendix F, page 92).

ICI addresses the needs of investment company independent directors through the Independent Directors Council. 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 (see Appendix E, page 91).

Twenty-four standing committees, bringing together more than 2,200 industry professionals, guide the Institute's policy work. ICI standing committees perform a number of important roles, including assisting with formulation of policy positions, and gathering and disseminating information on industry practices (see Appendix D, page 90). In addition, 41 industry advisory committees, task forces, forums, and working groups with more than 3,200 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, 93 percent, comes from dues, investment income, royalties, and miscellaneous program sources. Similarly, by design, 95 percent of the Institute's total resources are devoted to core activities (see Figure 2).

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

FIGURE 1

## MEMBER DUES RELATIVE TO ASSETS UNDER MANAGEMENT HAVE DECLINED

*Basis points*

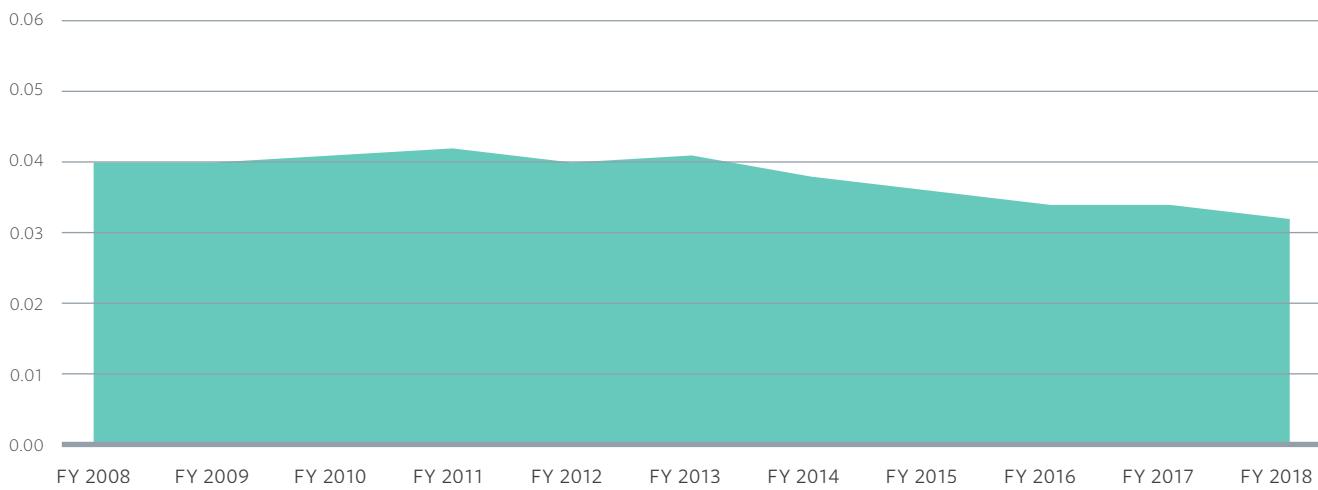
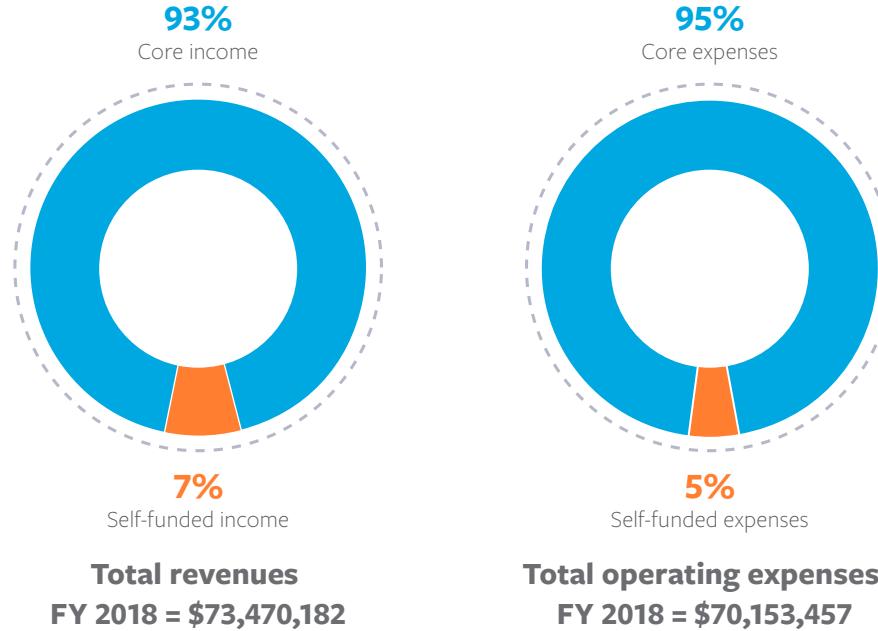


FIGURE 2

## MEMBER DUES SUPPORT SIGNIFICANT MAJORITY OF CORE ACTIVITIES AT ICI



# Financial Statements

## Statement of Financial Position as of September 30, 2018

### Assets

Cash and cash equivalents	\$1,181,746
Investments, at market value	67,095,604
Accounts receivable	1,005,114
Prepaid expenses	2,953,390
Other assets	2,291,884
Furniture, equipment, and leasehold improvements, net (less accumulated depreciation of \$13,760,520)	<u>3,346,699</u>

Total assets

\$77,874,437

### Liabilities and Net Assets

#### LIABILITIES

Payroll and related charges accrued and withheld	6,231,490
Accrued pension liability	4,045,962
Accrued postretirement liability	11,443,939
Accounts payable and accrued expenses	2,523,064
Deferred revenue	2,077,075
Rent credit	2,306,385
Deferred rent	<u>5,379,588</u>
Total liabilities	<u>34,007,503</u>

#### NET ASSETS

Undesignated net assets	42,866,934
Board designated net assets	<u>1,000,000</u>
Total net assets	<u>43,866,934</u>
Total liabilities and net assets	<u>\$77,874,437</u>

These financial statements are preliminary unaudited statements as of September 30, 2018. Audited financial statements for the fiscal year ended September 30, 2018, will be available after February 1, 2019. To receive copies of the audited statements, please contact Mark Delcoco at [mdelcoco@ici.org](mailto:mdelcoco@ici.org).

## Statement of Activities and Changes in Net Assets

for the year ended September 30, 2018

### Core Income

Membership dues	\$64,607,432
Investment income	1,243,588
Royalty income	791,810
Program income	<u>1,434,550</u>
Total core income	<u>68,077,380</u>

### Core Expenses

Administrative expenses	51,747,871
Program expenses	6,236,647
ICI Global expenses	6,173,029
Depreciation and lobby proxy tax	<u>2,215,898</u>
Total core expenses	<u>66,373,445</u>

### Self-Funded Income

Conferences	4,499,590
Other self-funded income	<u>893,212</u>
Total self-funded income	<u>5,392,802</u>
Change in net assets—self-funded	<u>1,612,790</u>

### Self-Funded Expenses

Conferences	3,359,220
Other self-funded expenses	<u>420,792</u>
Total self-funded expenses	<u>3,780,012</u>
Change in net assets—self-funded	<u>1,612,790</u>
Change in net assets from operations	<u>3,316,725</u>

Common ownership related expenses	(334,082)
Loss on currency conversion	(58,316)
Actuarial pension/postretirement plan gain	<u>2,009,644</u>

Change in net assets	<u>4,933,971</u>
Net assets, beginning of year	<u>38,932,963</u>
Net assets, end of year	<u>\$43,866,934</u>

# ICI Staff Leadership and Management

AS OF SEPTEMBER 30, 2018

## EXECUTIVE OFFICE

### **Paul Schott Stevens<sup>1, 2, 6</sup>**

President and CEO

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

Chief Operating Officer

## GOVERNMENT AFFAIRS

### **Donald C. Auerbach**

Chief Government Affairs Officer and Co-Head

### **Dean R. Sackett III**

Chief Government Affairs Officer and Co-Head

### **Peter J. Gunas III**

Government Affairs Officer, Retirement Security and Tax Policy

### **Kelly S. Hitchcock**

Director, Financial Services

### **Allen C. Huffman**

Director, Retirement Security and Tax Policy

### **Cynthia Q. Pullom**

Director, Financial Services

### **Brittany N. Starr**

Director, Political Affairs

## 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

### **George M. Gilbert**

Assistant General Counsel

### **Rachel H. Graham**

Associate General Counsel

### **Jane G. Heinrichs**

Associate General Counsel

### **Tamara K. Salmon**

Associate General Counsel

### **Frances M. Stadler**

Associate General Counsel and Corporate Secretary

### **J. Matthew Thornton**

Assistant General Counsel

### **David M. Abbey**

Deputy General Counsel, Retirement Policy

## EXECUTIVE OFFICE

### **Elena B. Chism**

Associate General Counsel

### **Shannon N. Salinas<sup>4</sup>**

Assistant General Counsel

### **Keith D. Lawson<sup>5</sup>**

Deputy General Counsel, Tax Law

### **Karen L. Gibian**

Associate General Counsel

### **Katherine A. Sunderland**

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**

Director, Transfer Agency and Operations

### **Jeffrey A. Naylor**

Director, Operations and Distribution

### **John F. Randall**

Director, Operations and Distribution

### **Peter G. Salmon**

Senior Director, Operations and Technology

### **Gregory M. Smith**

Senior Director, Fund Accounting and Compliance

## PUBLIC COMMUNICATIONS

### **Mike McNamee**

Chief Public Communications Officer

### **Matthew J. Beck**

Senior Director, Media Relations

### **Rachel W. McTague**

Director, Media Relations

### **Michael D. Morosi Jr.**

Director, Media Relations

### **Stephanie M. Ortbals-Tibbs**

Director, Media Relations

### **Miriam E. Bridges**

Director, Editorial

### **Christina M. Kilroy**

Manager, Digital Communications, and Vice President, ICI Education Foundation

## EXECUTIVE OFFICE

### **Janet M. Zavistovich**

Senior Director, Communications Design

### **Jodi M. Weakland**

Director, Design

## RESEARCH

### **Sean S. Collins**

Chief Economist

### **Sarah A. Holden**

Senior Director, Retirement and Investor Research

### **Peter J. Brady**

Senior Economist

### **Jason S. Seligman**

Senior Economist

### **Rochelle L. Antoniewicz**

Senior Director, Industry and Financial Analysis

### **Sailesh K. Jha**

Senior Economist

### **Morris H. Mitler**

Economist

### **Christof W. Stahel**

Senior Economist

### **Judith A. Steenstra**

Senior Director, Statistical Research

### **Sheila M. McDonald**

Director, Statistical Research

## ADMINISTRATION

### **Christopher E. Boyland**

Senior Director and Information Technology Officer

### **Vincent D. Banfi**

Director, Systems Support and Operations

### **Ramesh Bhargava**

Director, Information Technology

### **Paul R. Camarata**

Director, Electronic Data Collection

### **Mark A. Delcoco**

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

## EXECUTIVE OFFICE

### **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

### **Daniel F. Waters**

Managing Director, ICI Global

### **Qiumei Yang**

CEO, Asia-Pacific

### **Patrice Bergé-Vincent**

Managing Director, ICI Global, Europe

### **Jennifer S. Choi**

Chief Counsel

### **Anna A. Driggs**

Associate Chief Counsel, Retirement Policy

### **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

### **Amy B. R. Lancellotta**

Managing Director

### **Annette M. Capretta**

Deputy Managing Director

### **Lisa C. Hamman**

Senior Associate Counsel

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

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

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

<sup>4</sup> Secretary to Chairman's Council

<sup>5</sup> Assistant Treasurer to Chairman's Council

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

## ICI Board of Governors

AS OF SEPTEMBER 30, 2018

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

ICI Chairman  
Chief Executive Officer  
Columbia Threadneedle Investments

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

ICI Vice Chairman  
Chairman  
Vanguard

**Vijay C. Advani**

Chief Executive Officer  
Nuveen

**Kyle Andersen**

Principal, Managed Investments  
Edward Jones Investments

**Andrew Arnott**

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

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

Vice Chairman  
T. Rowe Price Group, Inc.

**David G. Booth**<sup>1, 2</sup>

Chairman  
Dimensional Fund Advisors LP

**Marie A. Chandoha**<sup>1, 2</sup>

President and CEO  
Charles Schwab Investment  
Management, Inc.

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

President  
Neuberger Berman Management LLC

**James E. Davey**

President  
The Hartford Mutual Funds

**Thomas R. Donahue**<sup>1, 3</sup>

Chief Financial Officer and Treasurer  
Federated Investors, Inc.

**Bruce W. Duncan**

Independent Director  
T. Rowe Price Funds

**Kenneth C. Eich**

Chief Operating Officer  
Davis Selected Advisers, L.P.

**Brooks Englehardt**

President  
USAA Investment Management  
Company

**Douglas Eu**

Chief Executive Officer  
Allianz Global Investors U.S. Holdings  
LLC

**Nora M. Everett**

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

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

Chairman and CEO  
Eaton Vance Corp.

**Martin L. Flanagan**<sup>1, 2</sup>

President and CEO  
Invesco Ltd.

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

Independent Director  
DWS Funds

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

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

**William J. Hackett**

Chief Executive Officer  
Matthews International Capital  
Management, LLC

**Marco Hanig**

Principal  
AQR Capital Management, LLC

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

Chairman  
PIMCO Funds

**Diana P. Herrmann**

President and CEO  
Aquila Investment Management LLC

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

President  
Ariel Investments, LLC

**Yie-Hsin Hung**

Chief Executive Officer  
New York Life Investment Management  
LLC

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

Chairman and CEO  
Franklin Resources, Inc.

**Lisa M. Jones**<sup>6</sup>

Head of Americas, President and CEO  
of US  
Amundi Pioneer Asset  
Management, Inc.

**Lawrence H. Kaplan**<sup>6</sup>

Partner, General Counsel  
Lord Abbett & Co. LLC

**Robert M. Keith**<sup>1</sup>

President and CEO, AB Funds  
AllianceBernstein

**Marie L. Knowles**<sup>1</sup>

Independent Director  
Fidelity Fixed Income and Asset  
Allocation Funds

**Susan C. Livingston**<sup>2, 6</sup>

Partner  
Brown Brothers Harriman & Co.

**Shawn Lytle**

Head of Macquarie Investment  
Management, Americas  
Macquarie Investment Management

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

President and CEO  
Goldman Sachs Mutual Funds

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

President, Asset Management  
Fidelity Investments

**Mark D. Nerud**

President and CEO  
Jackson National Asset Management  
LLC

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

Vice Chairman  
BlackRock, Inc.

**Steven J. Paggioli**

Independent Director  
AMG Funds and Professionally Managed  
Portfolios

**Stuart S. Parker**<sup>1</sup>

President  
PGIM Investments

**Michael Roberge**

Chief Executive Officer and Chief  
Investment Officer  
MFS Investment Management

## 2018 ICI Executive Committee



*From left to right: Barbara Novick, George C. W. Gatch, Bradley J. Vogt, Gregory E. Johnson, Thomas E. Faust Jr., Edward C. Bernard, Paul Schott Stevens, William F. Truscott, Charlie S. Morrison, James A. McNamara, Jonathan F. Zeschin, Susan C. Livingston, Marie A. Chandoha, Martin L. Flanagan*

*Not pictured: David G. Booth, Paul K. Freeman, Mellody Hobson, and F. William McNabb III*

### **James E. Ross<sup>1</sup>**

Executive Vice President, Chairman of  
SPDR Business  
State Street Global Advisors

### **Daniel Simkowitz**

Managing Director and Head of  
Investment Management  
Morgan Stanley Investment  
Management, Inc.

### **Erik R. Sirri**

Independent Director  
Natixis Funds and Loomis Sayles Funds

### **Marijn P. Smit<sup>1</sup>**

President and CEO  
Transamerica Asset Management, Inc.

### **Laura T. Starks<sup>3</sup>**

Independent Director  
TIAA-CREF Funds

### **Arthur Steinmetz**

Chairman, CEO, and President  
OppenheimerFunds, Inc.

### **William W. Strickland**

Chief Operating Officer  
Dodge & Cox

### **Joseph A. Sullivan**

Chairman and CEO  
Legg Mason, Inc.

### **Jonathan S. Thomas**

President and CEO  
American Century Investments

### **Shundrawn A. Thomas**

President  
Northern Trust Asset Management

### **Garrett Thornburg<sup>6</sup>**

Chairman  
Thornburg Investment Management,  
Inc.

### **Ronald E. Toupin**

Independent Director  
Guggenheim Funds

### **Bradley J. Vogt<sup>2, 4</sup>**

Chairman  
Capital Research Company, Inc.

### **Dawn M. Vroegop**

Independent Director  
Brighthouse Funds and Driehaus Funds

### **Jonathan F. Zeschin<sup>1, 2, 5</sup>**

Independent Director  
Matthews Asia Funds

---

<sup>1</sup> Governor on sabbatical

<sup>2</sup> Executive Committee member

<sup>3</sup> Audit Committee member

<sup>4</sup> Investment Committee member

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

<sup>6</sup> ICI Chairman's Council member

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

## ICI Standing Committees and Chairs

AS OF SEPTEMBER 30, 2018

### Accounting/Treasurers

#### **Toai Chin**

Director of Fund Accounting Policy  
Vanguard

### (CCO) Chief Compliance Officer

#### **Francis V. Knox**

Chief Compliance Officer  
John Hancock Financial Services, Inc.

### Chief Risk Officer

#### **Joseph A. Carrier**

Chief Risk Officer  
Legg Mason, Inc.

### Closed-End Investment Company

#### **William Renahan**

Senior Managing Director, Legal and  
Compliance  
Duff & Phelps Investment  
Management Company

### ETF (Exchange-Traded Funds)

#### **James E. Ross**

Executive Vice President, Chairman of  
Global SPDR Business  
State Street Global Advisors

### ICI Global Exchange-Traded Funds

### ICI Global Information Security Officer

### ICI Global Public Communications

### ICI Global Regulated Funds

### ICI Global Retirement Savings

#### **Michael Doshier**

Head of Retirement and College Savings  
Franklin Templeton Investments

### ICI Global Tax

### ICI Global Trading and Markets

### Internal Audit

#### **Kathleen Ives**

Senior Vice President and Director of  
Internal Audit  
OppenheimerFunds

### 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, Intermediary Distribution  
John Hancock Investments

### SEC Rules

#### **Darrell Braman**

Vice President and Managing Counsel  
T. Rowe Price Associates, Inc.

### Small Funds

#### **Jane Carten**

President  
Saturna Capital Corporation

### Tax

#### **Jonathan G. Davis**

Assistant Treasurer, Fidelity Funds  
Fidelity Investments

### Technology

#### **Joe Boerio**

Senior Vice President and  
Chief Technology Officer  
Franklin Templeton Investments

### Unit Investment Trust

#### **W. Scott Jardine**

General Counsel  
First Trust Advisors, L.P.

## IDC Governing Council

AS OF SEPTEMBER 30, 2018

**Jonathan F. Zeschin\***

Chair  
Independent Director  
Matthews Asia Funds

**Dawn M. Vroegop\***

Vice Chair  
Independent Director  
Brighthouse Funds and Driehaus Funds

**Julie Allecta**

Independent Director  
Litman Gregory Masters Funds and  
Salient Funds

**Kathleen T. Barr**

Independent Director  
William Blair Funds

**Donald C. Burke**

Independent Director  
Duff & Phelps Funds and  
Virtus Funds

**Gale K. Caruso**

Independent Director  
Matthews Asia Funds and Pacific Life  
Funds

**David H. Chow**

Independent Director  
MainStay Funds and VanEck Vectors  
ETF Trust

**Susan C. Coté**

Independent Director  
SEI Funds

**Bruce W. Duncan\***

Independent Director  
T. Rowe Price Funds

**William R. Ebsworth**

Independent Director  
Wells Fargo Funds

**Paul K. Freeman\***

Independent Director  
DWS 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

**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

**Joanne Pace**

Independent Director  
OppenheimerFunds

**Steven J. Paggioli\***

Independent Director  
AMG Funds and Professionally Managed  
Portfolios

**Sheryl K. Pressler**

Independent Director  
Voya Funds

**Erik R. Sirri\***

Independent Director  
Natixis Funds and Loomis Sayles Funds

**Laura T. Starks\***

Independent Director  
TIAA-CREF Funds

**Ronald E. Toupin Jr.\***

Independent Director  
Guggenheim Funds and  
Western Asset Inflation-Linked Funds

---

\* On ICI Board of Governors

# ICI Global Policy Council

AS OF SEPTEMBER 30, 2018

## ATLANTIC

### **James M. Norris**

ICI Global Atlantic Policy Council Chairman  
Managing Director, International Operations  
Vanguard

### **David Abner**

Head of Europe  
WisdomTree Europe Ltd.

### **Clive Brown**

Chief Executive Officer, International  
RBC Global Asset Management

### **Clarke Camper**

Executive Vice President, Head of  
Government Relations  
Capital Research & Management

### **Arnaud Cosserat**

Chief Executive Officer  
Comgest S.A.

### **Stephen Fisher**

Managing Director  
BlackRock Investment Management  
(UK) Limited

### **Campbell Fleming**

Global Head of Distribution  
Aberdeen Asset Management PLC

### **Dennis Gepp**

Senior Vice President; Managing Director;  
and Chief Investment Officer, Cash  
Federated Investors (UK) LLP

### **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

### **Thorsten Heymann**

Managing Director, Global Head of Strategy  
Allianz Global Investors

### **Robert Higginbotham**

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

### **Susan Hudson**

Managing Director  
UBS Asset Management (UK) Ltd.

### **Kathleen Hughes**

Global Head of Liquidity Solutions Sales and  
Head of European Institutional Sales  
Goldman Sachs Asset Management

### **Dominik Kremer**

Head of Institutional Distribution, EMEA and  
Latin America  
Columbia Threadneedle Investments

### **John Panagakis**

Executive Vice President, Head of  
International Advisory Services  
Nuveen

### **Jed Plafker**

Executive Vice President, Global Advisory  
Services  
Franklin Templeton Investments

### **Andrew R. Schlossberg**

Head of EMEA, Invesco  
Invesco Perpetual

### **Tim Stumpff**

Chief Executive Officer  
Principal Global Investors (Europe) Ltd.

## PACIFIC

### **Michael Falcon**

ICI Global Pacific Policy Council Chairman  
CEO, Asia Pacific  
J.P. Morgan Asset Management  
(Hong Kong)

### **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

### **Carl Jacobsohn**

Head of Asia  
Macquaire Investment Management Group

### **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.

### **Charles Lin**

Head of Greater China  
Vanguard Investments Hong Kong Limited

### **Julian Liu**

President and CEO  
Yuanta Securities Investment Trust

### **Andrew Lo**

Head of Invesco Asia Pacific  
Invesco Hong Kong Limited

### **Angus N. G. Macdonald**

Executive Director  
Baillie Gifford Asia (Hong Kong) Limited

### **Winnie Pun**

APAC Head of Public Policy  
BlackRock Asset Management North Asia  
Limited

### **Thomas Quantrille**

President and Head of Asia  
Capital International K.K.

### **JungHo Rhee**

Chief Executive Officer  
Mirae Asset Global Investments (HK)  
Limited

### **David Semaya**

Chairman  
Sumitomo Mitsui Trust Asset Management  
Co. Ltd.

### **Kimberley Stafford**

Managing Director, Head of Asia Pacific  
PIMCO Asia Limited

### **Akira Sugano**

President and CEO  
Asset Management One Co., Ltd.

### **James Sun**

Chief Executive Officer  
Harvest Global Investments Limited

### **Kunio Watanabe**

President and CEO  
Nomura Asset Management Co., Ltd.

### **Xiaoling Zhang**

Chief Executive Officer  
China Asset Management (Hong Kong)  
Limited

## ICI, IDC, and ICI Global 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—just this year, IDC had nearly 30 chapter meetings and conference calls. For more information, visit [www.ici.org/events](http://www.ici.org/events).

October 23–25, 2017	Fund Directors Conference <sup>1</sup>	Chicago
November 9, 2017	Closed-End Fund Conference	New York
December 5, 2017	Global Capital Markets Conference	London
December 6, 2017	ICI Cybersecurity Forum	Washington, DC
December 7, 2017	Securities Law Developments Conference <sup>2</sup>	Washington, DC
January 10–11, 2018	Foundations for Fund Directors <sup>1</sup>	Los Angeles
March 14, 2018	Supervisory Convergence and Investment Management Forum <sup>3</sup>	London
March 15, 2018	Risk, Regulation, and Capital Markets <sup>4</sup>	London
March 18–21, 2018	Mutual Funds and Investment Management Conference <sup>5</sup>	San Antonio
April 11–12, 2018	Foundations for Fund Directors <sup>1</sup>	Chicago
May 22–24, 2018	General Membership Meeting	Washington, DC
May 22–24, 2018	Operations and Technology Conference	Washington, DC
May 23, 2018	Fund Directors Workshop <sup>1</sup>	Washington, DC
May 23–24, 2018	Mutual Fund Compliance Programs Conference	Washington, DC
September 12–13, 2018	Foundations for Fund Directors <sup>1</sup>	New York
September 30–October 3, 2018	Tax and Accounting Conference	San Diego

<sup>1</sup> Sponsored by IDC

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

<sup>3</sup> Cosponsored by ICI Global and the Centre for the Study of Financial Innovation

<sup>4</sup> Cosponsored by ICI Global and Chatham House

<sup>5</sup> Cosponsored by ICI and the Federal Bar Association

### Webinars

- » Accessing China's Market: Understanding Recent Fund Management Liberalisation Policies
- » Board Oversight of ETFs
- » China Bond Connect Market: What You Need to Know
- » Cybersecurity—Considerations for Fund Directors
- » Fund Industry Litigation, SEC Enforcement Activity, and Director Indemnification and Insurance
- » Gain Insights About Key Projects of ICI's Broker/Dealer and Bank, Trust, and Retirement Advisory Committees
- » How to Achieve Straight-Through Processing for Margin Call and Collateral Settlement
- » ICI's Small Funds Committee
- » Legislative Update—An Overview for Fund Directors
- » MiFID II Investment Research Requirements: An Overview for Fund Directors
- » Solving Portfolio Reconciliation Challenges—Learn from the Experts
- » What Happens When a Fund Director Is Involved in Litigation?

## Publications and Statistical Releases

AS OF SEPTEMBER 30, 2018

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](http://www.ici.org).

### Industry and Financial Analysis

- » The Closed-End Fund Market, 2017, *ICI Research Perspective*, April 2018
- » Trends in the Expenses and Fees of Funds, 2017, *ICI Research Perspective*, April 2018

### Retirement and Investor Research

- » Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2017, *ICI Research Perspective*, October 2017
- » Characteristics of Mutual Fund Investors, 2017, *ICI Research Perspective*, October 2017
- » What Does Consistent Participation in 401(k) Plans Generate? Changes in 401(k) Account Balances, 2010–2015, *ICI Research Perspective*, October 2017
- » Profile of Mutual Fund Shareholders, 2017, *ICI Research Report*, October 2017
- » Defined Contribution Plan Participants' Activities, First Half 2017, *ICI Research Report*, November 2017
- » The Role of IRAs in US Households' Saving for Retirement, 2017, *ICI Research Perspective*, December 2017
- » Defined Contribution Plan Participants' Activities, First Three Quarters of 2017, *ICI Research Report*, February 2018
- » American Views on Defined Contribution Plan Saving, 2017, *ICI Research Report*, February 2018
- » *The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans*, 2015, March 2018
- » Who Participates in Retirement Plans, 2014, *ICI Research Perspective*, April 2018
- » Defined Contribution Plan Participants' Activities, 2017, *ICI Research Report*, May 2017
- » The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2017, *ICI Research Perspective*, June 2018
- » Defined Contribution Plan Participants' Activities, First Quarter 2018, *ICI Research Report*, August 2018
- » What US Households Consider When They Select Mutual Funds, *ICI Research Perspective*, August 2018
- » 401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2016, *ICI Research Perspective*, September 2018
- » Ten Important Facts About 401(k) Plans, September 2018
- » The IRA Investor Profile: Roth IRA Investors' Activity, 2007–2016, *ICI Research Report*, September 2018
- » The IRA Investor Profile: Traditional IRA Investors' Activity, 2007–2016, *ICI Research Report*, September 2018
- » *A Close Look at ETF Households: A Report by the Investment Company Institute and Strategic Business Insights*, September 2018

### Operations

- » *Indication of Death: Common Industry Practices*, November 2017
- » *Breaching the Debt Limit: Operational Considerations*, December 2017
- » *Servicing and Protecting Shareholders Affected by Disaster*, December 2017
- » *Recommended Practices for Large Trade Notification*, March 2018
- » *Mutual Fund Transfer Agents: Trends and Billing Practices*, July 2018
- » *C-Share (Level Load) Conversion: Operational Considerations*, August 2018

### Independent Directors Council

- » *Overview of Fund Governance Practices, 1994–2016*, October 2017

### *Investment Company Fact Book*

ICI's annual data and analysis resource, *2018 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](http://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](http://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](http://www.ici.org/research/stats). To subscribe to ICI's statistical releases, visit [www.ici.org/pdf/stats\\_subs\\_order.pdf](http://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
- » Closed-End Fund 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.

## Financial Markets

**Transaction fee pilot program for NMS stocks:** See page 46.

**Transparency in the secondary corporate bond markets:** In August 2017, the International Organization of Securities Commissions (IOSCO) published a consultation report on regulatory reporting and public transparency in the secondary corporate bond markets. The report proposed seven steps to enhance pre- and post-trade transparency in secondary corporate bond markets.

*In October 2017, ICI Global submitted a comment letter supporting IOSCO's objective of making secondary corporate bond markets more transparent to regulators and the public. The letter emphasized the importance of taking an incremental approach to increasing corporate bond market transparency to avoid disrupting liquidity in markets that are critical to investors. Consistent with ICI Global's recommendation, IOSCO's final report, which was issued in April 2018, recognizes that national authorities should implement new transparency requirements in a way that preserves liquidity in the bond markets.*

**Applicability dates of rules on financial contracts:** In fall 2017, the US banking agencies issued final rules requiring some banks to include restrictions in their financial contracts, such as over-the-counter (OTC) swaps, repurchase agreements, and securities lending transactions. The final rules establish phased-in compliance dates, based on the category of counterparty to the financial contract. The operation of the rules' applicability dates, however, will likely result in banks expecting their nonbank counterparties, such as funds, to conform their financial contracts to the rules' requirements on the earliest compliance date.

*In April 2018, ICI and the Asset Management Group of the Securities Industry and Financial Markets Association submitted a letter to the US banking agencies explaining that the final rules, as a practical matter, subject nonbank counterparties to an earlier compliance date than intended by the rules' phased-in compliance schedule. To prevent these counterparties from facing an unanticipated accelerated compliance burden, the letter requested that the US banking agencies align the applicability dates of the final rules with the rules' phased-in compliance dates.*

## Financial Regulatory Reform

**FSOC and stress testing reforms:** Financial regulatory reform—including changes to the sweeping legislation enacted in the wake of the 2008 financial crisis (the Dodd-Frank Act)—has continued to be a priority for the administration and the Republican-led Congress. Registered fund industry reform priorities include two Dodd-Frank provisions: first, the authorization to the Financial Stability Oversight Council (FSOC) to designate nonbank financial companies as systemically important financial institutions (SIFIs); and second, the mandate to impose bank-oriented stress testing requirements on large registered funds and advisers.

*ICI and member efforts helped secure House passage of bipartisan legislation to improve the FSOC's SIFI designation process, with all Republicans and 66 Democrats voting in favor of the bill. ICI continues to advocate for consideration of more narrowly tailored FSOC reform legislation, which has a better chance of garnering support in the Senate. Legislation eliminating the stress testing mandate for registered funds and advisers also passed the House on a bipartisan basis. Similar stress testing provisions were included in two other House-passed bills: the "JOBS Act 3.0" bill and the 2019 House Financial Services and General Government Appropriations bill.*

## Fund Regulation

**Rule 30e-3:** See pages 13 and 15.

**Enhanced fund disclosure:** See page 15.

**Closed-end fund developments:** See page 18.

**Debunking the "common ownership" hypothesis:** See page 16.

**Standards of conduct:** See page 17.

**SEC's liquidity framework:** See page 19.

**Improving auditor independence:** See page 62.

**ETF regulation:** See page 34.

**Protecting senior investors:** See page 64.

**Processing fees:** In June 2018, the SEC issued a request for comment on the NYSE-regulated processing fees that intermediaries charge for delivering shareholder reports and other fund materials to investors.

*ICI has called on the Commission to reform the deeply flawed framework governing these fees for the last few years. As the Institute has long contended, the framework's misaligned incentives cause funds to pay artificially high costs for delivering materials to shareholders investing in funds through intermediaries.*

**CFA Institute guidance:** In 2016 and 2017, broadly distributed pooled funds (including regulated funds) and their disclosure and performance reporting practices were a focal point for the CFA Institute. In March 2017, the CFA Institute issued a guidance statement for these funds, which would have imposed new disclosure requirements on offering documents and/or advertisements of regulated funds managed by firms compliant with Global Investment Performance Standards (GIPS).

*In October 2017, ICI strongly urged the CFA Institute to reconsider the need for, and its fundamental approach to, issuing pooled fund-specific guidance and standards. In April 2018, the CFA Institute announced changes that included recasting the requirements in the guidance statement as voluntary advertising guidelines.*

**SEC's FAIR Act rulemaking proposal:** In May 2018, the SEC proposed rules to fulfill its mandate under the 2017 FAIR Act. The FAIR Act and related SEC proposals are designed to promote research by unaffiliated broker-dealers on mutual funds, ETFs, registered closed-end funds, business development companies, and other covered investment funds.

*In July 2018, ICI submitted a comment letter, generally supporting the proposal and offering recommendations to enhance broker-dealers' ability to issue fund research reports. Among other things, ICI recommended amending the proposed rule to permit broker-dealers to issue research reports on new and smaller funds (the proposal would limit the universe of funds in these respects).*

**SEC's FAST Act rulemaking proposal:** In October 2017, the SEC proposed amendments to modernize and simplify certain disclosure requirements in Regulation S-K and related rules and forms, pursuant to the 2015 Fixing America's Surface Transportation Act (FAST Act).

*In January 2018, ICI submitted a comment letter supporting the proposal as it relates to funds and advisers. Among other things, ICI requested that the SEC provide equivalent relief to funds and advisers where it proposed relief for operating companies, as appropriate.*

## Governance

**Board outreach initiative:** See page 59.

## International

**Environmental, social, and governance (ESG) factors:** See page 51.

**Hong Kong funds' use of derivatives:** See pages 47 and 52.

**Variation margin requirements for foreign exchange contracts:** See page 46.

**Global derivatives regulation:** See page 46.

**Delegation to third countries:** See page 53.

**MiFID II:** Effective as of January 2018, the revised Markets in Financial Instruments Directive (MiFID II) is broad EU legislation that regulates various aspects of the financial markets and, among other things, fundamentally changes how investment advisers pay for research. Because the MiFID II regulatory framework for research differs significantly from

that in the United States and other jurisdictions, it was unclear whether global firms satisfying these new obligations would continue to be compliant with various US securities law provisions that are premised on bundled commissions.

*Following months of advocacy, ICI Global successfully obtained no-action relief from the SEC to allow investment advisers that are subject to the requirements of MiFID II to continue to aggregate orders for mutual funds and other clients in situations in which clients may pay differing amounts for research. Absent this relief, investment advisers subject to MiFID II would have been forced to disaggregate trades in certain situations, which would create inefficiencies and potentially raise costs for investment firms and their clients, including regulated funds. ICI Global also collaborated with other industry associations on two additional letters requesting relief that permits investment advisers to continue to rely on an existing safe harbor when paying broker-dealers for research and brokerage; and that permits broker-dealers, on a temporary basis, to receive research payments from money managers that are required under MiFID II, either directly or indirectly, to pay for research in hard dollars or from advisory clients' research payment accounts. Combined, the three no-action letters have reduced the challenges faced by fund firms, particularly those with a global reach, when seeking to comply with MiFID II.*

**International investing issues:** Both US and non-US government actions continue to affect the ability of global fund managers to invest in jurisdictions around the world.

» For example, on April 6, 2018, the US Office of Foreign Assets Control (OFAC) added Russian oligarchs, companies, and government officials to the Specially Designated Nationals and Blocked Persons List (SDN List), affecting significantly the holdings and activities of ICI members. The scope and applicability of the sanctions were not clear and raised numerous questions for fund managers and the industry more broadly.

*ICI sent a letter to OFAC seeking clarification and guidance so that members could appropriately comply with the sanctions. OFAC subsequently issued FAQs addressing some of the concerns expressed in the letter.*

» Another example is the Securities and Exchange Board of India (SEBI), which in April 2018 issued new know-your-client requirements for foreign portfolio investors. Complying with certain elements of these requirements—such as the aggregation of positions for purposes of investor limits and the disclosure of personal information of senior officers—poses significant challenges and consequences for funds that are invested or that seek to invest in the Indian capital markets. Further, SEBI provided existing foreign portfolio investors only six months to comply.

*ICI Global submitted an initial letter requesting that SEBI reconsider some of the new requirements and address the key issues raised by them. Among other things, ICI Global requested an extension of the compliance deadline, which was granted. Responding to ongoing industry concerns, SEBI then issued a second consultation with favorable changes to the April requirements. In September, SEBI announced significant revisions to the know-your-client requirements for foreign portfolio investors that addressed a number of ICI Global's and the industry's concerns and provided a more workable framework.*

## Operations

**Fraud Prevention Working Group:** See page 64.

**Servicing and protecting shareholders affected by disaster:** See page 62.

**C-share conversions:** C shares (also known as level load shares) are purchased at net asset value and include an annual 12b-1 fee (typically 1 percent) and a contingent deferred sales load fee (also often 1 percent)

if shares are sold within the first year after purchase. With fee-based advisory programs (e.g., mutual fund wrap) and fund distribution strategies using other fund share classes, some intermediaries are requesting that funds implement an automatic (non-taxable) conversion of shareholders from Class C into a lower-cost share class of the same portfolio after a certain period. Implementing a share class conversion after its initial offering can create significant operational and procedural challenges for funds, intermediaries, and service providers.

*In August 2018, an ICI Broker/Dealer Advisory Committee working group published a white paper that documents operational considerations and common practices when implementing and completing automatic C-share conversions. The paper identifies key C-share attributes to support conversion, outlines fund and intermediary considerations when deciding to pursue a conversion, describes methods to determine conversion-eligible shares (and related shareholders), discusses communication strategies for successful conversion implementation, and highlights conversion and post-conversion considerations. The paper includes samples of fund documents and communications to shareholders and financial advisers.*

**Customer due diligence requirements for final institutions:** Effective May 18, 2018, the Financial Crimes Enforcement Network's final customer due diligence (CDD) requirements for financial institutions compelled mutual funds to identify and verify the identity of beneficial owners of legal entity accounts.

*In February 2017, ICI's Operations team created a working group to assist funds in developing policies and procedures to comply with the new CDD requirements. Over the course of 15 months, the working group developed industry consensus on various common practices and protocols for complying with the rule, including the definition of a legal entity account, what constitutes ownership and control of an account, the nature and purpose of an investment, ongoing oversight and monitoring, various operational considerations, and how policies and procedures under the rule tie into funds' existing anti-money laundering and customer identification programs. As part of this effort, ICI created and published a matrix of general account types to assist funds in identifying and categorizing accounts that qualify as a legal entity under the rule and, as such, require the fund to perform enhanced due diligence.*

**Conforming banking rules to T+2 settlement cycle:** As ICI and others had urged, in early September 2017, the Office of the Comptroller of the Currency (OCC) and Federal Deposit Insurance Corporation (FDIC) proposed to modify their rules to shorten the time frame for settlement of securities transactions conducted by banking institutions they regulate. The proposal followed a multiyear effort led by ICI and securities industry partners to shorten the time frame for settlement of most US securities transactions from the third day after trade date (T+3) to the second day after trade date (T+2). In preparation for the September 5, 2017, transition date, the SEC, Federal Reserve Board, and self-regulatory organizations modified their rules to require T+2 settlement.

*ICI submitted a comment letter in October 2017 strongly supporting the rulemaking. ICI emphasized the importance of providing greater clarity and certainty to banking institutions and described the negative consequences of failing to align OCC and FDIC rules with those of other US regulatory bodies. The final rule changes adopted in June 2018 reflect ICI's recommendation that the OCC and FDIC rules should cross-reference the SEC rule establishing the standard securities settlement cycle.*

**Multi-series trust sponsors supporting small funds:** Small fund complexes often face the current landscape of fee compression and increased regulatory burden by turning to outsourced solutions. To meet these challenges, many small asset managers engage a series trust provider rather than forming a stand-alone entity. The series trust model provides access to professional services and operational efficiencies for the small asset manager. However, these outsourcing arrangements still can present challenges because the small manager is one of

many supported by the series trust provider—a recent example is the implementation of N-PORT reporting.

*ICI, recognizing the increasing use of the series trust solution and the benefit of providing a forum to support series trust members, formed the Series Trust Advisory Committee. All series trust members enrolled, and the first meeting was held in June 2018. The committee will be meeting four times each year: three times virtually and once in Washington, DC.*

## Retirement

**Electronic delivery:** See page 29.

**ICI testimony before ERISA Advisory Council:** See page 24.

**ICI amicus brief in *Brotherston v. Putnam Investments, LLC*:** A growing number of ERISA fiduciary breach class actions have been filed against fund families regarding the inclusion of proprietary fund products in the 401(k) plans they sponsor for employees. More than a dozen fund families have been targeted by such suits. A critical issue in these cases is which party (plaintiffs or defendants) has the burden of proving whether the inclusion of proprietary products in such plans is consistent with ERISA's fiduciary obligations. In *Brotherston v. Putnam Investments, LLC*—one of the ERISA fiduciary breach class actions against fund families—the decision favored Putnam. Now on appeal, plaintiffs are arguing that Putnam's use of proprietary products constitutes prohibited self-dealing and that Putnam should have the burden of proving no imprudence or other fiduciary breach.

*In January 2018, ICI filed an amicus brief explaining that, in issuing PTE 77-3—the DOL class exemption that allows proprietary funds to be included in fund family plans—the DOL recognized that it would be contrary to normal business practice for a company whose business is financial management to seek financial management services from a competitor. ICI also showed that employer contribution levels associated with fund family plans (including the Putnam plan) exceed national averages—a likely result of the application of PTE 77-3. ICI also demonstrated that just because funds offered through a plan are proprietary does not impose a presumption of prohibited self-dealing; rather, plaintiffs have the burden of proving imprudence and fiduciary breach under normal ERISA standards.*

**Legislative proposals to enhance retirement security:** On May 16, 2018, the House Committee on Education and the Workforce's Subcommittee on Health, Employment, Labor, and Pensions held a hearing on "Enhancing Retirement Security: Examining Proposals to Simplify and Modernize Retirement Plan Administration." The hearing focused on four bills: permitting the use of open multiple employer plans (MEPs), expanding the use of electronic delivery for participant notices and disclosures, increasing the dollar limit for automatic cash-outs of retirement plan balances, and establishing a new fiduciary safe harbor for the selection of an annuity provider.

*ICI President and CEO Paul Stevens testified at the hearing in support of the open MEP and electronic delivery proposals. Stevens testified that open MEPs provide a commonsense bipartisan solution to increasing coverage. Allowing small employers to participate in a single, multiple employer ERISA plan—regardless of the employer's industry or any other preexisting relationship with other participating employers or the plan sponsor—will reduce administrative and compliance costs and burdens, and ultimately improve the availability of retirement plans. Stevens also testified that the rules for using electronic delivery must be updated to reflect the increased technological availability over the past decade, and that Congress should permit electronic delivery as the default method for disclosure (while still allowing participants to opt for paper). The testimony explained that electronic delivery will enhance the effectiveness of ERISA communications, maintain security of information, and produce significant cost savings for 80 million retirement investors.*

## Taxes

**US tax reform:** See page 26.

**Withdrawal of Korean capital gains tax proposal:** See page 54.

**Swiss claims:** Swiss tax authorities have denied funds' treaty-based claims for withholding tax reductions, or imposed extraordinarily burdensome documentation requirements, and thereby have reduced investor returns.

*ICI Global proposed administrable procedures by which US funds can establish treaty eligibility. The Swiss authorities subsequently agreed that shareholder residence information provided by proxy solicitation firms and intermediaries will be accepted. ICI Global recently requested further clarifications and modifications to the Swiss documentation procedures, and is coordinating closely with other fund industry associations engaged in similar discussions with the Swiss authorities.*

**Public country-by-country reporting:** The European Commission proposed "gold-plating" the country-by-country (CBC) reporting regime from the Organisation for Economic Co-operation and Development (OECD), which requires large companies to publicly disclose certain highly sensitive commercial information; all information provided by firms to governments under the OECD's CBC reporting regime, in contrast, remains strictly confidential. A modified public CBC reporting regime was approved by the European Parliament; now, the European Council is considering the issue. This reporting regime would be detrimental to the competitive positions of all firms, both publicly and privately held.

*ICI Global has urged that, if public CBC reporting is agreed to in Europe, confidential information must remain private. ICI Global urged a "safeguard clause," subsequently included in the European Parliament's proposed regime, that would exempt information if its disclosure would be seriously prejudicial to the commercial position of an undertaking. ICI Global has advanced the proposal with officials from most Member States, including during recent meetings with ministry officials in Berlin, London, Paris, and Vienna.*

**California's proposed tax on services:** A California proposal would have imposed a tax on services purchased by businesses. The broadly drafted legislative language would have imposed a tax on funds receiving investment advisory services from California managers. For businesses operating in multiple states, an "appropriate share" of the services would have been apportioned to California.

*A March 2018 ICI opposition letter explained that the proposal would reduce investor returns, could not be administered efficiently and fairly, and would place California-based firms at a competitive disadvantage. The proposal did not advance out of committee.*

**Hawaiian REIT tax proposal:** A Hawaiian proposal designed to increase state tax on real estate investment trusts (REITs) would have required them to provide detailed net income information for their shareholders (including funds holding REIT shares) so that REIT shareholders could file a tax return and pay tax on income attributable to Hawaii. REITs would have been required to withhold on distributions to shareholders if they did not agree to file a return and pay Hawaiian tax.

*A February 2018 ICI opposition letter explained that the proposal would lead to over-withholding and fund shareholders would be harmed. Specifically, any Hawaiian tax imposed on the fund could not be credited by the fund's shareholders, as no legal mechanism exists to flow through state tax credits. The proposal was defeated in large part because of the concerns raised in ICI's letter.*

## ICI by the Numbers

Fiscal year 2018



**35,000+**

Issues of *ICI Daily* and  
*ICI Global Daily*  
sent each day



**584**

ICI Memoranda  
issued to members



**38**

*ICI Viewpoints*  
published



**28**

Papers



**300+**

Statistical  
releases posted



**67**

Statements,  
news releases,  
and editorials



**76**

Comment letters  
submitted to  
regulators



**93,000**

Page views and downloads of  
the *Investment Company  
Fact Book* online



**51,000**

Downloads of  
statistical data files



**1.83  
million**

Page views  
on ici.org



**726,000**

Unique visits  
to ici.org



**nearly  
5,000**

Attendees at  
ICI events



**6,700+**

Twitter followers



**2,800+**

Facebook friends



**7,000+**

LinkedIn connections



**53**

Videos



**\$961,000+**

Raised by ICI PAC



**29**

IDC chapter meetings  
and industry segment calls



WASHINGTON, DC | LONDON | HONG KONG | [WWW.ICI.ORG](http://WWW.ICI.ORG)

Copyright © 2018 by the Investment Company Institute. All rights reserved.

The Investment Company Institute (ICI) is the leading association of regulated funds globally, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers.



[ici.org](#)



@ICI



[ICIVideo](#)



Investment Company Institute