

Welcoming Remarks, 2014 Securities Law Developments Conference

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Good morning, everyone. I am David Blass, ICI's General Counsel, and on behalf of the entire ICI team I am very pleased to welcome you to the 2014 Securities Law Developments Conference.

We have a robust program today, delving into serious issues facing the asset management industry—issues ranging from the SEC enforcement division's priorities for the coming year to the debate about whether registered funds or their managers pose a risk to the financial system. On this last point—in case you're in any doubt—we are of the firm view that they do not.

Let me provide a little background for those of you who may not know my story. I joined ICI about three months ago from the SEC, where I held senior positions in the Investment Management and Trading and Markets divisions, as well as in the General Counsel's office. I also have been in the asset management and other practices at two large law firms.

Throughout my career, I have been very proud to be associated with the registered fund industry, which has such a long history of creativity and ingenuity in the service of investors.

You might not know that the modern fund industry turns 75 next year, and has benefited from a history of strong regulatory oversight.

Fund regulation in the U.S. has been highly successful in supporting the orderly growth of an industry that now manages more than \$17 trillion in assets and serves almost half the nation's households. Significant credit should be given to the SEC and its staff, who should take great pride in their roles in fostering an industry built on a foundation of fiduciary duty and sound, effective regulation.

ICI also will turn 75 next year. The leaders of the fund industry got together in 1940 to lend their support to the SEC in developing effective regulation to implement the '40 Acts, and to this day the Institute remains dedicated to the goal of encouraging adherence to high ethical standards by all industry participants. That's one of the cornerstones of our mission at ICI, which is why we host robust discussions about regulatory needs and challenges.

Another cornerstone of ICI's mission involves advancing the interests of funds, their shareholders, directors, and investment advisers. Before I turn to today's program, I'd like to discuss three of ICI's top policy priorities—our global outreach efforts, our work to preserve the strengths and successes of the retirement-savings system, and our engagement in the debate about systemic risk and asset management.

Since joining ICI, I have often been asked what, if anything, has surprised me about the job. While not entirely a surprise, I can honestly say that I have been taken aback by the immensity of the task of engaging with governments and regulators around the globe on issues of importance to our U.S. and non-U.S. members. At the SEC, I had extensive experience with regulators around the world—but I can safely say that I had only a glimpse into the totality of the task of staying on top of issues facing our industry globally.

Today, it is a fact of life that ICI members depend upon strong securities markets and sound regulatory frameworks around the world for their future growth. That's why interacting with regulators globally is one of ICI's highest priorities—and why our Board launched ICI Global in 2011.

Now, through our offices in London and Hong Kong, and with strong support here in Washington, ICI Global is well-positioned to help our members navigate the challenges—and benefit from the opportunities—they encounter.

One of our global initiatives involves promoting strong retirement savings systems around the world, leveraging the defined contribution model and the use of regulated funds. This is only natural—those who follow ICI's work in the United States know that we are committed to working to preserve the many strengths and successes of the 401(k) system, while highlighting opportunities to improve the system still further. Other countries, especially those with growing economies, have looked to many aspects of our system as a model for developing and enhancing their own systems. Accordingly, we are fostering dialogue around retirement in jurisdictions from Europe to Latin America to Asia.

Since I've arrived at ICI, however, our most urgent priority has involved the debate over financial stability and asset management. Initiatives to address systemic risk by bringing bank-style regulation to the capital markets and to asset management—particularly to the registered funds that ICI serves—are at the very top of the list of challenges facing the industry.

ICI and its members have long supported efforts to address abuses and close regulatory gaps exposed by the financial crisis. However, the idea that registered funds or their managers pose a risk to the financial system is not founded on experience or evidence.

Instead, this notion appears to be founded in the concept of “shadow banking”—a mere epithet, but a dangerous one that banking regulators use to tar our industry and other financial services outside of their control.

The idea seems to be that any institution other than a commercial or investment bank that provides credit intermediation to the economy must be operating “in the shadows.” The term implies that most or all of the players in the capital markets are unregulated and inherently more risky than banks. This simply is not true for registered funds and their managers.

The term “shadow banking” is not helpful to systemic risk analysis. In fact, use of the label almost seems designed to justify conclusions that are not based on hard evidence and clear thinking.

The Federal Reserve Bank of New York got it right in 2010 when it said, “the label ‘shadow banking system’...is an incorrect and perhaps pejorative name for such a large and important part of the financial system.”

Yet today the Federal Reserve Bank, the Financial Stability Oversight Council, the International Monetary Fund, and a vast array of regulators are busily pursuing purported risks in “shadow banks”—including registered funds and their managers.

Let's be clear—registered funds are not operating in the shadows. Nothing could be further from the truth. As you all know so well, these funds already are some of the most highly regulated financial products in existence. And let's be clear—we embrace that regulation. In other words, the systemic risk debate is not about regulation versus no regulation. Rather, the debate is about an assessment of where real risks arise in the financial system—an assessment that should be driven by a transparent process that focuses on verifiable facts, not epithets designed to obscure or prevent analysis.

Turning from ICI priorities to today's program, our first panel focuses on “Regulation and What Matters to the Fund Industry Now.” We will hear from senior SEC and FINRA staff, as well as ICI members, about a wide range of policy developments. I am especially interested in hearing about the SEC's plans to gather data from the asset management industry, and how the SEC plans to use that data to enhance its ability to oversee the industry, including for financial stability purposes. ICI welcomes greater involvement by the SEC in questions of financial stability—after all, it is the SEC that is the

regulatory agency with expertise in the asset management industry.

The panelists will cover several other topics, including the SEC's recent actions on exemptive applications dealing with actively managed non-transparent ETFs, and the staff's proxy advisory firm alert issued earlier this year.

Our second panel will examine where things stand on derivatives regulatory reform.

U.S.-registered funds are now largely subject to Dodd-Frank's major reforms for derivatives—including recordkeeping and reporting, trading, and clearing of swaps—and ICI continues to advocate for members on critical implementation issues relating to these key requirements.

This is an area of rapid transformation, with significant global implications. It has been an ongoing challenge for funds to implement and integrate the many changes that these reforms have made to existing business models and compliance systems.

The panel will focus on the timeliest of those challenges, as well as on how the industry is addressing them.

Next, we will hear from Drew Bowden, head of the SEC's Office of Compliance Inspections and Examinations, about the SEC's examination initiatives. I am not sure of all the topics Drew will speak about, but one I've been following and that I'm attuned to—in light of the SEC staff's examination of payments to intermediaries for recordkeeping and other shareholder services—is an examination that the SEC staff calls “distribution in guise.”

I am particularly interested in the issues raised by this topic, having served at the SEC in Investment Management—the division that regulates funds and their advisers—as well as in Trading and Markets—the division that regulates broker-dealers.

I recognize just how daunting it may be to distinguish fees primarily for distribution from those that are for recordkeeping or otherwise not primarily for distribution. My sense is that the industry is doing the best it can in this space, especially in light of the challenges it faces.

In industry statistics, we see an overall decline in the transfer agency and shareholder recordkeeping fees paid by funds. We also see enhanced services, whether provided by internal fund-transfer agents, external service providers, or—as is increasingly the case—by the intermediaries themselves. In this environment, it is my hope that the SEC will be looking to identify and make known to us all the sound practices that examiners have observed, which would benefit everyone. An approach like this—as compared to other, more aggressive responses—would help foster enhanced compliance, as well as a productive dialogue about challenges that the industry faces in this area.

Following Drew's luncheon remarks, our first afternoon panel will feature a discussion with senior staff from OCIE and the SEC's Division of Enforcement, focusing on their efforts and initiatives over the past

year and their priorities for the coming year.

We will then turn to another rapidly developing area—fund advisers as commodity pool operators and commodity trading advisors. I think it's clear that fund advisers have adapted to their new roles and their new regulator, the CFTC.

ICI is glad to continue helping our members identify and resolve issues in this area, and greatly values the constructive relationship we and our members have developed with the CFTC and National Futures Association staff. We will hear an update on those efforts at today's panel.

We will close the day with a return to a topic that has been at the top of the priority list for many, many years—money market fund reform. Perhaps optimistically, the panel identifies us as being in the home stretch of that reform. My personal sense is that we all took a collective breath after the SEC finalized its money market fund rules earlier this year and set a 2016 compliance date for the bulk of the reform.

Now it's time for us to turn to the hard work of adjusting to the new rules. Our panel today will help sketch out what the future holds for money market funds. On February 4, ICI will continue the dialogue by hosting a one-day forum on money market fund reform. I encourage you to join us for that event.

Figuring out how to implement tough reforms is nothing new for the fund industry. Registered funds, as I mentioned earlier, are one of the most highly regulated financial products available, and there has been no shortage of change since the Investment Company Act was passed in 1940.

What has remained constant—and will remain constant—is the approach that ICI and its members have followed—speaking with a single voice as we pursue thoughtful, well-researched, and constructive solutions, for the benefit of our millions of shareholders.

Now, to start off the day, we are very fortunate to have one of the key senior officers of the SEC join us. Norm Champ has served as the director of the Division of Investment Management since 2012.

Norm has a truly impressive resume. He has been a partner at the law firm Davis Polk & Wardwell, served as the general counsel of a major hedge fund, and served as Deputy Director of the SEC's examination and inspections office before becoming director of IM. Norm also was the architect of the SEC's money market fund rule, adopted earlier this year.

Norm, thank you for being with us today and we are very much looking forward to your remarks. Ladies and gentlemen, Norm Champ.

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