IDC Independent Directors Council

Promoting Excellence in Fund Governance

ICI's Paul Schott Stevens Outlines Regulatory Environment for Asset Managers at Industry's General Membership Meeting

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Washington, DC, May 5, 2017—*Investment Company Institute (ICI) President and CEO Paul Schott Stevens today provided an overview of the changing regulatory environment for the asset management industry, at the Institute’s 2017 General Membership Meeting in Washington, DC. Key excerpts from the address follow:*

Striking a Balance on Regulation and Economic Growth

“Stronger [economic] growth is a crucial part of the solution to so many challenges for our society. And reducing excessive regulation is a crucial part of the solution to sluggish growth....For more than 75 years, ICI and its fund members have been strong advocates for efficient, effective regulation....But regulation that is unnecessary or inappropriate; that is based in faulty analysis; that is not informed by robust public comment—regulation of that sort can and does hurt fund investors and impose huge costs on our economy and our society.”

Setting a New Course at the Securities and Exchange Commission

In his remarks, Stevens noted that funds have a vital role to play as SEC Chairman Clayton pursues the goals of economic growth and investor opportunity.

He delivered ideas about how the SEC can help funds play that role to greatest effect. These include:

- preserving the fundamental framework of fund regulation;
- ensuring that all investors—whether in retirement plans or retail accounts—have access to financial advice under a best interest standard;

- permitting funds to continue to use the most advanced investment tools and techniques; and
- bringing our means of communications with fund shareholders into the 21st century.

Pursuing a Harmonized Best Interest Standard [Department of Labor Fiduciary Rule]

“We are deeply disappointed that the rule’s implementation was only delayed by 60 days—because the rule is already causing great harm.

“Our members report that hundreds of thousands of small retirement accounts have been 'orphaned' since the Department of Labor (DOL) finalized the rule. Faced with the sizable if uncertain legal and regulatory risks of assuming DOL fiduciary status vis-à-vis these fund shareholders, brokers are simply resigning from small accounts en masse.

“All this carnage is unnecessary, because, in the end, we believe the rule must be rescinded or significantly revised.

“We are calling upon the SEC to propose a harmonized best interest standard for broker-dealers that would enhance, rather than replace, existing suitability obligations.

“Only two bodies can lead the way on a unified best interest standard—the SEC and Congress. We hope the SEC will take the lead—but if it doesn’t, Congress should stand ready.”

Derivative Risk Management

“The Commission has proposed a rule to modernize decades’ worth of guidance on funds’ use of derivatives. ICI supports that rule in part: we agree that funds should establish formal derivative risk management programs, and we support appropriately tailored asset segregation requirements.

“But other portions of the proposed rule would sharply—and excessively—restrict funds’ use of derivatives. Proposed portfolio limits, for example, could stop funds from using instruments that reduce risk and improve liquidity—even for plain-vanilla bond funds. Hampering funds or driving them to de-register will cost investors more—or deprive them of core strategies.

“Today, we are calling upon the SEC to issue a new proposal—a rule that combines formal risk management programs with an appropriate asset segregation regime. Such a rule will encourage funds to invest in the derivatives market confidently and responsibly—to the ultimate benefit of their investors.”

Bringing Fund Disclosure into the 21st Century

“In nearly every other corner of our economy and financial system, consumers readily receive and seek out information online. Yet fund investors are burdened with an antiquated system of paper-based delivery for voluminous shareholder reports and other documents.

“Unless investors affirmatively opt for electronic delivery, their mailboxes are stuffed with materials that very often head straight to the recycle bin.

“Printing and mailing all these reports is costly: ICI estimates that a move to full electronic access could save close to $4 billion over the next 10 years—savings for funds and their shareholders, not for fund sponsors.

“Printing and mailing also exacts steep environmental costs. Almost 2 million trees are cut down every year just for US funds’ shareholder reports.

“The SEC came close to improving online delivery in the waning days of 2016. Now, we urge the new Commission to adopt a three-stage process for bringing fund disclosure into the 21st century:

The SEC should immediately adopt a rule that allows mutual funds, ETFs, and closed-end funds to meet their delivery obligations by posting required disclosure documents online and providing investors the opportunity to opt for paper.

At the same time, the SEC should permit variable insurance products to develop and use summary prospectuses, delivered online.

As a longer-term initiative, the Commission should review the content of fund shareholder reports to make them more useful to investors.”

The full text of Stevens’s remarks is available here.
