



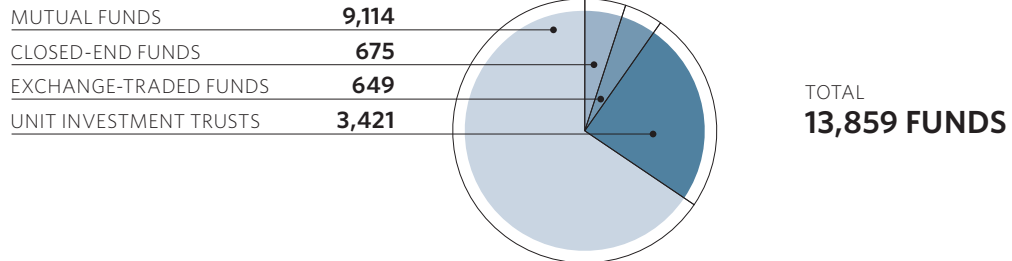
# 2008 Annual Report to Members

INVESTMENT COMPANY INSTITUTE

## WHO DOES ICI REPRESENT?

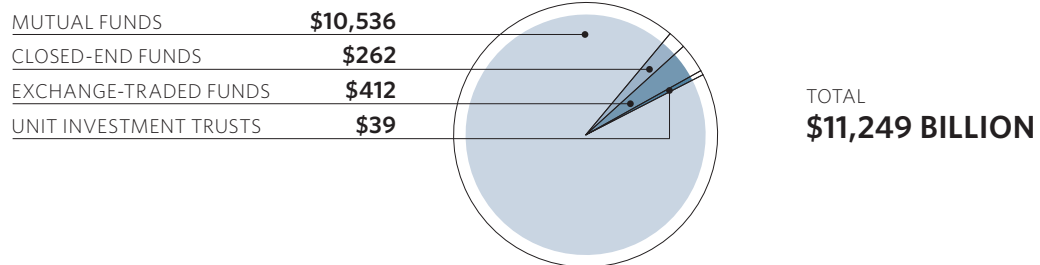
### More Than 13,000 Funds\*

Number of investment companies by type



### With More Than \$11 Trillion in Assets\*

Investment company assets, billions of dollars



### Serving Almost 90 Million Shareholders

Ownership of funds offered by investment companies, 2007

|                     |                              |
|---------------------|------------------------------|
| <b>44.3 PERCENT</b> | OF U.S. HOUSEHOLDS OWN FUNDS |
| <b>51.4 MILLION</b> | U.S. HOUSEHOLDS OWN FUNDS    |
| <b>89.6 MILLION</b> | INDIVIDUALS OWN FUNDS        |

\*Data for mutual funds and ETFs are as of September 2008. Data for closed-end funds are as of June 2008. Data for UITs are as of December 2007.

Source: Investment Company Institute

# 2008 Annual Report to Members

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# To Our Members



Paul Schott Stevens

PRESIDENT AND CEO  
INVESTMENT COMPANY INSTITUTE

As we write, a storm of historic proportions buffets financial markets around the world. Skies began to darken fully 15 months ago. Today, like seamen in the trough of a hurricane, we cannot yet see the trailing edge of the storm, nor predict when the seas will calm. What's to come is unknown. In a tempest like this, courage lies in the soundness of your ship and the skill and spirit of the ship's company.

Modern investment companies, as well as ICI itself, have a history in the U.S. that spans more than two-thirds of a century. We have seen our share of heavy weather. But our industry forebears built well, creating an array of offerings that have carried investors through smooth seas and rough. While funds certainly are not immune to the turmoil of the markets, we do have certain inherent advantages. Our kind of investing—transparent, highly diversified, with very limited leverage, and subject to strict pricing disciplines—withstands such conditions better than most others. Our safeguards for investor assets are unsurpassed.

And today's fund leaders have proven themselves in crisis to be dedicated, creative, and resourceful in serving the 90 million Americans whom we are proud to count as shareholders. That's no less than the fiduciary duties of fund advisers and fund directors demand in the very best of times. In trying times like these, it has been a matter of high importance not just to fund investors but to the economy and the nation at-large.

The Institute and senior executives of ICI member companies have worked intently with government officials to keep them apprised of market conditions and their impact on funds; to find mechanisms to restore liquidity and orderly functioning, particularly to money markets; and to help avert serious consequences for fund investors and the general economy. Without regard to the competitive advantage of our industry or of individual firms, we strove to protect the interests of all our shareholders. We can take great pride in the contributions that ICI—through its members and staff—has made at this historic juncture.

Normally, in our *Annual Report to Members*, the Institute reflects on an array of achievements of the fiscal year past. This year is different: no one wanted to see the storm of 2008, and no one wants to see its like again. Yet this event shows what a central role the Institute can and does play on behalf of all its investment company members. Be assured that we will work closely with policymakers as they draw lessons from this remarkable experience and develop reform proposals. Through this process, too, advancing the interests of fund investors will be our primary focus.

The turning of the year has not stunted our efforts, nor will the end of the crisis, because funds and ICI must be actively engaged in the debate to come. We look forward to your continued involvement and teamwork as we move forward into that future.

*October 29, 2008*



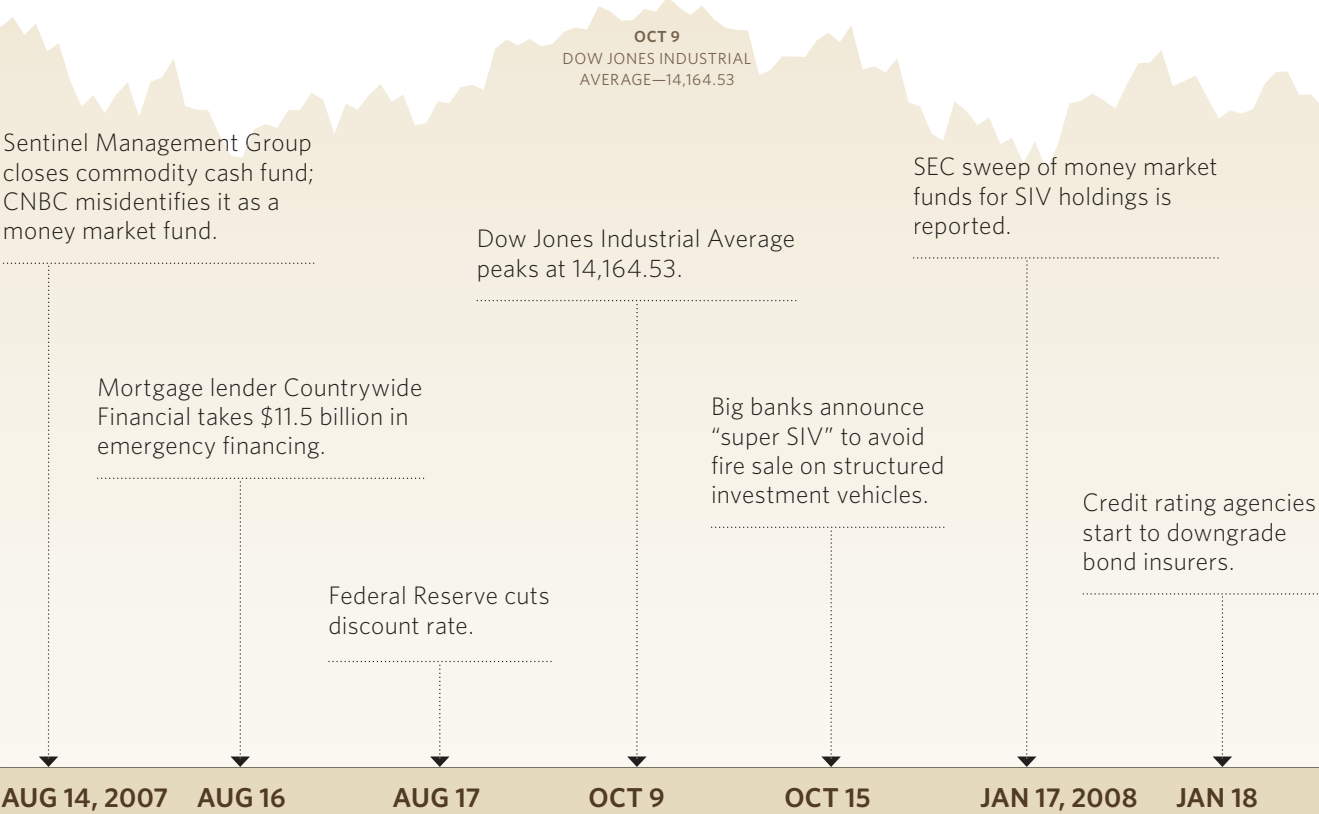
## John V. Murphy

CHAIRMAN  
INVESTMENT COMPANY INSTITUTE  
CHAIRMAN, PRESIDENT, AND CEO  
OPPENHEIMERFUNDS, INC.

# Leading in a Time of Turmoil

A CRISIS IN CREDIT AND ICI'S RESPONSE, AUGUST 2007-AUGUST 2008

MARKET EVENTS



ICI ACTIONS

**AUG:** Steps up contacts with Fed and SEC on money market mutual fund flows, fund pricing.

**AUG:** Corrects media misreporting on money market funds.

**AUG:** Begins regular calls with Institutional Money Market Fund Committee and regulators.

**NOV:** Devises communications strategies with members to deal with coverage of money market fund issues.

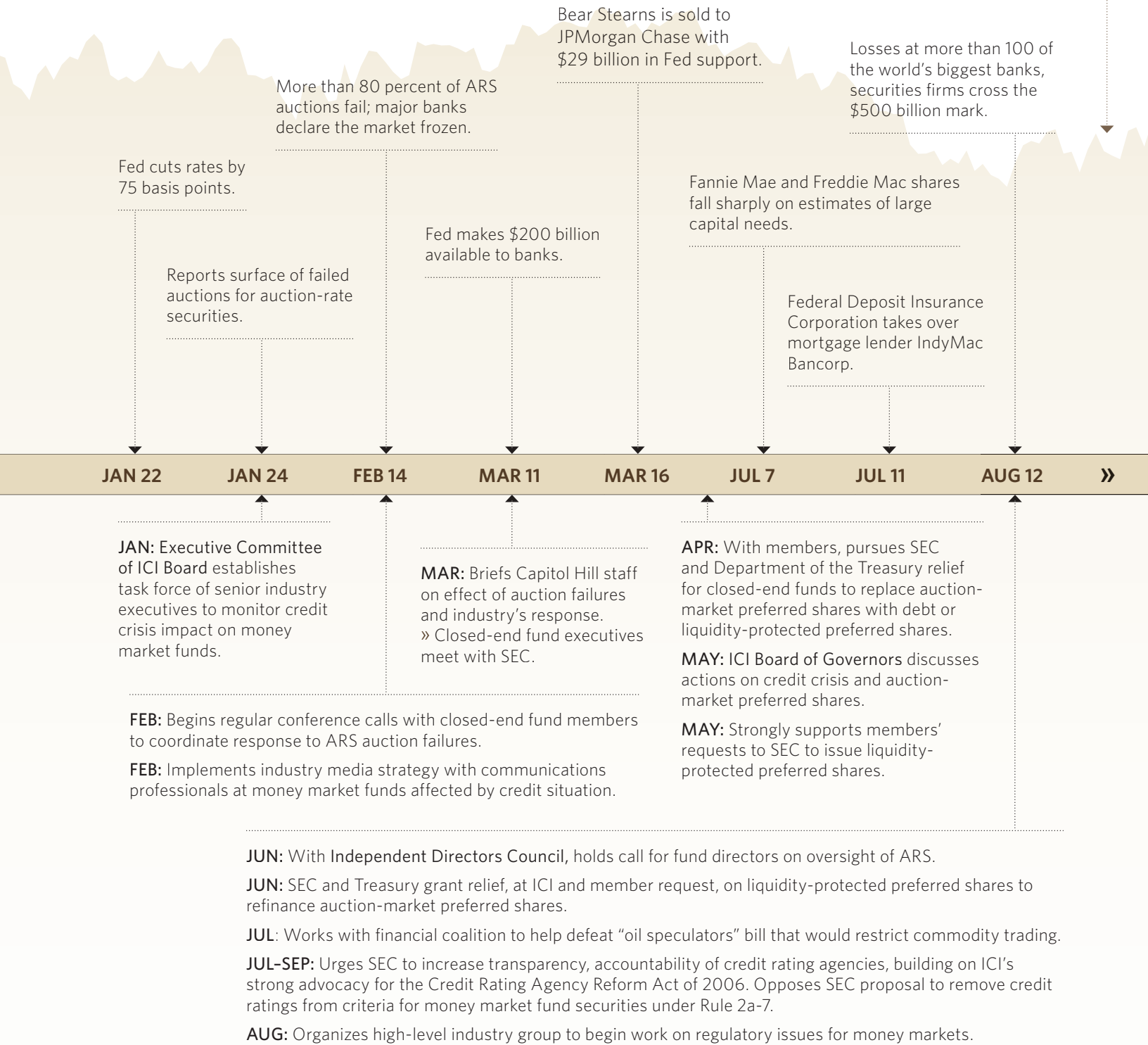
**JAN:** Holds regular conference calls with Municipal Securities Advisory Committee and regulators.



**OCT:** Launches Municipal Securities Advisory Committee to examine disclosure and transparency in muni markets.

**OCT:** Discusses money market funds' SIV exposure with members and regulators.

DOW JONES INDUSTRIAL AVERAGE—DAILY CLOSES  
MAY 2, 2007–AUGUST 15, 2008



# Leading in a Time of Turmoil

A GLOBAL CRISIS IN FINANCE AND ICI'S RESPONSE, SEPTEMBER 2008-ONGOING

MARKET EVENTS

**SEP 15:** Lehman Brothers declares bankruptcy. » Bank of America buys Merrill Lynch.

**16:** Reserve Primary Fund fails to maintain \$1.00 net asset value, becoming the second money market fund ever to "break the buck." » AIG receives \$85 billion in financing from the Fed.

**17-18:** In emergency orders, SEC temporarily bans short sales in financial stocks and requires disclosure of short positions by institutions, including funds.

**19:** Fed and Treasury initiate comprehensive stabilization package, including Treasury Temporary Guarantee Program for Money Market Funds; the first of three Fed facilities to improve liquidity for key money market instruments; and \$700 billion Troubled Asset Recovery Program (TARP).

**SEP 7:** Fannie Mae and Freddie Mac placed in federal conservatorship.

**SEP 21:** Treasury announces that the Temporary Guarantee Program will be limited to money market fund accounts as of Sep 19. » Morgan Stanley and Goldman Sachs announce they will convert to bank holding companies.

**25:** FDIC merges Washington Mutual banking operations into JPMorgan Chase.

«

SEPTEMBER 7-13, 2008

SEPTEMBER 14-20

SEPTEMBER 21-27

ICI ACTIONS

**SEP 7:** Works with regulators and media to gauge and communicate impact of Fannie and Freddie takeover on money funds, posting FAQs and providing data and legal analysis.

**SEP 21:** To limit market disruption, recommends that Treasury restrict Temporary Guarantee Program to accounts as of Sep 19. » SEC issues amendments, requested by ICI, enhancing confidential treatment of short-sale positions.

**24:** Obtains IRS guidance on tax treatment of ARS settlement offers.

**25:** Receives SEC no-action letter, issued at ICI request, allowing funds' transactions with Fed facility via affiliated banks.

**SEP 16-22:** Executive Committee of ICI Board holds succession of emergency meetings by conference call; appoints Vanguard Chairman John J. Brennan to head a senior executive group to work with Treasury, Fed, and SEC to contain fallout from Reserve Primary Fund. » Holds daily calls with money market fund members.

**16:** Issues statement reaffirming strength of money market funds in response to news from Reserve Primary Fund.

**17-18:** Emphasizes to Fed and Treasury the urgency of measures to restore liquidity to money markets. » Briefs Capitol Hill on market developments affecting money market funds. » Conveys information and perspective to media through extensive briefings.

**18:** Consults with Treasury on proposal by Secretary Henry M. Paulson Jr., for a money market fund guarantee program.

**19:** Notes "decisive action" by Treasury and Fed. » Steps up discussions to make Treasury and Fed programs more useful for money market funds. » Informs and involves members.



DOW JONES INDUSTRIAL AVERAGE—DAILY CLOSES  
AUGUST 18–OCTOBER 29, 2008



**SEP 29:** House rejects Emergency Economic Stabilization Act (EESA), 228-205. » Treasury opens enrollment in Temporary Guarantee Program for Money Market Funds.

**OCT 1:** Senate passes EESA, 74-25.

**2:** The *New York Times* recounts ICI's role with Fed, Treasury, and SEC on Sep 17 and 18 during "36 Hours of Alarm and Action."

**3:** House passes EESA, 263-171.

**OCT 6:** Fed suggests using TARP funds to inject capital into banks.

**7:** Large fund complexes announce their money market funds will enroll in Treasury Temporary Guarantee Program.

**11:** President George W. Bush convenes Group of Seven finance ministers at White House to fashion a "global response" to crisis.

**OCT 13:** Treasury invests \$125 billion from TARP in preferred shares in nine banks.

**14-15:** SEC adopts series of interim final rules on short selling.

**16:** Senate Banking Committee holds first congressional hearing to consider roots of crisis, options for reform. » Oil drops below \$70 per barrel on recession fears.

**21:** Fed establishes Money Market Investor Funding Facility to fund a private-sector initiative to buy \$600 billion in existing commercial paper, bank notes, and certificates of deposit from money market mutual funds.

**OCT 29**  
DOW JONES INDUSTRIAL  
AVERAGE—8,990.96

SEPTEMBER 28–OCTOBER 4

OCTOBER 5-11

OCTOBER 12-ONGOING



**SEP 29:** Urges prompt passage of EESA.  
» Welcomes opening of enrollment in Treasury Temporary Guarantee Program.

**OCT 1:** Hosts a webinar, with **Independent Directors Council**, to inform all industry participants about legal and operational aspects of Treasury Temporary Guarantee Program; 1,400 attendees. » Works to support passage of EESA, including tax provisions supported by funds.

**3:** ICI Board of Governors conducts comprehensive review of crisis activities, discussing credit market conditions and ICI response to governmental actions, including Treasury Temporary Guarantee Program, Fed facilities for the money markets, short-sale orders, and pending legislation.  
» Issues statement welcoming passage of EESA.

**OCT 7-8:** Successfully urges SEC to address operational concerns on short-sale orders.

**8-10:** Receives two SEC no-action letters, issued at ICI's request, on money market funds' participation in Treasury Temporary Guarantee Program and valuation of money market assets.

**OCT 21:** Issues a statement welcoming Fed's MMIFF and private-sector liquidity initiative; informs members, media on facility's expected effect on money market funds.

**ONGOING:** Engages in policy debate on fallout from crisis and future of financial services regulation. » Pursues continuing dialogue with Fed and Treasury on state of markets and further measures to assure needed liquidity.

# Question & Answer



Mellody Hobson

PRESIDENT  
ARIEL INVESTMENTS, LLC

**YOU'VE LONG BEEN A LEADER IN INVESTOR EDUCATION. WHAT ARE THE MAJOR CHALLENGES FACING THE COUNTRY ON THESE ISSUES, AND HOW CAN THE FUND INDUSTRY HELP TO ADDRESS THESE CHALLENGES?**

The most significant challenge facing America is that students don't learn about investing in school, and as a result, they don't get their arms around financial literacy. That puts us, as a nation, behind the eight ball because we embark upon our lives with the keys to our financial future being handed to us—investment choices in 401(k) plans and elsewhere—but without driver's education, meaning courses in financial literacy.

We need to make financial education a standard part of elementary and high school curriculums. For example, we helped to start the Ariel Community Academy. We give every first-grade class 20,000 real dollars to invest. Through their grade-school career, these inner-city students become increasingly responsible for managing this money. The program, in addition to teaching students how to handle money, has a residual benefit: Our kids actually test higher in math because of the stock market investing curriculum, which really gets them excited about math.

What fund companies can do is to emulate the Ariel school model in their own communities, because the experience of managing real money socializes


*“Recent events underscore how vitally important it is to educate and inform investors about how to deal with the markets' ups and downs. We must redouble our efforts to equip current and future fund shareholders to make sound, balanced, long-term decisions with their retirement savings and other investments.”*

PAUL SCHOTT STEVENS  
PRESIDENT AND CEO  
INVESTMENT COMPANY INSTITUTE

students to the concept of saving and investing. I think this helps significantly boost their financial security in the long term.

**THE ARIEL/SCHWAB BLACK INVESTOR SURVEY HAS CONDUCTED RESEARCH FOR MORE THAN A DECADE, WITH MAJOR FINDINGS INCLUDING THAT THE MEDIAN SAVINGS FOR RETIRED BLACKS IS SIGNIFICANTLY LESS THAN THAT FOR WHITES. WHAT LED YOU TO CREATE THIS SURVEY, AND WHAT IMPACT HAS IT HAD ON THE CONSTITUENCIES IT SEEKS TO SERVE?**

Ariel created the survey out of frustration when we kept visiting Wall Street firms, and they didn't respond to our requests for help to address the crisis among minorities regarding saving and investing. So, to generate interest in the financial community, we created the survey in 1998 to develop data where no data existed at all—no academic data, nothing—on black investing.



We thought this approach would be a wake-up call not only to black America, but to all of America, where minorities and others who fall behind in saving and investing often retire into poverty and become a burden on society. Schwab joined us after the first or second year as a cosponsor, which was terrific, because it leveraged their influence as a nationally known financial services firm for our cause.

One effect of the survey has been to bring significant media attention to this topic. This is moving the needle in minority communities, as more minorities express a significant interest in investing and become more financially sophisticated as well as, ultimately, more financially secure. We still have a long way to go on this issue, but we've created a dialogue and seen benefits from it.

**DESPITE THE CONSOLIDATION IN THE FUND INDUSTRY, THERE ARE ALWAYS NEW FUNDS COMING INTO THE INDUSTRY. WHAT DRIVES THE CREATION OF NEW FUNDS, AND WHAT DO THEY BRING TO INVESTORS?**

One clear impetus for industry expansion has been the proliferation of 401(k) plans, because mutual funds are the dominant investment option in those plans. Another aspect in the creation of new funds is new customers.

Again, I think that one constituency that has not fully been tapped is minorities. All other consumer products companies realize that market segmentation has some benefits. You see that at McDonald's; you see that at Pepsi. Yet the fund industry hasn't recognized that there are these

different communities that may have different issues that can be tapped. So, new customers, specifically minority customers, are one driver of expansion in the fund industry. I don't think that there has been a huge proliferation of mutual funds, but rather, we've seen an expansion in the number of customers.

**ARIEL HAS ENJOYED GREAT SUCCESS. WHAT IS ONE OF THE MAJOR CHALLENGES ARIEL HAS MET OVER THE YEARS, AND WHAT DOES THE FUND NEED TO DO TO CONTINUE TO GROW? ARE THERE LESSONS FROM THE ARIEL EXPERIENCE THAT APPLY TO OTHERS IN THE FUND INDUSTRY?**

The biggest challenge has been our size—we are David versus Goliath in the industry. Not that we're trying to slay a monster, but we're trying to hold our own against some of the behemoths out there that have big advertising budgets and brand names. To overcome this competitive hurdle, a smaller fund must deliver outstanding long-term investment results to its clients.

When a fund's investment style is out of favor, it has to stay disciplined so it can ultimately repeat past successes. Sometimes there is tremendous pressure to conform, as we saw this year with commodities. Ariel hasn't owned commodities in its 25 years of existence, but the amount of pressure that we got when the price of oil was spiking upwards recently was remarkable. It reminded me of the dot-com days when we weren't in Internet stocks, and someone called me a "baby dinosaur." I wasn't with the times.

**WHAT PERSPECTIVE CAN YOU SHARE ABOUT ICI'S ROLE WITH RESPECT TO SMALL AND MEDIUM-SIZED FUND COMPANIES?**

I think ICI plays a major role in the realm of small and medium-sized fund companies. I always respond to my colleagues at Ariel who ask, "Why do you always have to go to Washington and go to an Executive Committee meeting?" by saying, "Because I get to interface with the biggest and the best, and I get to learn a lot from them." From that perspective, ICI plays an important role in bringing big and small together.

ICI also acts as a key source of information on industry and regulatory changes and as an interface between funds and the regulators—especially for smaller companies. ICI appeals to regulators on some of the unique issues we confront. A giant fund complex has scores of lawyers, but you're in a different position when all you have is a general counsel and an assistant general counsel. So ICI becomes our protector and informer.

**YOU'VE BEEN OUTSPOKEN ABOUT HOW FUNDS RELY ON RULE 12b-1 FEES FOR DISTRIBUTION. DO YOU HAVE ANY APPREHENSIONS AS THE SEC PROCEEDS TO REVAMP THE RULE?**

While none of us knows what the SEC will propose, clearly the rule could be better. I respond to investors' inquiries on *Good Morning America*, and I've never, in more than eight years, gotten one question on 12b-1 fees. These fees are so "inside the Beltway"—not what everyday investors are worrying about. They're worrying about how to pick the right fund.

Yes, the fees should be more transparent. Even calling them "12b-1 fees" is goofy. The nomenclature alone suggests a need for clarity.

But I want to state unequivocally: We need them. Unless the whole distribution world changes, a smaller fund company cannot compete unless it has that opportunity to sit on the shelf along with everyone else and be measured on performance. We need that distribution fee to give us an even playing field.

**HOW HAS THE INDUSTRY CHANGED MOST AS A RESULT OF THE COMMUNICATIONS REVOLUTION IN THE 21st CENTURY?**

Certainly, the web has been a major driver of new business, but more importantly, it's a major source of investor education, making funds more transparent and accessible. But in terms of communication, our industry still has a long way to go. Millions of shareholders still don't understand what they own. Our job is to educate them, as well as to make money for them.

*Mellody Hobson has been a member of ICI's Board of Governors since 2005 and its Executive Committee since 2007.*

# Affirming and Strengthening America's Retirement System

Over a quarter-century after its creation, the 401(k) defined contribution plan has become the nation's primary private-sector device for retirement savings. More than 50 million Americans participate in 401(k) plans, and today's portable, self-directed retirement plans meet the needs of a mobile workforce in a rapidly changing economy. Yet the system now is at a crossroads. Despite the success of 401(k) plans, some question whether these plans will deliver retirement security. The incoming Congress and Administration and recent market turmoil ensure that ICI will be called upon to continue to affirm and defend the value of the DC system and to support proposals encouraging more employers to offer workplace retirement plans.

ICI's support of retirement security followed three tracks during 2008. First, the Institute remained focused on fulfilling the promise of the Pension Protection Act of 2006 and helping members navigate profound changes in the regulation of 403(b) plans—401(k)'s cousin for public school and nonprofit employers. ICI organized a successful conference on the Act's implementation in June, supported the Department of Labor's proposals on investment advice for participants and Treasury's proposals on automatic enrollment, and engaged with regulators on 403(b) issues.

Second, ICI supported Labor's proposed rules regarding 401(k) disclosure, working with the Department to ensure that employers and workers receive the information they need.

Third, activity on Capitol Hill occupied much of the Institute's attention, as the House Education and Labor Committee and other panels debated legislation on 401(k) fee disclosure. While ICI strongly advocates clear, concise disclosure for 401(k) plans, the fund industry opposed the legislation, which failed to focus on the key information that employers and workers need and would have raised costs and hampered the competitive market for plan services.

The debate over 401(k) fees and disclosure called upon resources from every corner of the Institute. ICI President and CEO Paul Schott Stevens testified before the House Committee on Ways and Means on the success of 401(k) and other DC plans, drawing upon ICI research, operations expertise, and legal analysis to explain the economics of plan sponsorship. The ICI Government Affairs team worked with members and other trade groups to educate Congress on the strengths of the 401(k) model. The Public Communications staff launched efforts to educate the media and counter misinformation about 401(k) fees.

Lawmakers have vowed to pursue sweeping 401(k) disclosure legislation in the 111th Congress. Criticism of DC plans gained new fuel in the face of the financial crisis of the fall of 2008. October congressional hearings raised allegations that workers cannot depend upon 401(k)s to fund retirements and aired calls to restructure today's voluntary, employer-based retirement plans, with some critics advocating government-run alternatives.

ICI will continue to meet these challenges with its strengths in research, legal analysis, government relations, and communications. Recent ICI research dispels the myth that 401(k) participants and Individual Retirement Account investors cash out prematurely or spend their nest eggs immediately. Another study shows that employers' and workers' decisions on retirement plans are consistent with factors such as the age and lifetime earnings of firms' workers. In 2009, ICI and the Securities Industry and Financial Markets Association will shed additional light on IRAs and their owners, using a new database.

"The 401(k) system warrants the confidence that Congress, employers, and American workers have placed in it," Stevens told Congress in his testimony. The Institute, in partnership with its members, will work actively to reinforce the value of the DC system, using its collective expertise to support innovation, expanded coverage, and other improvements, while guarding against unwarranted legislative and regulatory actions.



BRADFORD P. CAMPBELL, ASSISTANT SECRETARY OF LABOR FOR THE EMPLOYEE BENEFITS SECURITY ADMINISTRATION, ADDRESSES ICI'S JUNE 2008 CONFERENCE ON DEFINED CONTRIBUTION PLANS IN THE PENSION PROTECTION ACT ERA.



ICI PRESIDENT AND CEO PAUL SCHOTT STEVENS TESTIFIES BEFORE THE HOUSE WAYS AND MEANS COMMITTEE IN OCTOBER 2007, HAILING THE SUCCESS OF THE EMPLOYER-BASED 401(k) SYSTEM AND SUPPORTING APPROPRIATE DISCLOSURE REFORM.

# Question & Answer



Karrie McMillan

GENERAL COUNSEL  
INVESTMENT COMPANY INSTITUTE





**YOU'RE CELEBRATING YOUR FIRST ANNIVERSARY AS ICI'S GENERAL COUNSEL. WHAT STANDS OUT MOST?**

By far, it's the quality of the people that I work with—both here at ICI and our members—and their values. Some people think of ICI as an organization for fund management. But the culture here truly puts shareholders first; if they do well, fund sponsors will do well.

The other thing that stands out is the depth of expertise at the Institute. You know, when I was a private practice lawyer, my ICI interactions were only with the lawyers, so I had no real knowledge of what the Operations team does and how critical it is to making this industry run. I did look at some of the research, but I had no idea of the depth. I didn't see Public Communications and Government Affairs at all. So, I had only seen one little piece of the Institute, and I've been very pleasantly surprised at how great the rest of it is, too.

**WHY IS THE LEGAL ANALYSIS ICI PROVIDES TO ITS MEMBERS AND TO REGULATORS SO IMPORTANT?**

We work in a highly regulated environment, so we must have legal expertise to work effectively with regulators. But along with legal analysis, we apply a business mindset. We don't just look at what the law says, but we try to be very practical about its application. We reach out to our membership to help us provide that context, allowing us to place our legal analysis in its practical framework when we talk to regulators. That makes our advocacy much more powerful.


**TELL US HOW THE LAW DEPARTMENT WORKS WITH MEMBERS.**

When there's a new issue—let's say the Securities and Exchange Commission proposes a rule—we summarize the proposal and have a conference call with members of the pertinent committees to get their input. We also may reach out to individuals and say, "Help us out here. We need to understand how this aspect of the proposal may affect your funds and your investors." Our members rely upon us for our legal analysis, and we rely upon them for their experience.

The input of our smaller members is very important, so if we don't think we're getting their feedback directly, we'll pick up the phone and ask, "Is what you heard on the conference call consistent with how you see things?" It's important to get that balance.

**WHAT ARE SOME POLICY AREAS WHERE ICI HAD AN IMPACT DURING THE PAST YEAR?**

We spent a lot of time on pension issues, particularly 401(k) disclosure (page 12). We've testified many times, both on Capitol Hill and before the Department of Labor. Our Government Affairs team, working closely with our pension lawyers and economists, worked hard to educate Congress about the defined contribution system. This will be crucial in 2009 because the market downturn has made some people start to question the whole 401(k) system.



We have also worked with the SEC staff as it develops a proposal on Rule 12b-1. We support better disclosure of 12b-1 fees. We support clarifying the role of fund boards in approving those fees. But the SEC staff has trial-ballooned a much more ambitious proposal. Its goals are laudable, but those goals could be achieved with fewer unintended consequences.

#### **HOW DOES THE LAW DEPARTMENT WORK WITH REGULATORS?**

It's a constant dialogue. We are always monitoring proposals and other actions, particularly at the SEC, but also at Labor, the Internal Revenue Service, and the Department of Treasury. When we learn that a particular issue is on their minds, we work with our members to analyze it. Then we talk to the regulators to bring our perspective on the business realities. Our goal is to help them so that when they propose a new rule, it can be a strong proposal that we can support.

The Law Department has the direct contact on many of these matters, but we never work alone. The Summary Prospectus is a great example. Long before I got here, ICI was working with the SEC to create a clear, concise document that investors would actually use, with the information they want and need most, using the Internet for additional disclosures. The SEC issued a very helpful

proposal, but it included a requirement for quarterly updating—a nice idea, but way too expensive, especially since there are better ways to provide updates online. So we worked with members to understand the costs and alternatives to meet the SEC's goals. We submitted a comment letter, supplemented by a very thorough economic analysis by the Research Department, which showed that many funds wouldn't adopt the Summary Prospectus if they had to update quarterly. We took technology experts over to talk about operational details of how the Internet disclosure could work. We followed up with an investor survey by Research that showed strong support for the Summary Prospectus concept. It's been overshadowed for a while by all that's been going on in the markets, but we're still hopeful that a good Summary Prospectus will be approved soon. That would be a tremendous benefit for fund shareholders.

Another good example is when the auction market for preferred stock issued by closed-end funds froze in February. We spent a lot of time first educating the SEC and the Federal Reserve on the nature of the problem, and then working with the SEC and our members in a variety of ways to get relief for funds and their shareholders. It's just one example of how we can present the industry's views efficiently.

#### WHAT WAS ICI'S ROLE IN SHAPING THE GOVERNMENT AND INDUSTRY RESPONSE TO THE FINANCIAL CRISIS?

We have been thinking about money market funds and the larger systemic risk issues since August of 2007. We have been in regular contact with the Fed, the SEC, and Treasury, giving them data and supporting a dialogue with members.

But since Lehman Brothers declared bankruptcy, we have been working nonstop alongside very dedicated members and regulators. When a money market fund broke the buck, we were able to mobilize very quickly. Treasury came to us with the idea of the Temporary Guarantee Program for Money Market Funds. It wasn't a program we wanted, but it was coming, and there were dozens of legal and operational questions that hadn't been contemplated. So we worked with Treasury and the SEC around the clock for several days to make the program more useful for money market funds and their investors. When the program came out, members had lots of questions. We fielded those calls and hosted a webinar that drew 1,400 participants. We also had to dot the i's and cross the t's, which meant asking the SEC for no-action relief and seeking clarification from Treasury on various issues. And all along the way, we kept explaining the need to restore liquidity in the money markets and looking for ways to do that, which meant helping the members understand and use the three funding facilities the Fed created.

#### LOOKING FORWARD, WHAT WILL BE ICI'S MAIN POLICY GOALS FOR 2009?

Retirement issues will be huge—we'll have to be very proactive in terms of educating the Hill, the press, and all the relevant constituencies about how the 401(k) system works. We can't let the market downturn create pressure to dismantle a valuable system that so many Americans rely upon for their retirement savings. And tax policy will be on the table, with rates scheduled to rise across the board after 2010.

Clearly, the structure of regulation for the financial system will be a central issue. We have to be a player in that debate. Different people may just think about the banks or about derivatives in isolation, and not take into account the crucial role that funds play as investors. We have very successful products, and we must be vigilant that the attributes that shareholders clearly rely upon remain intact.

We are already working hard on examining how best to strengthen the system without undoing what works. ICI has the resources in our staff and our membership to come up with some exciting visions for the future. It's going to be fascinating to be here to watch this unfold and, I hope, to help shape the solutions.

*Karrie McMillan has been General Counsel of ICI since September 2007.*

# Empowering Directors to Serve the Interests of Fund Shareholders

As the Independent Directors Council (IDC) approaches its fifth anniversary in May 2009, it continues to improve upon the services it delivers to fund directors in pursuit of its three missions—advancing director education, promoting interaction and communication among fund directors, and assisting in the formulation of policy positions.

In fiscal year 2008, IDC continued its tradition of regularly and reliably providing insight and guidance on specific issues of interest to fund directors. A task force of independent directors and advisory firm representatives collaborated on a groundbreaking and timely report, *Board Oversight of Derivatives*. This report offers practical guidance to directors on their oversight responsibilities monitoring the investment, regulatory, and operational considerations of funds' use of these financial instruments.

Board oversight was also a central issue in *Oversight of Fund Proxy Voting*, a report produced jointly by IDC and ICI. Issued in conjunction with ICI research on funds' votes on proxy issues at portfolio companies (page 24), this report identifies major issues that boards are likely to face in approving proxy voting policies and ensuring that proxy voting is carried out in the best interests of funds and their shareholders.

The appropriate role of fund directors was a consistent theme in IDC's communications with regulators and other audiences throughout the year. IDC stressed that directors are charged with

providing oversight—not day-to-day management—and that oversight is the role in which they can be the most effective. This perspective informed IDC's comments on the proposal by the Securities and Exchange Commission to reduce the role of credit rating agencies in assessing securities held by money market funds. IDC opposed the rule proposal because of concern it would weaken investor protections. IDC also urged the SEC to update money market fund rules to reflect the appropriate oversight role of fund directors.

IDC strongly supported the Director Outreach Initiative undertaken by Andrew J. "Buddy" Donohue, Director of the SEC Division of Investment Management. This initiative is designed to determine how the SEC can improve the effectiveness of fund directors. IDC submitted preliminary recommendations to Donohue for rule modifications to reinforce the idea that the appropriate role of fund directors is to provide oversight, and not to become involved in day-to-day management of a fund.

In other policy matters, IDC expressed support for the SEC's Summary Prospectus proposal, noting that the Commission's layered disclosure approach would provide investors the information they find most useful, at the level of detail they desire, and in a format they prefer. In its comment letter, IDC encouraged the SEC to work with the Department of Labor to develop a summary disclosure framework that would help participants in retirement savings plans be better informed about their investment options.

Directors were also deeply engaged in the discussion of proposals by ICI and the Department of the Treasury for legislation authorizing an additional form of investment company that would provide a competitive, attractive investment option for the global marketplace. IDC submitted letters to the Senate Republican Capital Markets Task Force and Treasury urging careful study of this global fund model and offering the assistance and expertise of independent directors on the important investor protections that independent oversight provides.

Central to IDC's mission is the promotion of interaction among fund directors. IDC offered opportunities throughout the year for directors to come together at chapter meetings, conferences, and workshops. This year's events included open conference calls designed as educational seminars on various issues, including valuation, exchange-traded funds, and auction market preferred stock. Calls were scheduled to give directors guidance and background from experts in response to rapidly unfolding events in the dynamic marketplace. In October, IDC and ICI cosponsored a webinar on the Treasury Temporary Guarantee Program for Money Market Funds. In fiscal year 2009, IDC will further improve opportunities for director interaction. The consolidation of its East Coast and West Coast conferences into one premier conference will provide attendees an opportunity to hear from leading experts and discuss critical issues affecting fund directors, which is particularly important and helpful in this time of challenging markets.



DONALD H. PRATT, INDEPENDENT DIRECTOR, AMERICAN CENTURY FUNDS, AND MICHAEL S. SCOFIELD, INDEPENDENT DIRECTOR, EVERGREEN FUNDS AND INCOMING CHAIRMAN OF INDEPENDENT DIRECTORS COUNCIL FOR FISCAL YEAR 2009, TAKE PART IN THE 2008 IDC INVESTMENT COMPANY DIRECTORS WORKSHOP.

# Question & Answer



## F. Gregory Ahern

CHIEF PUBLIC COMMUNICATIONS OFFICER  
INVESTMENT COMPANY INSTITUTE



**WHY IS THE COMMUNICATIONS FUNCTION SO CRITICAL TO ICI AND ITS MEMBERS TODAY?**

The fund industry, like any other industry with important interests in public policy, operates inside a communications environment with three key players: the political branches of government, Congress and the Administration; the regulators, in our case primarily the Securities and Exchange Commission; and the media. Ideas and information flow through this environment as these three groups talk to one another and set the tone for public debate, whether it's on fund fees, regulatory reform, or retirement policy. ICI's Law and Government Affairs staff do a great job working with regulators and elected officials to shape the policy discussion. But we have to recognize that communications play a critical role as well.

**SO IS "COMMUNICATIONS" MAINLY MEDIA RELATIONS—PR?**

The media is important, and we spend a great deal of time and resources trying to shape coverage of the fund industry. But our communications challenge goes well beyond the media. In fact, I would argue that our most important constituency is our membership, because if our members don't know what we're doing, our collective influence is greatly diminished. We always need to keep in mind that our members are our strength.

And there are other constituencies. Let's face it: With \$11 trillion in assets, serving 90 million shareholders, the fund industry is a mainstream consumer industry. We have the same dynamic as the U.S. Chamber of Commerce or any other big service industry. Funds have a huge consumer

base, and with that comes scrutiny. We have academics who follow us, and a whole industry that just monitors funds. We need to be able to deal with that dynamic in a 21st century way.

**WHEN YOU CAME TO ICI IN 2005, CHARGED WITH REVAMPING COMMUNICATIONS, HOW DID YOU START?**

We drafted a strategic communications plan that incorporated a clear analysis of our strengths and weaknesses. Our first step was to clearly understand what the media thought of us. We commissioned a candid survey of reporters who covered ICI and the fund industry. We found that ICI had a very good reputation for substantive policymaking and that the media had great respect for our research. But we were seen as reactive, while regulators and others were driving industry coverage.

We had to have a strategy that reflected two things. One, funds are terrific products that have served investors extremely well, and we built our messaging around that. Second, we had to emphasize our honest approach. That means the solid factual basis of our messages—like our research and policy positions—needed to be presented. Most importantly, while ICI represents fund directors and fund advisers, we always have to act in ways that best serve our number one constituency—our shareholders. Our industry's job is to provide excellent investment management for average Americans whose typical fund account is about \$10,000. Our bread and butter depend upon average investors having confidence in mutual funds.



**YOU CONCENTRATED FIRST ON MEDIA RELATIONS.  
WHAT APPROACH DID YOU TAKE?**

We recognized that the media was our first priority, coming out of the market timing and trading scandals of 2003 and 2004. We needed to reach distinct segments of the media. The first was inside the Beltway—the media and commentators who influence policymakers, regulators, and Congress. The second segment was the financial press in New York. The third channel, and the one most critical to shareholders, is personal finance journalism—the *Money* magazines, the Jane Bryant Quinns, the financial advice columnists in every newspaper. They represent a phenomenon that grew up with—and because of—the fund industry. That’s a channel where we need to be extremely capable.

Then there are the cities where we have concentrations of members—Boston, New York, Los Angeles, Chicago, and elsewhere. We need to work with members to communicate with the media in those markets. We always work in close collaboration with members, both in creating our strategy and implementing it.

**HOW DO YOU WORK WITH THOSE CHANNELS?**

Let me give you an example. After the Pension Protection Act passed, the Department of Labor had to decide: What would be the default investment for workers who are automatically enrolled in 401(k) plans? ICI felt very strongly that those workers, who tend to be young, need a default with real growth prospects, not a stable-value product where they might lose ground to

inflation. We made our case with the Washington policy reporters, but they wanted to cover this as a contest between funds and the insurance industry. So we took our facts and our research to the personal finance press across the country, and said: You’ve written that workers need growth in their 401(k)s, and here’s a perfect chance to make that case. They responded and wrote that story because we were making the pro-investor case. And we got the default alternatives that retirement savers need. It was ICI’s research and legal analysis that carried the day—but the conversation in the press added key reinforcement.

**CAN YOU GIVE AN EXAMPLE OF YOUR WORK  
WITH MEMBERS?**

I would use the events of September, when a money market fund broke the buck, and our major members were flooded with media calls. One of the functions of a trade association is to serve as what I call a “Teflon shield” for members, so we got out front immediately. We had a statement out within minutes of that fund’s announcement, and we fielded a barrage of media calls in the days that followed. We kept our website updated with FAQs and backgrounders on the Treasury guarantee program and the strengths of money funds—materials that members used with their shareholders and the media. And we were in constant touch with members, both at the Board of Governors level and with our Public Communications Committee, to track events and to refine our media strategy.



**THE MEDIA IS UNDERGOING RAPID CHANGES. HOW DO YOU COPE WITH THAT?**

The traditional media model is undergoing a transformation that we are addressing in both traditional and creative ways. And while it's easy to fixate on the media, it's important to remember that it is a channel where your influence is limited. So we also focus on what I call "controlled media"—speeches, in particular, but also policy advertising and written commentary, like op-eds. We use those whenever we can to reach particular audiences and shape the discussion of our issues. During the debate on 401(k) disclosure this year, we advertised in some papers that are focused on Capitol Hill.

**HOW DO YOU MEASURE RESULTS?**

ICI's Governors and members have given us great support, but they want tangible results. So we put a high priority on measuring and reporting what we've done. We did another survey with the media in 2007, and ICI was seen as a strong advocate that spoke with credibility and authority. Reporters said we "played hard, but played fair." And they recognized that our members were great resources for the media as well. Of course, that was then, and in this business you're only as good as your next clipping.

**WHAT'S NEXT?**

We've been focusing for months now on improving our bread-and-butter communications with members, and that's beginning to pay off. There have been some significant changes to make committee meetings and conferences more effective. Early in 2009, we'll launch a new website that will seamlessly combine the member site with the public website and will offer a flexible, dynamic medium for getting our messages to the public, the press, and policymakers.

On the media side, we're trying to get a handle on the New Media—this parallel universe of YouTube, blogging, social networking. The economic and policy environment are going to be difficult. The media climate is going to be stormy, at best. The good news is, we have a great product and great resources here at ICI, as well as tremendous support from our membership. Those make communications a lot easier. Not easy, but easier than they could be.

*F. Gregory Ahern has been ICI's Chief Public Communications Officer since 2005.*

# Funds' Proxy Voting: Meeting Critics with Facts

Funds own almost 30 percent of the shares of U.S. companies, and voting those shares is a significant undertaking and an important responsibility. Funds and their advisers have a fiduciary duty to cast funds' votes in the best interest of the ultimate beneficiaries of those corporate shares—fund shareholders.

In recent years, funds' exercise of that duty has come under criticism. Academics and activists have charged that funds act as "rubber stamps" for management—driven, some critics say, by conflicts of interest created by fund advisers' other business lines, such as 401(k) retirement plans.

In 2008, ICI set out to test those charges, using its research skills and solid knowledge of funds' economics and operations. The Institute undertook the largest study yet of funds' voting, analyzing more than 3.5 million proxy votes cast by 160 of the largest fund families during 12 months ending June 30, 2007, based on public disclosures required since 2004.

The findings were clear: "The data show how funds use their proxy votes to promote the interests of their shareholders," Paul Schott Stevens, ICI President and CEO, told a seminar at the American Enterprise Institute in Washington, DC, on July 10.

ICI's study, *Proxy Voting by Registered Investment Companies*, delved beneath simple tallies of votes "for" or "against" management or shareholder

proposals to see how fund votes seek to serve their shareholders' interests. "Funds engage these issues on a balanced, nuanced basis that stands in sharp contrast to the blunt approach that activists may favor," Stevens said. Contrary to critics' charges, the study found that funds voted in favor of shareholder proposals almost 40 percent of the time, despite nearly unanimous management recommendations against such proposals. On one particularly contentious issue—executive compensation—funds tended to favor proposals that aligned executives' interests with those of shareholders and opposed pay packages that were excessive or dilutive of shareholders' stakes.

More broadly, funds tended to vote to defend their shareholders' economic interests, in line with funds' common prospectus objective to focus on investment performance. In their voting, funds strongly favor proposals—whether offered by management or shareholders—that protect shareholder rights, remove barriers to takeovers, or prevent management's attempts to entrench itself.

The ICI study emphasized the effort that fund boards and advisers put into managing and overseeing the voting process. A separate paper issued by the Independent Directors Council and ICI, *Oversight of Fund Proxy Voting*, examined in detail how fund boards and advisers go about developing proxy-voting policies, and casting proxy votes.

Release of the research received widespread press coverage. Reporters focused on a number of aspects of the research, including the findings that funds voted in favor of shareholder proposals almost 40 percent of the time and that funds opposed most proposals designed to stymie takeovers. A number of reports quoted Stevens's comments on funds as careful and thoughtful stewards of shareholders' interests.

Changing the public dialogue on an issue as contentious and complex as proxy voting will require a sustained, long-term effort through the 2009 annual meeting season and beyond. The goal is to bring ICI's strengths in research to bear to inform key audiences about how funds vote their proxies in the best interests of their shareholders.

*Proxy Voting by Registered Investment Companies:  
Promoting the Interests of Fund Shareholders*  
» [www.ici.org/pdf/per14-01.pdf](http://www.ici.org/pdf/per14-01.pdf)

*Oversight of Fund Proxy Voting*  
» [www.ici.org/pdf/ppr\\_08\\_proxy\\_voting.pdf](http://www.ici.org/pdf/ppr_08_proxy_voting.pdf)




ICI PRESIDENT AND CEO PAUL SCHOTT STEVENS DISCUSSES FUND PROXY VOTING WITH MARTIN E. LYBECKER, PARTNER, WILMERHALE; MICHAEL J. RYAN, JR., PRESIDENT AND COO, PROXY GOVERNANCE, INC.; HEIDI M. SCHOONER, COLUMBUS SCHOOL OF LAW, CATHOLIC UNIVERSITY OF AMERICA; AND PETER J. WALLISON, ARTHUR F. BURNS CHAIR IN FINANCIAL POLICY STUDIES AND CODIRECTOR OF THE AMERICAN ENTERPRISE INSTITUTE'S PROGRAM ON FINANCIAL MARKETS DEREGULATION, AT AN AEI SEMINAR.

# 50th Annual ICI General Membership Meeting



James "Jamie" Dimon, Chairman and CEO, JPMorgan Chase, delivers the keynote address at the 50th Annual ICI General Membership Meeting.



History and future promise mingled for three days in May as the Institute celebrated the 50th Annual ICI General Membership Meeting. ICI marked this golden occasion by exploring the theme, “Our Foundations—Our Future,” using the history of the modern investment company to illuminate the challenges of today and the prospects for tomorrow.

A team of senior industry executives, led by Edward C. Bernard, Vice Chairman, T. Rowe Price Group, Inc., organized a program featuring leaders of the financial industry, visionary experts in technology, and insightful historians of war and politics.

In a panel discussion led by Vanguard Chairman John J. Brennan, fund industry veterans and up-and-coming leaders traded views on product innovation and other elements of a complex industry serving the needs of almost 90 million American shareholders. A panel representing sponsors of exchange-traded funds dissected the challenges and opportunities facing this fast-growing segment of the fund industry. James S. Riepe, Senior Adviser and Retired Vice Chairman, T. Rowe Price Group, Inc., led a vigorous exposition on funds’ role in fostering America’s retirement system and the need for new products, investor education, and policy changes to improve prospects for retirement security.

***“We can face the challenges that lie ahead with all the more confidence if we build on the very best of our history and fiduciary tradition—a powerful lesson that our 50th GMM helped drive home.”***

PAUL SCHOTT STEVENS  
PRESIDENT AND CEO  
INVESTMENT COMPANY INSTITUTE

Former President George Herbert Walker Bush addressed the Board of Governors and guests at a celebratory dinner to mark the anniversary at the Smithsonian Institution Building, commonly known as the Castle. A special exhibit outside the GMM hall displayed artifacts, statistics, and highlights of nine decades of U.S. fund history and 49 previous GMMs.

For more than 1,100 attendees, the 50th Annual ICI GMM provided an opportunity to gain a deeper understanding and greater appreciation of the fund industry and its vital role in the financial health of American households.

The 51st Annual ICI General Membership Meeting will be held May 6–8, 2009, in Washington, DC.

## 50th Annual ICI General Membership Meeting



FORMER PRESIDENT  
GEORGE H. W. BUSH  
ADDRESSES INDUSTRY  
LEADERS AT A SPECIAL  
DINNER CELEBRATING  
THE 50th ANNUAL  
GENERAL MEMBERSHIP  
MEETING.

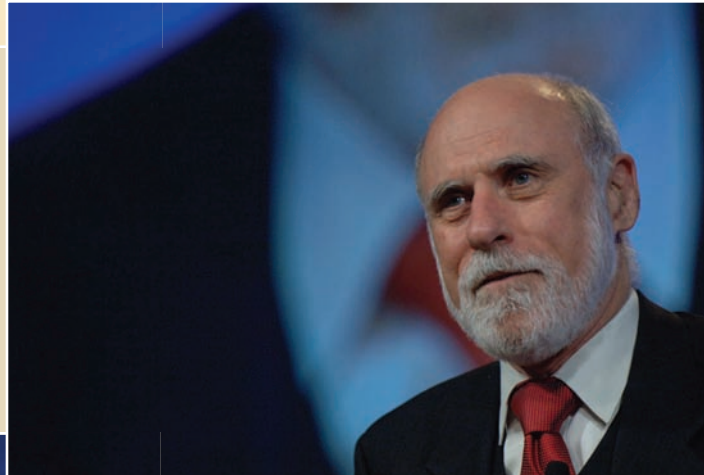
WILLIAM J. NUTT,  
CHAIRMAN, AFFILIATED  
MANAGERS GROUP;  
JONATHAN S. THOMAS,  
PRESIDENT AND CEO,  
AMERICAN CENTURY  
INVESTMENTS; AND  
ARTHUR ZEIKEL, RETIRED  
CHAIRMAN, MERRILL LYNCH  
ASSET MANAGEMENT,  
DISCUSS THE EVOLUTION  
OF THE FUND INDUSTRY.





HISTORIAN AND DOCUMENTARY FILMMAKER KEN BURNS SPEAKS ABOUT HOW HISTORY CAN INFORM THE FUTURE.

GOOGLE VICE PRESIDENT AND CHIEF INTERNET EVANGELIST VINTON G. CERF TELLS ATTENDEES ABOUT THE EXPANDING POTENTIAL OF THE INTERNET.



DONALD J. PHILLIPS, MANAGING DIRECTOR, MORNINGSTAR, INC.; W. DOUGLAS BECK, MANAGING DIRECTOR, DWS SCUDDER; AND EDWARD EGILINSKY, MANAGING DIRECTOR, ALTERNATIVE INVESTMENTS, RYDEX INVESTMENTS, DISCUSS ALTERNATIVE INVESTMENT STRATEGIES FOR RETAIL FUNDS.

# Question & Answer



## Exchange-Traded Funds Roundtable

H. BRUCE BOND, MICHAEL A. LATHAM, MARTHA G. PAPARIELLO, JAMES E. ROSS, AND  
CARL G. VERBONCOEUR





During the past year, the new Standing Committee on Exchange-Traded Funds began work on behalf of this important and growing segment of ICI's membership. The Institute asked committee members to discuss current challenges and future prospects facing ETFs as vehicles for serving investors.

#### **HAVE ETFS BECOME MAINSTREAM?**

*James E. Ross, Senior Managing Director, State Street Global Advisors:* Among financial advisers and institutional investors, ETFs have clearly come of age. In fact, in a recent survey of 840 investment professionals conducted by State Street and the Wharton School of the University of Pennsylvania, 60 percent reported that ETFs have fundamentally changed the way they construct investment portfolios—a powerful testament for an investment vehicle that was often viewed as a niche trading product. I believe that the volume of ETF trading and their widespread use during the current market environment have been powerful reminders of ETFs' fundamental virtues—the ability to efficiently deliver a return stream with unmatched precision, transparency, liquidity, and simplicity. Recent developments such as ETF closures and the development of active products should be viewed in light of a rapidly growing industry that is bound to face challenges and invite innovation.

*Carl G. Verboncoeur, Chief Executive Officer, Rydex Investments:* ETFs may feel as though they are mainstream because of the extensive industry press coverage and the recent trend of flows into ETFs exceeding flows into mainstream mutual

funds. Just the same, individual investors still have knowledge and awareness gaps that must be filled before ETFs can be said to be mainstream. Certainly financial professionals have embraced ETFs: Rydex's Adviser Benchmarking research reveals that ETFs are more prevalent in clients' portfolios than equities (8 percent to 7 percent), and 90 percent of registered investment advisers say they have increased their usage of ETFs since 2002. That said, separate Rydex research among individual investors noted that more than half of respondents could not distinguish between a mutual fund and an ETF, 38 percent didn't know what an ETF is at all, and roughly a third of those surveyed wanted more information on ETFs. Given this lack of knowledge among individual investors, it would be difficult to call exchange-traded products "mainstream."

#### **HOW WILL ETFS EVOLVE OVER THE NEXT FIVE YEARS, AND WHAT WILL THAT MEAN FOR INVESTORS?**

*H. Bruce Bond, President and CEO, Invesco PowerShares Capital Management LLC and Chairman, ICI ETF Committee:* The competitive landscape will become much more crowded, with new start-ups and more entrants from traditional mutual fund companies. The structural benefits of the ETF vehicle will make many products now available in other product structures more appealing for investors through an ETF—target risk, target date, and specific strategies such as 130/30, among others. We believe that the growth of new value-added products will significantly outpace the growth of ETFs that track traditional cap-weighted indices. Increasingly, fund complexes have filed applications seeking to utilize the active ETF structure as a vehicle for their active managers.



*Michael A. Latham, Head of Americas iShares, Barclays Global Investors:* The products that are most likely to be competitive over the next five years are those that best respond to real investor needs for transparency, cost and tax efficiency, and liquidity. Investors are likely to focus on trading spreads as an important component of ETF costs, and they will increasingly come to understand the differences and tradeoffs between ongoing management fees and trading costs. ETFs that can deliver liquid, efficient secondary trading markets as well as low management costs will do better than ETFs that just deliver low management costs. Investors will seek out ETFs from sponsors that add value in secondary market trading.

Newer ETF products, such as leveraged/inverse and transparent active funds, will likely gain traction and attract investors to the extent that they respond to real investor needs. Any gains by such products, however, are unlikely to be made at the expense of traditional index-based ETFs. We think the demand will continue to grow for index-based ETFs as investments that can easily be used as components of asset allocation strategies.

**WHAT ARE THE BIGGEST CHALLENGES FACING THE ETF INDUSTRY IN PRODUCT DEVELOPMENT AND MARKETING?**

*Martha G. Papariello, Principal, Financial Adviser Services, Vanguard Group:* The rapid growth of the ETF marketplace has led to greater disparity in knowledge among investors. This has created

the need for more targeted and, in some cases, customized education programs. Institutional clients' education needs are becoming increasingly more sophisticated. For example, a hedge fund may use ETFs in a very different manner than an adviser, or an arbitrage desk may have very different trading questions than a wirehouse. Therefore, we are not only seeing a continued need for product education, but also a need for more customized and sophisticated education tailored to the end user.

*Latham:* ETF marketers face challenges because shareholders acquire shares on the secondary market. It's a challenge for ETFs to gather reliable data on who owns their shares and why they are choosing to invest through ETFs. The data that exist suggest strongly that ETF investors may differ in many respects from mutual fund shareholders, with more institutional and more non-U.S. investors.

*Verboncoeur:* The absence of reporting at the investor or financial adviser level leaves sponsors hard-pressed to connect cause and effect in their marketing and distribution efforts.

**WHAT ARE THE BIGGEST CHALLENGES FACING THE ETF INDUSTRY IN REGULATION AND MARKET STRUCTURE?**

*Ross:* Regulatory changes that have helped streamline the exemptive relief process for new ETFs have clearly provided investors with greater choice in the U.S. However, as the ETF industry expands globally, several hurdles remain; each new market presents a unique set of tax laws and regulations that require tailored solutions.

**WHAT OTHER FORCES DO YOU SEE SHAPING THE ETF BUSINESS?**

*Bond:* We strongly believe that the explosive growth of ETFs will continue and may even accelerate over the next couple years. ETFs have proven to be very valuable investment tools during the recent market turmoil, causing investors to incorporate them into their portfolios at a faster rate than expected. ETFs will continue to see greater use among “professional” investors as they’re used by mutual funds, funds of funds, and separate account managers to replace or complement individual stock investments.

*Verboncoeur:* Acquisition of seed capital will become more challenging as a result of the impact of present market conditions on the balance sheets of listed market makers and other funding sources; the current market structure, which offers substantive remuneration to market makers only on those products that achieve significant volume in an extremely short time; and the sheer volume of exchange-traded products slated to come to market over the next 12 months.

*Latham:* We hope to see continued innovation in how ETFs can be used. We expect to see ETFs increasingly penetrate investment areas where they are now relatively uncommon, such as 401(k) plans and 529 plans, as the operational infrastructure used to support those investment categories evolves to adjust to increasing demand for ETFs from investors.

*Papariello:* We expect to see consolidation, not only at the product level, but among existing ETF sponsors.

**HOW HAS ICI’S FORMATION OF THE ETF COMMITTEE HELPED THE ETF COMMUNITY?**

*Bond:* ICI’s formation of the ETF Committee has helped bring the industry’s leaders together to address common issues and has provided a platform from which to promote the benefits that ETFs offer investors.

*Papariello:* The formation of the ETF Committee at ICI represents the appropriate evolution of an area of the fund industry that is still in its infancy. ETF firms will not agree on all issues, but ICI can serve the ETF segment in important ways. First, with regulators and exchanges, a unified voice would be very beneficial in resolving issues that are impediments to ETF providers and detrimental to investors. ICI can bring its considerable research resources to bear on ETFs to give all providers a better understanding of how investors use and perceive ETFs. Also, the potential to leverage ICI’s communication mechanism to enhance understanding of ETFs is considerable.

# Audit Tool for Intermediaries: Making Compliance More Effective

For investors, two of the key advantages of fund investing are low cost and convenience. The fees and expenses of equity and bond mutual funds have fallen by half in the last 25 years, and funds constantly add new services for investors. This twin drive is fueled by intense competition and innovation among fund sponsors—but ICI also plays a critical role. Through its Operations and Continuing Education Department and the deep involvement of the industry’s operations professionals, the Institute brings together members and other market participants in a collaborative search for new ways to improve investor service.

One such effort in fiscal year 2008 created a new tool to help funds and their intermediaries meet contractual obligations and regulatory requirements. The Financial Intermediary Controls and Compliance Assessment, completed in September, creates an industry standard compliance review for fund intermediaries. It promises funds, fund boards, and chief compliance officers a higher level of assurance that broker-dealers, fund supermarkets, and other financial intermediaries will properly execute investor transactions and maintain shareholder accounts.

“This tool introduces efficiency and more transparency, and costs will be reduced for both funds and intermediaries,” said Thomas J. Hamblin, President, Capital Bank and Trust Company, an affiliate of Capital Research and Management. Hamblin chaired the ICI working group that developed the new framework. PricewaterhouseCoopers led the group of audit firms working on the project.

The need for such a tool grew in recent years as fund companies developed many new outlets for selling their products. Of the households that own mutual funds outside of a retirement plan, 80 percent own their funds through professional financial advisers and other intermediaries such as fund supermarkets, broker-dealers, banks, and insurance companies. These intermediaries provide a number of investor services that otherwise would fall to the fund or its transfer agent.

While these channels allow greater flexibility for funds and their shareholders, they also create a wide range of relationships that present a growing oversight challenge. Many funds seek assurance on the adequacy and effectiveness of intermediaries’ policies through site visits, certification letters, and other means. Because each fund may have multiple intermediaries, and each intermediary may represent a number of funds, these reviews are often duplicative.

Recognizing a need for a more consistent and efficient approach, the Institute formed a working group of members and auditors to develop an industry standard compliance review for fund intermediaries. Under the framework, an intermediary would hire an audit firm to assess its compliance controls. That would result in an auditor opinion on whether the intermediary has compliance controls that are suitably designed and operating effectively.

An intermediary could provide its auditor's opinion to all of the funds whose shareholders it serves, reducing the need for overlapping reviews by each fund. Funds, their boards, and their Chief Compliance Officers may then use the auditor's opinion to help them understand and assess an intermediary's compliance controls.

"Our goal in developing this new tool was simple: to help funds and their boards, who are deeply concerned with compliance issues, to achieve better assurance at a lower cost," said Donald J. Boteler, ICI Vice President for Operations and Continuing Education. "That goal clearly benefits fund investors as well."

*For more information on the assessment, please contact Donald J. Boteler, ICI Vice President for Operations and Continuing Education, at 202/326-5845.*




ANDREW J. "BUDDY" DONOHUE, DIRECTOR, SECURITIES AND EXCHANGE COMMISSION DIVISION OF INVESTMENT MANAGEMENT, ADDRESSES ICI'S 2007 OPERATIONS AND TECHNOLOGY CONFERENCE.

# ICI's Engagement with Capitol Hill



John W. McGonigle, Vice Chairman, Federated Investors, Inc., and Chairman, ICI Chairman's Council, and Representative James Clyburn (D-SC) at a fundraiser for the congressman on June 25, 2008.



Maintaining its consistent policy of bipartisan engagement with Capitol Hill, ICI promotes direct, effective contact with policymakers regardless of party affiliation through its programs and events with legislators. The Chairman's Council, formed in 1997, and ICI PAC encourage fund industry leaders to participate in the political process on issues of importance to funds and their shareholders.

ICI Governor John W. McGonigle, Vice Chairman, Federated Investors, Inc., began an unprecedented fifth term as the head of the Chairman's Council in October. Under his leadership, the Council has raised record levels of support for ICI's political activities. In fiscal year 2008, ICI's PAC hosted 12 events to supplement its direct advocacy on Capitol Hill.

The Fourth Annual Mutual Fund Leadership Dinner and Policy Forum, held on April 30, 2008, provided another important opportunity for ICI members to meet and further develop relationships with legislators on Capitol Hill. The Forum keynote speaker was Dr. Alan Greenspan, former Chairman of the Federal Reserve, who delivered a timely address in a political environment dominated by the 2008 elections and growing concerns about financial conditions.

The Leadership Dinner allowed industry leaders to express their views to lawmakers on issues ranging from regulatory reform and cost basis reporting

***“All ICI members have a very real and important role to play in advancing public policies within Congress that benefit funds and their shareholders. That role is to make sure our voice is heard, by supporting programs like ICI PAC.”***

JOHN W. MCGONIGLE  
VICE CHAIRMAN, FEDERATED INVESTORS, INC.  
CHAIRMAN, ICI CHAIRMAN'S COUNCIL

to proposals to expand retirement savings. SEC Chairman Christopher Cox delivered the dinner keynote address, and Bradford P. Campbell, Assistant Secretary of Labor for the Employee Benefits Security Administration, was in attendance. More than 40 members of Congress attended the reception and dinner, including House Majority Leader Steny Hoyer (D-MD); Senators Evan Bayh (D-IN), Robert Bennett (R-UT), Mike Crapo (R-ID), and Jim DeMint (R-SC); and Representatives Spencer Bachus (R-AL), Melissa Bean (D-IL), Paul Kanjorski (D-PA), Carolyn McCarthy (D-NY), Patrick McHenry (R-NC), Richard Neal (D-MA), Deborah Pryce (R-OH), and John Tanner (D-TN).

Both the Chairman's Council events and the Leadership Dinner and Policy Forum present excellent opportunities for formal and informal discussions to help ensure that key officials hear directly the thoughts and concerns of fund industry leaders.

## ICI's Engagement with Capitol Hill and Policymakers



ICI GOVERNOR C. GARY GERST, CHAIRMAN OF THE BOARD, HENDERSON GLOBAL FUNDS; FORMER CHAIRMAN OF THE FEDERAL RESERVE ALAN GREENSPAN; AND MICHAEL S. SCOFIELD, CHAIRMAN, EVERGREEN FUNDS AND INCOMING CHAIRMAN OF INDEPENDENT DIRECTORS COUNCIL FOR FISCAL YEAR 2009, TALK AT THE FOURTH ANNUAL MUTUAL FUND POLICY FORUM, APRIL 30, 2008.

HOUSE MAJORITY LEADER STENY HOYER (D-MD), A LONGTIME ADVOCATE ON ISSUES AFFECTING THE INDUSTRY, VISITS WITH SECURITIES AND EXCHANGE COMMISSION CHAIRMAN CHRISTOPHER COX AND ICI CHAIRMAN JOHN V. MURPHY, CHAIRMAN, PRESIDENT, AND CEO, OPPENHEIMER FUNDS, AT THE FOURTH ANNUAL MUTUAL FUND LEADERSHIP DINNER, APRIL 30, 2008.







ICI GOVERNORS PETER E. SUNDMAN, PRESIDENT, NEUBERGER BERMAN MANAGEMENT INC.; GREGORY E. JOHNSON, PRESIDENT AND CEO, FRANKLIN RESOURCES, INC.; AND EDWARD C. BERNARD, VICE CHAIRMAN, T. ROWE PRICE GROUP, INC., MEET WITH SENATOR ROBERT BENNETT (R-UT) AT THE FOURTH ANNUAL MUTUAL FUND LEADERSHIP DINNER, APRIL 30, 2008.

SENATOR RON WYDEN (D-OR) DISCUSSES TAX POLICY WITH ICI ACTING CHIEF GOVERNMENT AFFAIRS OFFICER DEAN R. SACKETT AND ICI CHIEF OPERATING OFFICER PETER H. GALLERY, SEPTEMBER 16, 2008.



ICI GOVERNOR ROBERT C. POZEN, CHAIRMAN, MFS INVESTMENT MANAGEMENT; REPRESENTATIVE RICHARD NEAL (D-MA); AND ICI GOVERNOR ROBERT S. DOW, SENIOR PARTNER, LORD, ABBETT & CO. LLC, TALK AT A RECEPTION BEFORE ICI'S OCTOBER 3, 2008, BOARD OF GOVERNORS MEETING.

# Appendices



## 2008 ICI Executive Committee

SEATED (L. TO R.): MARTIN L. FLANAGAN, JOHN J. BRENNAN, JOHN F. COGAN JR., ROBERT W. UEK, JAMES H. BODURTHA

STANDING (L. TO R.): ANTHONY W. DEERING, MARK R. FETTING, ROBERT C. POZEN, PAUL SCHOTT STEVENS, JOHN V. MURPHY,  
GEORGE C. W. GATCH, EDWARD C. BERNARD, PAUL G. HAAGA JR., JOHN W. MCGONIGLE, ROBERT S. DOW

NOT PICTURED: JOHN D. DESPREZ III, MELLODY HOBSON, AND ABIGAIL P. JOHNSON



## **Appendix A: ICI ORGANIZATION AND FINANCES**

ICI is a 501(c)(6) organization that represents investment companies on regulatory, legislative, and securities industry initiatives that affect funds and their shareholders. ICI members include U.S.-registered open-end investment companies, closed-end investment companies, exchange-traded funds, sponsors of unit investment trusts, and their investment advisers and principal underwriters. 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 B, page 44). The Institute employs a staff of 172 (see Appendix E, page 46).

ICI's Board of Governors is composed of 46 representatives of mutual fund advisers and independent fund directors. 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 five 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 has also appointed a Chairman's Council to administer the Institute's political programs, including the political action committee, ICI PAC. The Chairman's Council includes eight Governors as well as the Treasurer of ICI PAC. The Institute's President serves as an ex officio member.

The needs of investment company independent directors are addressed through the Independent Directors Council (Appendix C, page 45). The IDC organizes educational programs, keeps directors informed of industry and regulatory developments, and assists in the development and communication of policy positions on key issues for fund boards.

Sixteen standing committees, bringing together about 1,600 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 45). In addition, 31 industry advisory committees, task forces, forums, and working groups with more than 2,000 participants tackle a range of regulatory, operations, and business issues. In all of its activities, ICI strictly observes federal and state antitrust laws, in accordance with a well-established compliance policy and program.

# ICI UNAUDITED FINANCIAL STATEMENTS

## STATEMENT OF FINANCIAL POSITION

(as of September 30, 2008)

### ASSETS

|  |                     |
|--|---------------------|
| Cash and cash equivalents  | \$453,489           |
| Investments, at market value   | 40,312,906          |
| Accounts receivable  | 573,763             |
| Prepaid expenses   | 873,367             |
| Other assets   | 486,722             |
| Furniture, equipment, and leasehold improvements, net (less accumulated depreciation of \$8,917,856) | 3,446,653           |
| <b>Total assets</b>  | <b>\$46,146,900</b> |

### LIABILITIES AND NET ASSETS

#### Liabilities

|  |                   |
|--|-------------------|
| Payroll and related charges accrued and withheld | \$12,362,337      |
| Accounts payable and accrued expenses            | 4,482,867         |
| Deferred revenue                                 | 779,262           |
| Rent credit                                      | 994,828           |
| Deferred rent                                    | 1,152,707         |
| <b>Total liabilities</b>                         | <b>19,772,001</b> |

#### Net Assets

|   |                     |
|---|---------------------|
| Undesignated net assets                 | 25,374,899          |
| Board-designated net assets             | 1,000,000           |
| <b>Total net assets</b>                 | <b>26,374,899</b>   |
| <b>Total liabilities and net assets</b> | <b>\$46,146,900</b> |

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

(for the Year Ended September 30, 2008)

### CORE INCOME

|                          |                     |
|--------------------------|---------------------|
| Membership dues          | \$45,909,352        |
| Investment income        | 1,816,291           |
| Royalty income           | 995,840             |
| Program income           | 1,318,307           |
| <b>Total core income</b> | <b>\$50,039,790</b> |

### CORE EXPENSES

|                                  |                   |
|----------------------------------|-------------------|
| Administrative expenses          | \$39,172,351      |
| Program expenses                 | 7,794,778         |
| Depreciation and lobby proxy tax | 3,113,047         |
| <b>Total core expenses</b>       | <b>50,080,176</b> |

### Changes in net assets-core

**\$(40,386)**

### SELF-FUNDED INCOME

|                                 |                    |
|---------------------------------|--------------------|
| Conferences                     | \$5,425,765        |
| Other self-funded income        | 1,111,873          |
| <b>Total self-funded income</b> | <b>\$6,537,638</b> |

### SELF-FUNDED EXPENSES

|                                   |                  |
|-----------------------------------|------------------|
| Conferences                       | \$5,459,715      |
| Other self-funded expenses        | 924,721          |
| <b>Total self-funded expenses</b> | <b>6,384,436</b> |

**Changes in net assets-self-funded 153,202**

**Changes in net assets from operations 112,816**

**Non-operating expenses 300,243**

**Changes in net assets (187,427)**

**Net assets, beginning of year 26,562,326**

**Net assets, end of year \$26,374,899**

These financial statements are preliminary unaudited statements as of September 30, 2008. Audited financial statements for the fiscal year ended September 30, 2008, will be available after February 1, 2009. For information on obtaining copies of the audited statements, please contact Mark Delcoco at 202/326-5974.

## FINANCES

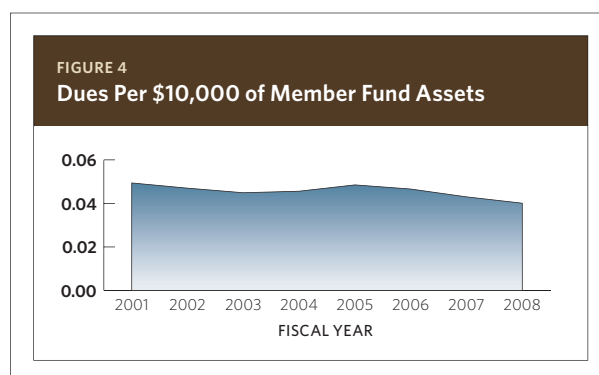
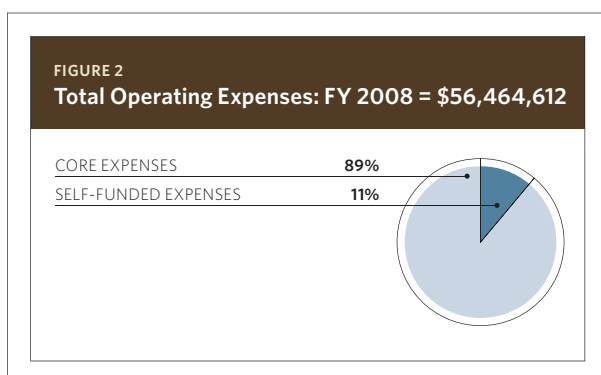
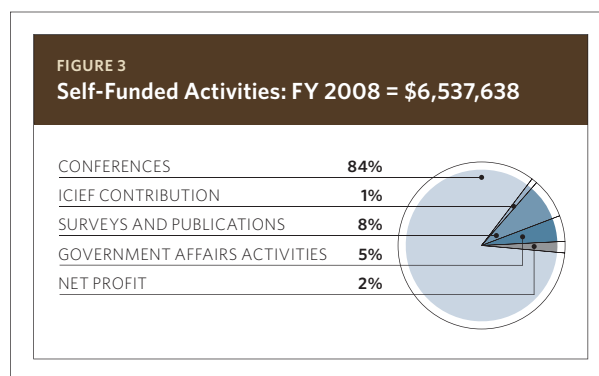
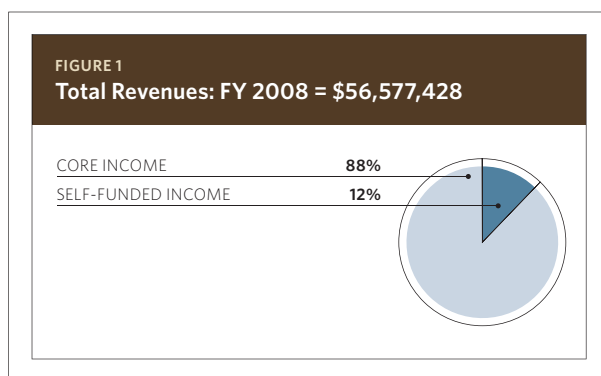
Throughout its history, the Institute has sought to prudently manage its financial affairs in a manner deemed appropriate by the Board of Governors, which is responsible for approving ICI's annual expense budget and its member dues rate. The Board of Governors considers both the Institute's core and self-funded activities when approving the annual 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 funds, the Board of Governors has chosen to fund core activities with dues, rather than seek alternative sources of revenues, such as sales of publications. The significant majority of ICI total revenues, 88 percent, comes from dues, investment income, royalties, and miscellaneous program sources (see Figure 1). Similarly, by design, approximately 90 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. Each year, a portion of the net profit from self-funded activities is contributed to the ICI Education Foundation and to support the Institute's government affairs efforts (see Figure 3).

**Dues:** For fiscal year 2008, the Board approved the same annual dues rates for open-end and closed-end dues as were assessed in fiscal years 2005 through 2007. Because the marginal dues rate declines as funds accumulate greater assets, open-end dues per \$10,000 of member fund assets declined to \$0.040, down from \$0.043 in fiscal year 2007 (see Figure 4).



## Appendix B: FISCAL YEAR 2008 BOARD OF GOVERNORS

(as of September 30, 2008)

**John V. Murphy**<sup>2,3,4,6,7</sup>  
*ICI Chairman  
Chairman, President, and CEO  
OppenheimerFunds, Inc.*

**Martin L. Flanagan**<sup>2,7</sup>  
*ICI Vice Chairman  
President and CEO  
Invesco Ltd.*

**John Amboian**  
*CEO  
Nuveen Investments, LLC*

**Lynn L. Anderson**  
*Independent Director  
SSgA Funds*

**William L. Armstrong**  
*Independent Director  
OppenheimerFunds*

**Edward C. Bernard**<sup>2</sup>  
*Vice Chairman  
T. Rowe Price Group, Inc.*

**Gary D. Black**  
*CEO  
Janus Capital Group, Inc.*

**James H. Bodurtha**<sup>1,2,3</sup>  
*Independent Director  
BlackRock Fund*

**John J. Brennan**<sup>2,3</sup>  
*Chairman  
Vanguard*

**Mary K. Bush**  
*Independent Director  
Pioneer Funds*

**Christopher W. Claus**  
*President  
USAA Financial Services Group*

**John F. Cogan Jr.**<sup>2</sup>  
*Chairman  
Pioneer Investment Management  
USA, Inc.*

**Michael V. Cosgrove**  
*President and CEO—Mutual Funds  
GE Asset Management, Inc.*

**Patrick P. Coyne**  
*President  
Delaware Investments*

**Richard S. Davis**  
*Managing Director  
BlackRock, Inc.*

**Anthony W. Deering**<sup>2</sup>  
*Independent Director  
T. Rowe Price Funds*

**John D. DesPrez III**<sup>2</sup>  
*President and CEO  
John Hancock Financial Services, Inc.*

**Robert S. Dow**<sup>1,2,4,6</sup>  
*Senior Partner  
Lord, Abbett & Co. LLC*

**Kenneth C. Eich**  
*COO  
Davis Selected Advisers, L.P.*

**Ralph C. Eucher**<sup>1</sup>  
*CEO  
Principal Funds*

**Thomas E. Faust Jr.**  
*President and CIO  
Eaton Vance Management*

**Dennis H. Ferro**  
*President and CEO  
Evergreen Investment Management  
Company, LLC*

**Mark R. Fetting**<sup>2,6</sup>  
*CEO and President  
Legg Mason, Inc.*

**George C. W. Gatch**<sup>1,2,6</sup>  
*President and CEO, JPMorgan Funds  
JPMorgan Asset Management*

**C. Gary Gerst**<sup>6</sup>  
*Independent Director  
Henderson Global Funds*

**Paul G. Haaga Jr.**<sup>1,2,7</sup>  
*Vice Chairman  
Capital Research and Management  
Company*

**Charles E. Haldeman Jr.**<sup>1,4</sup>  
*Chairman  
Putnam Investment Management, LLC*

**Peter A. Harbeck**<sup>1</sup>  
*President and CEO  
AIG SunAmerica, Inc.*

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

**Diana P. Herrmann**  
*President and CEO  
Aquila Investment Management LLC*

**Melody Hobson**<sup>2</sup>  
*President  
Ariel Investments, LLC*

**Edith E. Holiday**  
*Independent Director  
Franklin Templeton Funds*

**Abigail P. Johnson**<sup>2</sup>  
*President  
Fidelity Investments*

**Gregory E. Johnson**<sup>1,7</sup>  
*President and CEO  
Franklin Resources, Inc.*

**Susan B. Kerley**  
*Independent Director  
Legg Mason Partners Funds and  
MainStay Funds*

**Lee T. Kranefuss**  
*Global CEO, Intermediary and ETF Business  
Barclays Global Investors, N.A.*

**John W. McGonigle**<sup>2,6</sup>  
*Vice Chairman  
Federated Investors, Inc.*

**James A. McNamara**  
*President and CEO  
Goldman Sachs Mutual Funds*

**Randall W. Merk**  
*Executive Vice President,  
Investment Management Services  
Charles Schwab & Co., Inc.*

**Thomas M. Mistele**<sup>1</sup>  
*COO and General Counsel  
Dodge & Cox*

**Alfred E. Osborne Jr.**  
*Independent Director  
FPA Funds*

**Robert C. Pozen**<sup>2</sup>  
*Chairman  
MFS Investment Management*

**Thomas O. Putnam**<sup>1</sup>  
*Chairman  
Fenimore Asset Management, Inc.*

**Judy Rice**  
*President  
Prudential Investments*

**Lewis A. Sanders**<sup>1</sup>  
*Chairman and CEO  
AllianceBernstein, L.P.*

**Thomas S. Schreier**  
*CEO  
FAF Advisors, Inc.*

**Axel Schwarzer**<sup>1</sup>  
*Managing Director  
Deutsche Asset Management, Inc.*

**Greg J. Stark**  
*Co-Managing Director, Americas  
Frank Russell Company*

**Michael D. Strohm**<sup>3</sup>  
*CEO  
Waddell & Reed, Inc.*

**Peter E. Sundman**  
*President  
Neuberger Berman Management Inc.*

**Jonathan Thomas**  
*President and CEO  
American Century Investments*

**Garrett Thornburg**  
*Chairman  
Thornburg Companies*

**William F. Truscott**  
*President—U.S. Asset Management and CIO  
RiverSource Investments, LLC*

**Robert W. Uek**<sup>2,5</sup>  
*Independent Director  
MFS Funds*

**John C. Walters**<sup>1</sup>  
*President and COO  
Hartford Life Insurance Companies*

**Lloyd A. Wennlund**  
*Executive Vice President and Managing  
Director  
Northern Trust Global Investments*

**Christopher L. Wilson**  
*Managing Director, Head of Mutual Funds  
Columbia Management Group, Inc.*

**Brian T. Zino**<sup>3,6</sup>  
*President  
J. & W. Seligman & Co. Inc.*

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<sup>1</sup> Governor on sabbatical

<sup>2</sup> Executive Committee

<sup>3</sup> Audit Committee

<sup>4</sup> Investment Committee

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

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

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

## Appendix C: GOVERNING COUNCIL OF THE INDEPENDENT DIRECTORS COUNCIL

(as of September 30, 2008)

The Independent Directors Council enhances outreach and education activities for independent directors and helps communicate their views more effectively to policymakers and the media.

**Robert W. Uek\***  
*IDC Chairman and Independent Director*  
MFS Funds

**Lynn L. Anderson\***  
*Independent Director*  
SSgA Funds

**William L. Armstrong\***  
*Independent Director*  
OppenheimerFunds

**Dorothy A. Berry**  
*Independent Director*  
Professionally Managed Portfolios  
Allegiant Funds

**James H. Bodurtha\***  
*Independent Director*  
BlackRock Funds

**Mary K. Bush\***  
*Independent Director*  
Pioneer Funds

**Vanessa C. L. Chang**  
*Independent Director*  
American Funds

**Jerome S. Contro**  
*Independent Director*  
Janus Funds

**Anthony W. Deering\***  
*Independent Director*  
T. Rowe Price Funds

**Darlene T. DeRemer**  
*Independent Director*  
AIG Strategic Hedge Fund of Funds  
Nicholas-Applegate Institutional Funds

**Samuel M. Eisenstat**  
*Independent Director*  
AIG SunAmerica Funds

**Royce N. Flippin**  
*Independent Director*  
Ariel Investment Trust

**C. Gary Gerst\***  
*Independent Director*  
Henderson Global Funds

**Richard W. Gilbert**  
*Independent Director*  
Principal Funds

**Cynthia A. Hargadon**  
*Independent Director*  
PAX World Funds

**Edith E. Holiday\***  
*Independent Director*  
Franklin Templeton Funds

**Susan B. Kerley\***  
*Independent Director*  
Legg Mason Partners Funds  
and MainStay Funds

**Joel W. Motley**  
*Independent Director*  
OppenheimerFunds

**Robert D. Neary**  
*Independent Director*  
Allegiant Funds

**Alfred E. Osborne Jr.\***  
*Independent Director*  
FPA Funds

**Donald H. Pratt**  
*Independent Director*  
American Century Funds

**Richard A. Redeker**  
*Independent Director*  
Prudential Retail Funds

**Michael S. Scofield**  
*Independent Director*  
Evergreen Funds

**Laura T. Starks**  
*Independent Director*  
TIAA-CREF Funds

**Virginia L. Stringer**  
*Independent Director*  
First American Funds

**Roman L. Weil**  
*Independent Director*  
Mainstay Funds

**Gary N. Wilner**  
*Independent Director*  
Oakmark Funds

**Rosalie J. Wolf**  
*Independent Director*  
The Sanford C. Bernstein Funds

**Patricia K. Woolf**  
*Independent Director*  
American Funds

**James W. Zug**  
*Independent Director*  
Allianz Funds  
Brandywine Funds

\* On ICI Board of Governors

## Appendix D: ICI STANDING COMMITTEES AND CHAIRS

(as of September 30, 2008)

### ACCOUNTING/TREASURERS

**Richard J. Thomas**  
*Senior Vice President and Treasurer*  
Federated Investors

### CHIEF COMPLIANCE OFFICER

**James M. Davis**  
*Director, Global Compliance*  
Franklin Templeton Investments

### CLOSED-END INVESTMENT COMPANY

**Keith A. Weller**  
*Executive Director, Senior Associate General Counsel*  
UBS Global Asset Management  
(Americas) Inc.

### EXCHANGE-TRADED FUNDS (ETF)

**H. Bruce Bond**  
*President and CEO*  
Invesco PowerShares Capital  
Management LLC

### INTERNATIONAL

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

### INVESTMENT ADVISERS

*Vacant*

### OPERATIONS

**Douglas L. Anderson**  
*Senior Vice President*  
Delaware Investments

### PENSION

**Dennis Simmons**  
*Principal, Legal*  
The Vanguard Group, Inc.

### PUBLIC COMMUNICATIONS

**Ivy B. McLemore**  
*Senior Director, Corporate Communication*  
Invesco Ltd.

### RESEARCH

**Beth R. Segers**  
*Managing Director*  
Putnam Investment Management, LLC

### SALES FORCE MARKETING

**Peter D. Jones**  
*President*  
Franklin/Templeton Distributors, Inc.

### SEC RULES

**Frank J. Nasta**  
*Managing Director*  
J.P. Morgan Investment Management, Inc.

### SMALL FUNDS

**Diana P. Herrmann**  
*President and CEO*  
Aquila Investment Management LLC

### TAX

**Gwen L. Shaneyfelt**  
*Senior Vice President, Global Taxation*  
Franklin Templeton Investments

### TECHNOLOGY

**Michael L. Radziemski**  
*Partner, CIO*  
Lord, Abbett & Co. LLC

### UNIT INVESTMENT TRUSTS

**Steven M. Massoni**  
*Managing Director, UIT Division*  
Van Kampen Investments, Inc.

## Appendix E: ICI STAFF

### EXECUTIVE OFFICE

**Paul Schott Stevens**<sup>1, 2, 6</sup>  
*President and CEO*

**Peter H. Gallary**<sup>3</sup>  
*Chief Operating Officer*

### GOVERNMENT AFFAIRS

**Dean R. Sackett**  
*Government Affairs Officer, Financial Services Policy*

**Donald C. Auerbach**  
*Government Affairs Officer, Financial Services Policy*

**Peter J. Gunas**  
*Director, Retirement Security and Tax Policy*

**James R. Hart**  
*Political Affairs Officer*

### INDEPENDENT DIRECTORS COUNCIL

**Amy B. R. Lancellotta**  
*Managing Director*

**Annette M. Capretta**  
*Deputy Managing Director*

**Lisa C. Hamman**  
*Associate Counsel*

### LAW

**Karrie McMillan**  
*General Counsel*

**Robert C. Grohowski**  
*Senior Counsel, Investment Companies*

**Frances M. Stadler**<sup>4</sup>  
*Deputy Senior Counsel*

**Dorothy M. Donohue**  
*Senior Associate Counsel*

**Rachel H. Graham**  
*Senior Associate Counsel*

**Tamara K. Salmon**  
*Senior Associate Counsel*

**Mara L. Shreck**  
*Associate Counsel*

**Ari Burstein**  
*Senior Counsel, Capital Markets*

**Jane G. Heinrichs**  
*Associate Counsel*

**Heather L. Traeger**  
*Assistant Counsel*

**Mary S. Podesta**  
*Senior Counsel, Pension Regulation*

**Elena C. Barone**  
*Associate Counsel*

**Michael L. Hadley**  
*Associate Counsel*

**Anna A. Driggs**  
*Assistant Counsel*

**Keith D. Lawson**<sup>5</sup>  
*Senior Counsel, Tax Law*

**Karen L. Gibian**  
*Associate Counsel*

**Lisa M. Robinson**  
*Associate Counsel*

**Susan M. Olson**  
*Senior Counsel, International Affairs*

**Eva M. Mykolenko**  
*Assistant Counsel*

### OPERATIONS AND CONTINUING EDUCATION

**Donald J. Boteler**  
*Vice President, Operations and Continuing Education*

**Linda J. Brenner**  
*Director, Operations and Continuing Education*

**Martin A. Burns**  
*Director, Institutional Operations and Service*

**Diane E. Butler**  
*Director, Transfer Agency and International Operations*

**Kathleen C. Joaquin**  
*Director, Operations—Distribution and Service*

**Peter G. Salmon**  
*Director, Operations and Technology*

**Gregory M. Smith**  
*Director, Operations—Compliance and Fund Accounting*

### PUBLIC COMMUNICATIONS

**F. Gregory Ahern**  
*Chief Public Communications Officer*

**Susan J. Duncan**  
*Senior Director, Member Communications and ICI Education Foundation*

**Mike McNamee**  
*Senior Director, Policy Writing and Editorial*

**Jennifer S. Smith**  
*Director, Editorial*

**Janet M. Zavistovich**  
*Senior Director, Communications Design*

**Jodi M. Kessler**  
*Director, Design*

**Rachel W. McTague**  
*Director, Media Relations*

### RESEARCH

**Brian K. Reid**  
*Chief Economist*

**Sarah A. Holden**  
*Senior Director, Retirement and Investor Research*

**Peter J. Brady**  
*Senior Economist*

**John E. Sabelhaus**  
*Senior Economist*

**Sean S. Collins**  
*Senior Director, Industry and Financial Analysis*

**Rochelle L. Antoniewicz**  
*Senior Economist*

**Judith A. Steenstra**  
*Senior Director, Statistical Research*

**Sheila M. McDonald**  
*Director, Statistical Research*

**Erin H. Short**  
*Director, Statistical Research*

### ADMINISTRATION

**Christopher E. Boyland**  
*Senior Director and Information Technology Officer*

**Andrew L. Colb**  
*Director, System Operations*

**Paul R. Camarata**  
*Director, Information Technology*

**Theresa A. Brooks**  
*Director, Library Services*

**Mark A. Delcoco**  
*Controller/Treasurer*

**Patricia L. Conley**  
*Director, Accounting*

**Jane A. Forsythe**  
*Senior Director, Conferences*

**Mary D. Kramer**  
*Vice President, Human Resources*

**Suzanne N. Rand**  
*Director, Human Resources*

**Sheila F. Moore**  
*Director, Office Services*

**Lee D. Butler**  
*Director, Information Services*

**Sandra J. West**  
*Senior Director, Membership*

**Michelle M. Kretsch**  
*Director, Membership*

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<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 ICI

<sup>5</sup> Secretary to ICI's Chairman's Council, Assistant Treasurer to ICI PAC, Political Compliance Counsel

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



## Appendix F: PUBLICATIONS AND RELEASES

### RESEARCH PUBLICATIONS

A complete list of ICI research publications, statistical releases, and policy publications is available on the Institute's website. Participant-funded studies are not listed.

**2008 Investment Company Fact Book, May 2008**

» [www.icifactbook.org](http://www.icifactbook.org)

**Trends in Ownership of Mutual Funds in the United States, 2007, Fundamentals, November 2007**

» [www.ici.org/pdf/fm-v16n5.pdf](http://www.ici.org/pdf/fm-v16n5.pdf)

**Shareholder Sentiment About the Mutual Fund Industry, 2007, Fundamentals, December 2007**

» [www.ici.org/pdf/fm-v16n6.pdf](http://www.ici.org/pdf/fm-v16n6.pdf)

**The Role of IRAs in U.S. Households' Saving for Retirement, Fundamentals, January 2008**

» [www.ici.org/pdf/fm-v17n1.pdf](http://www.ici.org/pdf/fm-v17n1.pdf)

**Characteristics of Mutual Fund Investors, 2007, Fundamentals, April 2008**

» [www.ici.org/pdf/fm\\_v17n2.pdf](http://www.ici.org/pdf/fm_v17n2.pdf)

**Proxy Voting by Registered Investment Companies: Promoting the Interests of Fund Shareholders, Perspective, July 2008**

» [www.ici.org/pdf/per14-01.pdf](http://www.ici.org/pdf/per14-01.pdf)

**The U.S. Retirement Market, 2007, Fundamentals, July 2008**

» [www.ici.org/pdf/fm-v17n3.pdf](http://www.ici.org/pdf/fm-v17n3.pdf)

**Who Gets Retirement Plans and Why, Perspective, September 2008**

» [www.ici.org/pdf/per14-02.pdf](http://www.ici.org/pdf/per14-02.pdf)

### OTHER ICI POLICY PUBLICATIONS

**Cost-Benefit Analysis of the Summary Prospectus Proposal, February 2008**

» [www.ici.org/pdf/rpt\\_08\\_cost\\_benefit\\_analysis.pdf](http://www.ici.org/pdf/rpt_08_cost_benefit_analysis.pdf)

**Investor Views on the U.S. Securities and Exchange Commission's Proposed Summary Prospectus, March 2008**

» [www.ici.org/pdf/ppr\\_08\\_summary\\_prospectus.pdf](http://www.ici.org/pdf/ppr_08_summary_prospectus.pdf)

**Profile of Mutual Fund Shareholders, April 2008**

» [www.ici.org/pdf/rpt\\_profile08.pdf](http://www.ici.org/pdf/rpt_profile08.pdf)

### INDEPENDENT DIRECTORS COUNCIL PUBLICATION

**Board Oversight of Derivatives**

» [www.idc1.org](http://www.idc1.org)

### INDEPENDENT DIRECTORS COUNCIL AND ICI JOINT PUBLICATION

**Oversight of Fund Proxy Voting**

» [www.idc1.org](http://www.idc1.org)

### STATISTICAL RELEASES

**Trends in Mutual Fund Investing:** a monthly news release describing mutual fund sales, redemptions, assets, cash position, exchange activity, and portfolio transactions for the period

**Money Market Mutual Fund Assets:** a weekly report on retail and institutional money market fund assets

**Closed-End Fund Statistics:** a quarterly report on closed-end fund assets and proceeds

**Exchange-Traded Funds:** a monthly report that includes assets, number of funds, issuance, and redemptions of ETFs

**Unit Investment Trusts:** a monthly report that includes value and number of deposits of new trusts by type and maturity

**Worldwide Mutual Fund Market:** a quarterly report that includes assets, number of funds, and net sales of mutual funds in countries worldwide

**The U.S. Retirement Market:** a quarterly update of the total assets and the role of mutual funds in the U.S. retirement market

» [www.ici.org/pdf/retmrkt\\_update.pdf](http://www.ici.org/pdf/retmrkt_update.pdf)

## Appendix G: ICI AND IDC EVENTS

### Institute Fiscal Year 2008 Conferences and Workshops

|                       |  |                   |
|-----------------------|--|-------------------|
| OCTOBER 11, 2007      | CLOSED-END FUND WORKSHOP                                       | NEW YORK, NY      |
| OCTOBER 12, 2007      | EQUITY, FIXED-INCOME AND DERIVATIVES MARKETS CONFERENCE        | NEW YORK, NY      |
| OCTOBER 17-19, 2007   | OPERATIONS AND TECHNOLOGY CONFERENCE                           | WASHINGTON, DC    |
| NOVEMBER 5-7, 2007    | INVESTMENT COMPANY DIRECTORS CONFERENCE EAST <sup>1</sup>      | WASHINGTON, DC    |
| NOVEMBER 27-29, 2007  | INVESTMENT COMPANY DIRECTORS CONFERENCE WEST <sup>1</sup>      | SAN FRANCISCO, CA |
| DECEMBER 6-7, 2007    | SECURITIES LAW DEVELOPMENTS CONFERENCE <sup>2</sup>            | WASHINGTON, DC    |
| MARCH 16-19, 2008     | MUTUAL FUNDS AND INVESTMENT MANAGEMENT CONFERENCE <sup>3</sup> | PHOENIX, AZ       |
| MARCH 25, 2008        | COMPLEX SECURITIES WORKSHOP                                    | SAN FRANCISCO, CA |
| APRIL 1-2, 2008       | INVESTMENT COMPANY DIRECTORS WORKSHOP <sup>1</sup>             | WASHINGTON, DC    |
| APRIL 17, 2008        | OPERATIONS AND COMPLIANCE WORKSHOP                             | SAN FRANCISCO, CA |
| APRIL 17-18, 2008     | MUTUAL FUND COMPLIANCE PROGRAMS CONFERENCE                     | WASHINGTON, DC    |
| MAY 7-9, 2008         | GENERAL MEMBERSHIP MEETING                                     | WASHINGTON, DC    |
| MAY 29, 2008          | COMPLEX SECURITIES WORKSHOP                                    | NEW YORK, NY      |
| JUNE 3, 2008          | COMPLEX SECURITIES WORKSHOP                                    | BOSTON, MA        |
| JUNE 3, 2008          | DEFINED CONTRIBUTION PLANS IN THE PENSION PROTECTION ACT ERA   | WASHINGTON, DC    |
| SEPTEMBER 14-17, 2008 | TAX AND ACCOUNTING CONFERENCE                                  | CHICAGO, IL       |
| SEPTEMBER 17, 2008    | OPERATIONS AND COMPLIANCE WORKSHOP                             | BOSTON, MA        |

<sup>1</sup> Sponsored by the Independent Directors Council

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

<sup>3</sup> Cosponsored by ICI and the Federal Bar Association

## ***Appendix H: ICI EDUCATION FOUNDATION***

The ICI Education Foundation supports ICI's policy agenda. Since its formation in 1989, ICIEF has pursued the overarching objective of building visibility and goodwill for the Institute and its members by addressing the political climate in Washington and engaging policymakers who advocate financial literacy. To do so, it has planned, sponsored, and delivered investment education programs that benefit Institute members, fund shareholders, and the investing public.

ICIEF has partnered with government agencies and other nonprofit organizations to develop and present these investment education programs to specific audiences, such as journalists, college and secondary-school teachers and students, and underserved populations, including African-American and Hispanic investors. To advance its policy objective, ICIEF has become a well-known participant in a variety of financial education advocacy coalitions, conferences, and initiatives that promote saving and investing nationwide. The Foundation has engaged with many organizations, including the Securities and Exchange Commission, the North American Securities Administrators Association, the Financial Industry Regulatory Authority, the Department of the Treasury, the Department of Labor, the Congressional Black Caucus Foundation, and the Hispanic Caucus Foundation.

ICIEF focuses its efforts in areas that do not compete with ICI members' programs and that offer the opportunity for maximum impact with limited resources.

## ***Appendix I: ICI MUTUAL INSURANCE COMPANY***

ICI Mutual 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, and advisers. An organization must be an ICI member to purchase insurance from ICIM.

## LEADING THE WAY ON POLICY ISSUES

**YEAR IN AND YEAR OUT, ICI PURSUES A WIDE RANGE OF ISSUES THAT CAN HAVE A SIGNIFICANT EFFECT ON INVESTMENT COMPANIES AND THE SHAREHOLDERS THEY SERVE. SOME KEY ISSUES IN FISCAL YEAR 2008:**

- » **THE CREDIT CRISIS (PAGE 4):** Beginning in August 2007, ICI engaged actively with the Securities and Exchange Commission, the Department of the Treasury, the Federal Reserve, and members in efforts to ease credit conditions on behalf of investors, corporate issuers of debt, and funds.
- » **RETIREMENT SECURITY (PAGE 12):** ICI supported the Department of Labor's initiatives to provide sponsors and participants in 401(k) plans the information they need to make sound business and investment decisions. ICI engaged Congress in support of meaningful disclosure and successfully opposed measures that would have required duplicative and confusing disclosures, unbundling of service providers' fees, and mandatory offering of an index fund as an investment option in all plans.
- » **SUMMARY PROSPECTUS (PAGE 14):** The Institute strongly supported and helped to refine an SEC proposal, still pending, that would allow funds voluntarily to provide investors with a clear, concise document containing key information, with additional disclosures (including the statutory prospectus) available online or on paper upon request.
- » **EXCHANGE-TRADED FUNDS (PAGE 30):** ICI supported SEC proposals to make it easier for sponsors to form new index-based and fully transparent actively managed ETFs. The Institute's Board of Governors also created a new Standing Committee on Exchange-Traded Funds.

*See the table inside for further policy activity during fiscal year 2008.*

# ICI Action on Selected Policy Developments, Fiscal Year 2008

ICI'S 2008 POLICY AGENDA COVERED PERHAPS THE WIDEST RANGE OF ISSUES IN THE INSTITUTE'S HISTORY.

## RETIREMENT SECURITY

**401(k) FEE LEGISLATION:** Members of Congress introduced legislation requiring fee disclosures for 401(k) participants and plan sponsors, including unbundling of service providers' fees.

*Engaged Congress in support of meaningful fee disclosure; successfully opposed duplicative and confusing disclosures, unbundling, and a mandate that all plans offer an index fund as an investment option.*

**401(k) SERVICE PROVIDER DISCLOSURE:** The Department of Labor proposed new requirements for 401(k) plan service providers to provide employers with information regarding fees, compensation, and conflicts of interest.

*Testified that DOL's required fee disclosures for mutual funds should not extend beyond information the SEC requires funds to provide all investors.*

**DISCLOSURE TO 401(k) PARTICIPANTS:** DOL proposed new requirements for plan disclosures to workers on fees, investment objectives, performance, and risks.

*Praised DOL's proposal for significantly improving the quality of the information that workers are provided to help them make crucial decisions about retirement savings.*

**403(b) PLANS:** The Internal Revenue Service published transition guidance on 2007 regulations overhauling 403(b) plan administration.

*Urged IRS to clarify the rules. Provided members with a road map for interpreting unclear guidance. Formed a member working group to provide input on ICI's 403(b) activities.*

## OPERATIONAL AND REGULATORY ISSUES

**EXCHANGE-TRADED FUNDS:** To make it easier to form index-based and fully transparent actively managed ETFs, the Securities and Exchange Commission proposed to codify in a rule prior exemptive relief granted to sponsors. The proposal would also allow investment companies to make larger investments in ETFs than currently permitted under the Investment Company Act of 1940.

*Strongly supported both proposals. The ICI Board of Governors also created a Standing Committee on ETFs. ICI is focusing additional research attention on ETFs and examining changes to market structure rules to promote effective trading of ETFs.*

**APPROVAL OF SALES MATERIAL:** Under a change to NASD Rule 2210, principals of intermediary firms are no longer required to approve sales material that has already been approved by an investment company's principals.

*Supported the changes, commending the Financial Industry Regulatory Authority and the SEC for alleviating burdens on intermediaries without compromising investor protection.*

**PRIVACY:** The Federal Trade Commission adopted rules requiring financial institutions, including mutual funds, to implement written identity theft prevention programs.

*Worked actively with the FTC and SEC on the rules' impact on mutual funds. Sponsored ICI's first webinar to educate members on compliance and provided FAQs.*

## U.S. AND GLOBAL SECURITIES MARKETS

**SHORT-SELLING RULES:** The SEC implemented several initiatives to address abuses related to "naked" short-selling and the impact of short-selling on the securities markets.

*Supported SEC actions to prevent abusive short-selling. Successfully urged the SEC to maintain confidentiality of investors' short positions. Recommended further actions to reform short-sale rules.*

**CREDIT RATING REFORM:** The SEC proposed new rules to improve transparency and accountability for credit ratings. The SEC also proposed to strike requirements to use credit ratings from several regulations, including Rule 2a-7 for money market funds.

*Urged the SEC to further strengthen regulation of credit rating agencies. Strongly opposed eliminating credit ratings from the criteria for money market funds' selection of eligible investments.*

**AUCTION MARKET PREFERRED SHARES:** In February, auctions in these securities—which closed-end funds issue for leverage to provide higher returns for holders of common shares—began to fail.

*Worked closely with the SEC, the Department of Treasury, and members to obtain approval for closed-end funds to refinance AMPS with debt and a new form of liquidity-protected preferred shares. Rallied support in Congress for ICI-proposed solutions.*

## U.S. AND GLOBAL SECURITIES MARKETS (CONTINUED)

**MONEY MARKET FUNDS:** Tight credit markets put intense pressure on money market funds. After one money fund “broke the buck,” Treasury announced a temporary, voluntary guarantee program to insure investors in eligible money market funds. The Federal Reserve established facilities to improve liquidity in commercial paper and agency markets.

*Stepped up market monitoring for the Fed, SEC, and Treasury. Facilitated direct member contact with regulators. Worked with Treasury to limit the Temporary Guarantee Program for Money Market Funds and to clarify details for ICI members. Received IRS and SEC relief and clarification on tax issues, affiliated transactions, and valuation. Worked with Congress to ensure that the Emergency Economic Stabilization Act did not compromise, limit, or impose excessive premiums on the Treasury guarantee program.*

**ENERGY “SPECULATORS”:** With oil prices rising rapidly, Congress considered legislation to restrict commodity trading by investors who do not take physical delivery.

*Successfully opposed onerous investment restrictions that would have prohibited mutual funds and their shareholders from pursuing commodities strategies and would have driven commodity trading to offshore markets.*

**STRUCTURE OF U.S. FINANCIAL REGULATION:** Treasury issued its blueprint to improve the regulatory structure for U.S. financial institutions. Congress and other groups developed initiatives to preserve international competitiveness of U.S. capital markets.

*Submitted recommendations that reflect investment companies’ unique perspective as both issuers of securities and domestic and international investors. ICI recommendations were included in Treasury’s Blueprint for Regulatory Reform and legislative proposals considered by the Senate.*

**MUNICIPAL SECURITIES:** The SEC and Municipal Securities Rulemaking Board issued several proposals to improve the availability of secondary market disclosure for municipal securities.

*Supported better dissemination of information, but urged the SEC to improve the types of disclosures required for municipal securities.*

**EUROPEAN REGULATION OF INVESTMENT PRODUCTS:** The European Commission examined regulation of products that are comparable to retail investment funds but subject to different rules.

*Urged the EC to follow several broad principles in evaluating regulation: comparable products should have comparable disclosure; regulatory requirements should respect product differences; and differences in tax treatment should not steer an investor toward a particular product.*

**SUDAN DIVESTMENT:** Congress passed the Sudan Accountability and Divestment Act.

*Worked with Congress to ensure that mutual funds divesting assets in compliance with the law would not be exposed to lawsuits.*

## FUND DISCLOSURE

**SUMMARY PROSPECTUS:** The SEC issued a long-awaited proposal to allow funds on a voluntary basis to provide investors with a short-form disclosure document in place of the full prospectus, with more detailed information available online and on paper upon request.

*Strongly supported the SEC proposal but noted, based on economic analysis, that the requirement for quarterly updating would probably limit adoption of the Summary Prospectus. Conducted a new investor survey that found strong support for the Summary Prospectus concept.*

## ACCOUNTING AND TAXES

**COST BASIS REPORTING:** Congress enacted legislation requiring brokers and mutual funds to provide customers and the IRS with cost basis information for securities sold or redeemed.

*Successfully urged Congress to improve the provision’s workability for all investment companies, including closed-end funds and ETFs, and to defer its effective date to fund shares acquired on or after January 1, 2012—one year later than the effective date for other securities.*

**INTERNATIONAL FINANCIAL REPORTING STANDARDS:** SEC concept release explored public interest in allowing U.S. issuers to use International Financial Reporting Standards (IFRS) to prepare financial statements.

*Expressed concern with the application of IFRS to funds and urged that global accounting standards for investment companies converge toward U.S. principles that better serve fund shareholders. Pointed out that significant differences between IFRS and U.S. principles will impede comparisons of financial statements.*



1401 H Street, NW, Suite 1200  
Washington, DC 20005-2148  
202/326-5800

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

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