INVESTMENT COMPANY INSTITUTE

2014

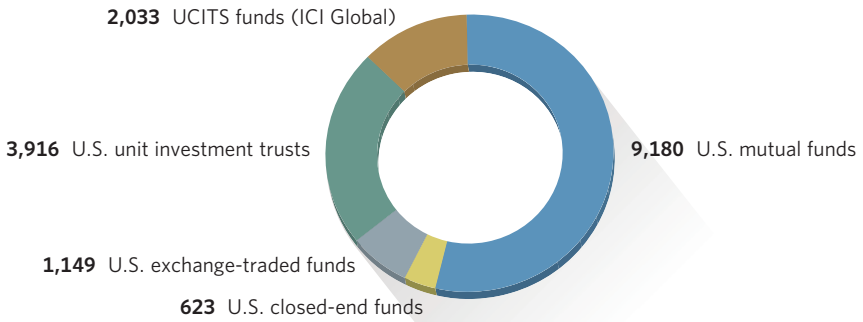
ANNUAL REPORT TO MEMBERS

INVESTMENT COMPANY INSTITUTE®

ICI Represents ...

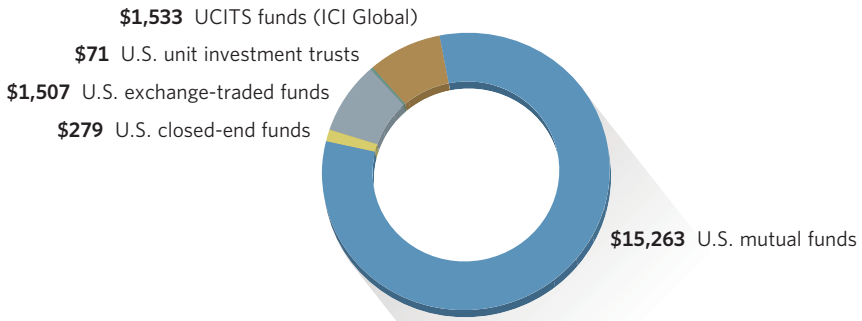
More than 16,900 funds*

NUMBER OF INVESTMENT COMPANIES BY TYPE



With more than $18.6 trillion in assets*

INVESTMENT COMPANY ASSETS, BILLIONS OF DOLLARS



Serving more than 90 million shareholders

U.S. OWNERSHIP OF FUNDS OFFERED BY INVESTMENT COMPANIES, JUNE 2014

44.3	54.5	92.7
PERCENT OF U.S. HOUSEHOLDS OWN FUNDS	MILLION U.S. HOUSEHOLDS OWN FUNDS	MILLION INDIVIDUALS OWN FUNDS

*Data for mutual funds, closed-end funds, and exchange-traded funds are as of June 2014. Data for unit investment trusts are as of December 2013. Data for UCITS funds are as of August 2014.

Source: Investment Company Institute

Contents

To Our Members

F. William McNabb III
Chairman, Investment Company Institute
Chairman and CEO, Vanguard

"We can take pride in the rigor of ICI's research, the industry's creativity in proposing solutions, and our ability to rally our members and other constituents."

— F. WILLIAM MCNABB III

The mutual fund industry is unique in many ways. We are committed to the best interests of our shareholders not only by code, but by culture. Our approach to collective challenges is also distinctive. Though each of our companies competes tenaciously, we come together to find ways to improve. Together, we evolve and find new and better ways to provide value for investors. The Investment Company Institute is central to that ongoing constructive dialogue—as was apparent during fiscal 2014.

In July, we saw the resolution of the six-year-long debate over how to make money market funds more resilient with adoption of new reforms by the Securities and Exchange Commission (SEC). The changes are sweeping and yet nuanced. Retail investors—including those who invest through retirement plans and omnibus accounts—will still have access to stable-value prime, tax-exempt, and government money market funds. Institutions can choose to invest in stable-value government funds or floating-value prime funds. The SEC rejected such harmful ideas as capital requirements or holdbacks on redemptions.

In this balanced outcome, I can see clearly the impact of ICI's dedicated work. We can take pride in the rigor of ICI's research, the industry's creativity in proposing solutions, and our ability to rally our members and other constituents. These factors—combined with the Institute's reputation for fact-based policy analysis and advocacy—helped policymakers create a package of reforms that will largely preserve the benefits of money market funds for investors, issuers, and the economy.

Each of those strengths will be called into play as the fund industry faces its next challenge—the debate over asset management and financial stability. If U.S. or global regulators decide that funds or their managers should be designated as systemically important financial institutions (SIFIs) and subjected to heightened supervision, the resulting costs to investors and distortions of the fund marketplace could impose a heavy burden on funds of all sizes.

I should emphasize that this is not a debate over "more regulation" versus "less regulation." The Institute and its members have a long history of working closely with regulators and policymakers, and we strongly support regulation that can better equip the financial system to withstand the next crisis. But such regulation must be effective and efficient—and designating funds or their managers would impose high costs without markedly reducing risks to the system. While this debate is far from resolution, ICI's advocacy is already making some headway among regulators and legislators to direct the discussion toward a better approach: the regulation of market activities.

Financial stability is a global regulatory issue—but it is only one of many. Indeed, all ICI members now depend upon strong securities markets, sound regulatory

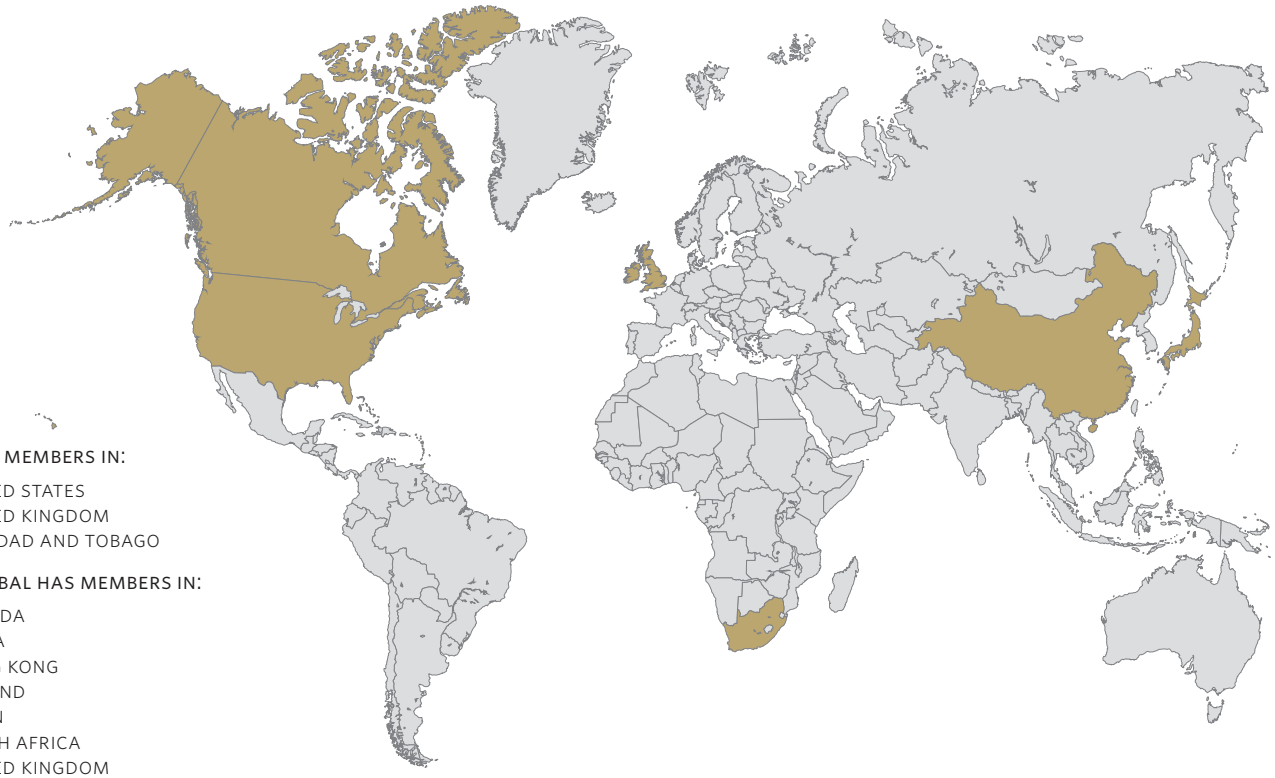
frameworks, and healthy retirement savings around the world for their future growth.

ICI is uniquely equipped to help funds address these challenges through the work of ICI Global. In its first three years of operation, ICI Global has proven its value for all ICI members—whether domiciled in the United States or elsewhere. With all of the Institute's international activities now being conducted through ICI Global, both U.S. and non-U.S. funds will benefit from our offices in London, Hong Kong, and Washington, DC, and our presence in the many other capitals and financial centers where our global activities take us.

The roster of challenges facing the fund industry will continue to change. What will remain constant is the approach that we bring, through ICI, to face them: speaking with a single voice as we pursue thoughtful, well-researched, and constructive solutions. Bolstered by these strengths, our funds can maintain our unique commitment to the shareholders who place their trust in us every day.

Speaking with a Single Voice

ICI AND ICI GLOBAL MEMBERSHIP SPANS FOUR CONTINENTS



ICI HAS MEMBERS IN:

- UNITED STATES
- UNITED KINGDOM
- TRINIDAD AND TOBAGO

ICI GLOBAL HAS MEMBERS IN:

- CANADA
- CHINA
- HONG KONG
- IRELAND
- JAPAN
- SOUTH AFRICA
- UNITED KINGDOM
- UNITED STATES

Note: As of September 30, 2014

President's Letter

Paul Schott Stevens
President and CEO, Investment Company Institute

"As we confront the twists and turns presented by the future, the interests of fund investors must continue to be our guide."

— PAUL SCHOTT STEVENS

It is now altogether common to hear that the world is a much smaller place—one that is increasingly interconnected. There are a number of benefits and opportunities that accompany such connections, including the ability to explore shared interests with people and organizations around the world. But this same interconnectedness also introduces new and challenging levels of complexity.

For example, those who follow the Institute's work know that ours is perhaps the most prominent voice in Washington in support of America's retirement system. In our research and advocacy we continually point out the many strengths and successes of the 401(k) system, while also highlighting opportunities to improve the system still further. As other countries seek to improve their own retirement systems, funds around the world have a shared interest in the larger role they might play in retirement provision. ICI Global has been working with its members and with international policymakers and pensions experts to explore the opportunities in this space. One thing seems clear: the recognition of the usefulness of funds as retirement savings vehicles is growing, and with it the role of funds in defined contribution arrangements in nations other than the United States. We will continue to promote and contribute to this important dialogue.

It seems to me that this trend is but one more indicator of the promising future that fund investing has before it. Still, to realize this promise fully, funds require an environment of appropriate regulation—and financial regulation, too, is a sphere in which the world is increasingly interconnected. The economic analysis, legal insights, and operational expertise that we bring to bear on regulatory issues are of especial consequence as policymakers in the United States and abroad pursue a common agenda of regulatory reforms affecting funds.

Some issues require literally years of hard work—of sustained research, analysis, advocacy, and outreach. In 2014, for example, the Securities and Exchange Commission (SEC) adopted new reforms for U.S. money market funds, capping a six-year-long effort in which ICI and its members played leading roles. The final rule does not accord fully with our analysis or recommendations. Nonetheless, we can take great pride in the intellectual rigor and substance that we contributed to what was at times a fraught policy debate. The outcome of that debate has preserved money market funds as viable investment vehicles for individuals and institutions alike—a result by no means clearly foreseeable during the long gestation of the new rules.

ICI and its members will focus over the next two years on how best to implement these new SEC rules. At the same time, we will continue to work with regulators in the European Union to ensure that they learn from the U.S. debate—by appropriately recognizing, for example, the differences among money market instruments, funds, and investors. As in the United States, the aim in the European Union should be to craft targeted regulations that address identifiable risks to financial stability while preserving the benefits that money market funds provide to investors, issuers, and the growth of the European economy.

Another regulatory challenge that no doubt will require years of effort and advocacy involves questions surrounding asset managers and financial stability. For more than a year now, we have made the case to domestic and international regulators that regulated funds and their managers do not pose a threat to financial stability and should not be subject to designation as systemically important financial institutions, or SIFIs.

We have brought considerable staff resources and strong member involvement to bear on this issue, urging regulators instead to focus on activities and practices as a better approach to risk mitigation, and working with policymakers to provide them data and expertise they lack as they weigh questions of great consequence to our industry and investors. We will persist in this effort for as long as is necessary.

These are just a few of the complex issues that you'll find explored in more detail in this 2014 *Annual Report*. Throughout the year, our staff remained deeply engaged on myriad other issues as well.

As I said, interconnectedness brings with it new and challenging levels of complexity. As the financial crisis has receded and the regulatory response in the United States and abroad has moved from big-picture policies to the up-close work of implementation, the fund industry has been faced with an astounding and often perplexing array of details—and, too often, the devil to be found there.

I'm reminded of the famous labyrinth of Greek mythology. You will recall that the hero Theseus ventured deep into the labyrinth and slayed the fearsome Minotaur. He was able to retrace his steps out of the labyrinth only because of the ball of thread he had unraveled behind him.

Our industry traverses an increasingly complex labyrinth of laws and regulations, at home and abroad. Doing so successfully requires a clear vision and a steady hand. We can be glad we are equipped, like Theseus, with a lifeline—one that, if followed, will lead to safety. I refer to the duties of loyalty and care that we owe to our shareholders as fiduciaries. As we confront the twists and turns presented by the future, the interests of fund investors must continue to be our guide.

Setting the Record Straight on Funds and Financial Stability

By Paul Schott Stevens

As the president and CEO of ICI, I often get asked about the Institute's priorities. Fund regulation—the subject of this section in our *Annual Report*—is always a top priority, and for more than a year now, my answer to this question has highlighted a specific regulatory area: the ongoing debate about asset management and financial stability.

U.S. and global policymakers and regulators have devoted significant attention to examining whether asset managers and investment funds, including regulated funds, should be treated like the largest banks and designated as systemically important financial institutions, or SIFIs. Here's a quick overview of recent developments.

A September 2013 study from the Treasury Department's Office of Financial Research (OFR), *Asset Management and Financial Stability*, conducted for the Financial Stability Oversight Council (FSOC), was highly flawed and drew strong criticism from ICI and many other stakeholders. Since then, the FSOC has continued to review the asset management industry, holding a half-day public conference in May 2014 but doing most of its work behind closed doors.

In the global arena, a January 2014 consultation by the Financial Stability Board (FSB) proposed a methodology for identifying nonbank, non-insurer global SIFIs that included a "materiality threshold" based on size alone. This approach would have had the effect of singling out just 14 funds—all of them U.S.-regulated funds—for further analysis.

The U.S. Securities and Exchange Commission (SEC), for its part, has moved to strengthen its hand as a financial stability regulator—by taking steps, for example, to enhance its oversight of large asset management firms.

Throughout the past year, ICI has been working hard to help U.S. and global policymakers, including bank regulators, better understand regulated funds and their managers. As part of our outreach, we have emphasized that the role played by asset managers in the financial system differs sharply from that of banks, whose excessive risk taking was a major contributor to the global financial crisis.

Throughout the past year, ICI has been working hard to help U.S. and global policymakers, including bank regulators, better understand regulated funds and their managers.

A FORCEFUL AND WIDE-RANGING RESPONSE

In lengthy comment letters on the OFR study and FSB consultation, our legal and economic analysis emphasized four reasons why neither U.S. mutual funds nor their managers threaten financial stability:

- First, unlike banks and other financial institutions, mutual funds make little or no use of leverage—the essential fuel of financial crises.
- Second, concerns about "disorderly failure" don't apply to funds, which simply don't fail the way that banks do. Mutual funds merge and liquidate, and fund managers exit the business, on a routine basis. These transactions occur without systemic impact and do not require government or taxpayer assistance.

- Third, there is no historical basis for claims that fund investors and asset managers "herd" into popular asset classes or securities and thus magnify market volatility, or that stressed markets will cause investors to redeem stock and bond fund shares en masse, sparking "fire sales" of fund portfolio securities.
- Finally, the structure and comprehensive regulation of mutual funds and their managers protect investors while mitigating risks to the broader financial system.

We also explained the harmful consequences of designating regulated funds or their managers as SIFIs, and recommended that regulators instead address any perceived risks to financial stability by regulating activities and practices across markets and participants.

Beyond our comment letters, ICI leveraged a variety of other means to communicate that neither regulated funds nor their managers pose risks to financial stability, reaching out to regulators, Congress, academics, the media, and other interested parties. Our efforts included:

- meeting with U.S. policymakers and regulators—and their counterparts in countries around the world—to offer views, data, and analysis;
- testifying on Capitol Hill;
- providing information and analysis for members of Congress to support bipartisan efforts to improve the functioning of the FSOC;
- posting rebuttals and responses to articles and opinion pieces that too often have been short on facts or simply incorrect;
- leveraging ICI research and data to counter misplaced concerns about the potential reaction of funds and their investors to rising interest rates;
- giving high-profile speeches and presentations on the issue, both domestically and internationally; and
- building out an online Financial Stability Resource Center, which contains links to more than 30 *ICI Viewpoints* blog posts on issues relating to asset management and financial stability, and conducting vigorous campaigns on social media.

ICI's advocacy efforts—and those of our members—may be having an effect. In late July 2014, the FSOC met to discuss its ongoing assessment of the asset management industry, and reported that it had "directed staff to undertake a more focused analysis of industry-wide products and activities to assess potential risks associated with the asset management industry." Similarly, the FSB has announced plans to issue a second consultation around the end of 2014 that will focus more on asset management activities.

Given our recommendation to move from an emphasis on designating firms as SIFIs to an approach focused on activity-based regulation, these announcements seem to be welcome developments. But we remain guarded about the issue. For example, the FSOC's reference to "industry-wide products" could signal a focus on categories of funds, such as bond funds or emerging market funds. And neither the FSOC nor the FSB has taken designation of individual funds or managers off the table.

WHY THIS MATTERS TO ALL FUNDS—AND INVESTORS

If one or more large U.S. mutual funds were designated as SIFIs, those funds would be subject to new, bank-style prudential regulation by the Federal Reserve Board that could significantly harm both the funds and their investors. Inappropriate regulation or

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ICI CHAIRMAN BILL MCNABB, TESTIFYING BEFORE THE HOUSE FINANCIAL SERVICES COMMITTEE ON BEHALF OF ICI, EXPLAINS WHY FUNDS AND THEIR MANAGERS DON'T POSE RISKS TO THE FINANCIAL SYSTEM, AND WHY SIFI DESIGNATION WOULD BE HARMFUL TO FUNDS AND THEIR INVESTORS.

supervision would raise costs for fund investors and distort the competitive landscape for all funds, among other harmful effects.

Though we cannot be sure where the FSOC (or the FSB) will take its work on asset management, recent media coverage and commentary have served to highlight concerns about the transparency, fairness, and accountability of the FSOC process.

Congress also has been working to address these problems. Dozens of members—both Republican and Democrat—have written letters to the Treasury Department questioning the methodologies and process used by the FSOC in its review of asset management. Committees in the House and Senate have held hearings on the subject and pressed members of the FSOC to explain in more detail their review of asset management. ICI Chairman Bill McNabb testified on behalf of the fund industry before the House Financial Services Committee, where Chairman Jeb Hensarling (R-TX) said, "It is almost inconceivable that an asset manager's failure could cause systemic risk," and once again called on the FSOC to "cease and desist further SIFI designations until Congress can review the entire matter." Representatives Dennis Ross (R-FL) and John Delaney (D-MD) have introduced bipartisan legislation—the Financial Stability Oversight Council Improvement Act (H.R. 5180)—which seeks to ensure that the FSOC operates with more transparency, receives greater public input, and leverages the expertise of its constituent regulatory agencies in conducting its work. It also provides clear paths for organizations to avoid SIFI designation.

ICI welcomes public discussion of the role that asset management plays in the overall financial system. We have emphasized the need for the FSOC and its staff to become far better informed about the asset management sector and, as a part of this, to engage with

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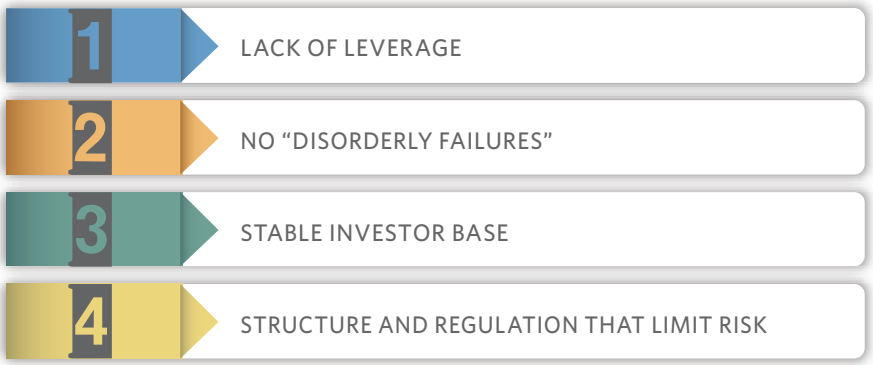
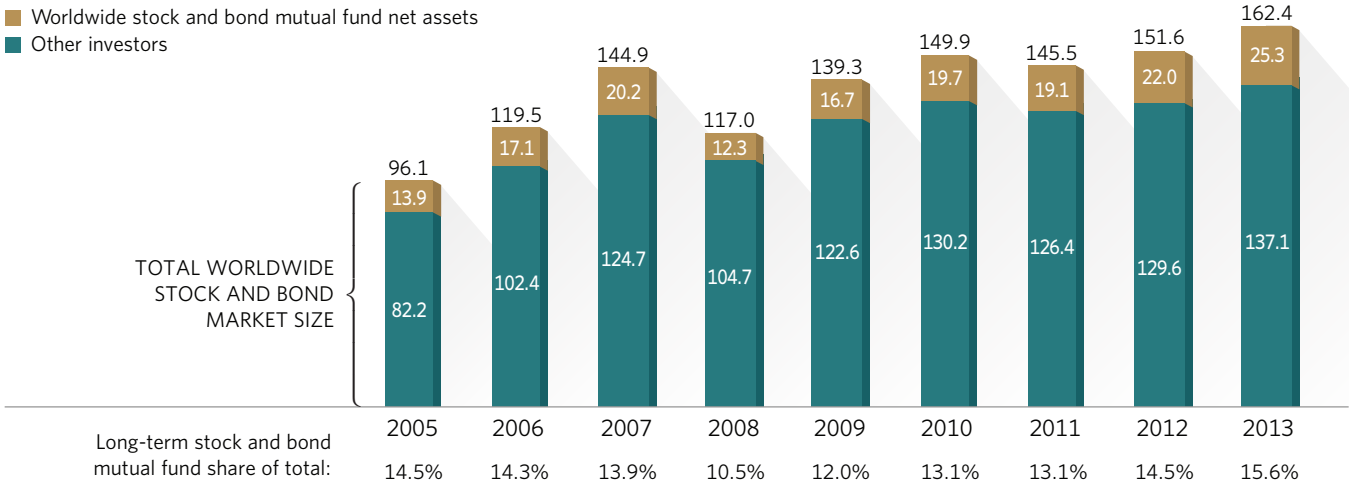
Why Designation Is Unnecessary



Stock and Bond Funds Account for a Small Share of Worldwide Capital Markets

TRILLIONS OF U.S. DOLLARS; YEAR-END, 2005–2013



Note: Worldwide stock and bond mutual fund net assets include open-end fund assets, and for non-U.S. countries may also include exchange-traded fund (ETF) assets. Funds of funds are not included except for France, Italy, and Luxembourg.

Sources: International Investment Funds Association and International Monetary Fund

Providing Perspective on Derivatives

As the Commodity Futures Trading Commission (CFTC) and Securities and Exchange Commission worked to complete Dodd-Frank Act rulemakings governing the derivatives markets, ICI continued to provide regulators with the industry's perspective, seeking to minimize regulatory burdens on regulated funds and their investors. Some key developments:

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

» MARGIN. In July 2014, ICI Global submitted comments to European regulators recommending that they conform their proposed standards regarding margin requirements for uncleared derivatives to the international standards adopted last fall by both the Basel Committee on Banking Supervision and the International Organization of Securities Commissions. ICI expects U.S. regulators to repropose domestic rules consistent with that framework, and will respond to those proposals when they come out.

» POSITION LIMITS. ICI provided comments to the CFTC in February 2014 on its rule proposal regarding aggregation of positions. The Institute argued that position limits should apply on a fund-by-fund basis when the funds have different investment strategies.

» CROSS-BORDER ISSUES. ICI Global is working with regulators worldwide to address global concerns about the cross-border effects of derivatives rules, particularly to avoid imposing potentially overlapping and conflicting requirements on regulated funds.

ICI Applauds Bipartisan Amendment to Avoid Duplicative Regulation

ICI was pleased when the House of Representatives in June adopted a bipartisan amendment to the Commodity Futures Trading Commission (CFTC) Reauthorization Act that prevents duplicative and overly burdensome CFTC regulation of many mutual funds. Sponsored by Representative Scott Garrett (R-NJ), chairman of the House Financial Services Subcommittee on Capital Markets and Government Sponsored Enterprises, the amendment would mean cost savings for many mutual fund investors. On June 24, the Garrett Amendment passed the House by a strong bipartisan majority, as did the underlying bill.

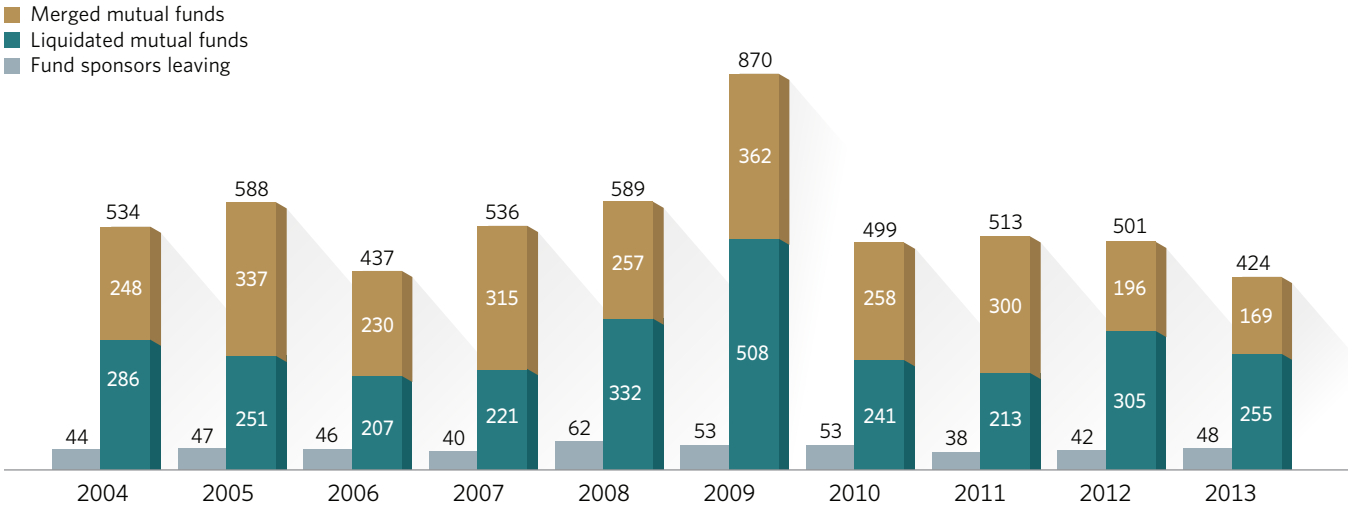
ICI has worked hard over the past several years to address duplicative regulation imposed by CFTC Rule 4.5 on many funds and their advisers, which the Securities and Exchange Commission already comprehensively regulates. The Garrett Amendment clarifies an important issue, stating that registered funds that do not resemble or compete with traditional commodity pools, but that do use financial derivatives for efficient portfolio management, do not have to register with the CFTC as commodity pool operators. The amendment also ensures that advisers to such funds will not bear ongoing costs to assess whether a fund's derivatives trading triggers the duplicative CFTC registration requirements.

Challenges remain, including the fact that the Senate is unlikely to consider the CFTC reauthorization bill before this Congress adjourns in December. If the Senate does not act, ICI will continue to work toward enactment of similar legislation in 2015.

funds and their managers for a practical perspective on how regulated funds operate. We also are supporting efforts by the SEC—which can take pride in its successful 75-year record as primary regulator of funds and their managers—to modernize reporting by equity, bond, and balanced mutual funds.

The stakes in this debate remain high. We will continue to argue against SIFI designation for regulated funds or their managers, to urge that regulators instead take an activities-based approach to risk mitigation, and to provide policymakers with industry information and expertise.

U.S. Mutual Funds and Mutual Fund Sponsors Routinely Exit the U.S. Mutual Fund Market



Note: Data include mutual funds that invest primarily in other mutual funds.

Source: Investment Company Institute

Analyzing the Volcker Rule and Its Impact on Funds

In December 2013, the Securities and Exchange Commission (SEC), the Commodity Futures Trading Commission (CFTC), and federal banking authorities released final regulations to implement the Volcker Rule, which—among other things—restricts the ability of banks and their affiliates to engage in proprietary trading, and to sponsor or invest in hedge funds and private equity funds.

Responding to the original proposal in February 2012, ICI and ICI Global explained to regulators that it would be inappropriate for the Volcker Rule to affect the organization or activities of U.S.-registered investment companies and their non-U.S. counterparts, and that the rule as proposed would have a significant negative effect on these funds and their investors.

The final regulations considerably narrow the universe of funds subject to the rule—known as covered funds—by explicitly excluding SEC-registered investment companies from the definition and substantially revising and narrowing the circumstances under which a foreign fund will be treated as a covered fund. In ICI's assessment, this result is consistent with both the statutory language and with congressional intent to limit the extraterritorial application of the Volcker Rule.

Regulations this complicated are certain to have unanticipated consequences. Banks and other financial industry participants are still in the early stages of analyzing the requirements set forth in this 960-page joint rulemaking, and the Federal Reserve has extended the compliance period to July 2015. This means that the full effect of the Volcker Rule will not be known until then—or beyond.

ICI will continue to monitor the effects of the rule, and will communicate with regulators and Congress about any adverse consequences for regulated funds and their shareholders.

Notable Quotes About Financial Stability

The Financial Stability Oversight Council (FSOC), created by the Dodd-Frank Act, "has enough to do regulating the institutions that are clearly meant to be covered—the large banks. I have not seen the argument made yet to cover very plain-vanilla asset managers."

Former representative Barney Frank (D-MA), principal author of the Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010, remarks to the Clearing House trade group, as reported by the *Wall Street Journal* (December 8, 2013)

"We strongly urge the FSOC and other governing bodies not to base any policy or regulation actions grounded on the information in the OFR study....The OFR study mischaracterizes the asset management industry and the risks asset managers pose, makes speculative assertions with little or no empirical evidence, and, in some places, predicates claims on misused or faulty information."

Senators Claire McCaskill (D-MO), Thomas Carper (D-DE), Mark Kirk (R-IL), Patrick Toomey (R-PA), and Jerry Moran (R-KS), letter to Treasury Secretary and FSOC Chairman Jacob Lew on an Office of Financial Research (OFR) study on asset management, as reported by Reuters (January 23, 2014)

"The work of FSOC and OFR to identify and mitigate systemic risk is important. However, there is real danger in that work being compromised if the full five-member [Securities and Exchange] Commission is cut out of the process. The SEC and our fellow regulators should assist FSOC's efforts in a thorough and objective manner....For the protection of our economy, financial regulators across the U.S. federal government have to work together to address risks and threats to the stability of our financial markets."

Luis Aguilar, SEC commissioner, remarks to the Mutual Fund Directors Forum (April 2, 2014)

"[T]he asset management industry is fundamental to our constituents, their financial security (such as their education and retirement savings goals), and to capital formation and U.S. economic growth....We hope the [Financial Stability Oversight] Council's work will ensure that any regulatory review or additional action does not limit access to these services or cause them to become cost-prohibitive. It is of utmost importance that any review by the FSOC of the industry is thorough, comprehensive, and transparent."

Bipartisan group of 41 representatives (17 Democrats, 24 Republicans) led by Representatives Dennis Ross (R-FL) and John Delaney (D-MD), letter to Secretary Lew (April 9, 2014)

"If the FSOC designates mutual funds as SIFIs, it will impair the single best tool for individual investors—used by 90 million Americans saving for retirement and education—and harm capital markets. Designated funds and their investors would bear higher, unnecessary costs and could be put on the hook to bail out failing institutions in the next financial crisis."

Paul Schott Stevens, ICI president and CEO, op-ed in *American Banker* (May 12, 2014)

"A focus on asset management by the Financial Stability Oversight Council in the United States and the Financial Stability Board globally raises the prospect that the FSOC, in the name of promoting financial stability, may seek to exercise its SIFI designation authority in a manner far broader than Congress intended and that sweeps beyond any demonstrably 'systemic' risks."

F. William McNabb III, chairman of ICI, chairman and CEO of the Vanguard Group, statement on behalf of ICI before the House Committee on Financial Services (May 20, 2014)

"I think it is enormously important for FSOC, before it takes, frankly, any decision of any kind, to make certain that it has the requisite expertise brought to bear on those issues....The capital markets regulators [on the FSOC] are myself and the chairman of the CFTC, but you could also bring in many other sources of expertise on a particular issue—obviously, a lot of it comes, and has come, and needs to come, from the industry."

Mary Jo White, SEC chair, in conversation with ICI President and CEO Paul Schott Stevens at ICI's 56th annual General Membership Meeting (May 22, 2014)

Preserving the Strengths of America's Retirement System

America's retirement system is working for a majority of Americans.

Americans have set aside more than $24 trillion in retirement assets—a record amount. Assets held in individual retirement accounts (IRAs) and defined contribution (DC) plans such as the 401(k) represent nearly 60 percent of that total, with about half of the assets in those two vehicles—$6.8 trillion—being held in mutual funds. With ICI members helping millions of shareholders invest in their future, it is easy to see why the retirement system is a primary focus at ICI.

To counter misperceptions about the U.S. retirement system, as well as misguided proposals that would reduce the tax incentives benefiting millions of retirement savers, teams throughout the Institute analyze the data and issues involved, enabling ICI to educate policymakers and the public about the strengths of the system as well as opportunities for improvement.

ICI Chief Economist Brian Reid summed up ICI's key messages about retirement policy when he testified before the Senate Finance Committee in September 2014. He urged lawmakers to recognize three key facts:

- America's retirement system is working for a majority of Americans.
- The tax incentives for retirement saving—which allow for the deferral of taxes, not simply the exclusion or deduction of taxes—are key to the successes and strengths of that system.
- There are opportunities to improve the system, and we should continue to do so. But changes should build on the current structure, rather than put today's retirement system at risk.

Throughout the year, at public and private presentations on Capitol Hill and beyond, ICI reached out to a range of influential audiences to educate them about how Americans plan and prepare for retirement. And in an effort to ensure that the debate around retirement readiness is based on solid data and analysis, the Institute convened the 2014 ICI Retirement Summit, held last April in Washington, DC. The prestigious event—attended by academics, regulators, and policymakers (including key staff from the tax-writing committees of the House and the Senate)—examined a range of economic models focusing on the retirement readiness of current and future generations of Americans (see page 14).

To examine retirement systems around the world—including the U.S. system—and the role that funds can play in providing retirement security, ICI also convened its second Global Retirement Savings Conference, held last June in Geneva. The conference was a resounding success, attended by senior fund executives, regulators, and policymakers from 17 countries on five continents (see page 15).

Of course, ICI Research continued to publish statistics and analysis about retirement savings in America, including a first-ever in-depth look at the activities of Roth IRA investors (see page 16). ICI also worked closely with regulators to ensure that their proposals around investor education and disclosure do not place unnecessary burdens and costs on funds and their shareholders (see page 17).

ICI will remain steadfast in its efforts to support retirement security in its legislative, regulatory, research, and communications activities, and to support improvements for 401(k) plans by working closely with policymakers and others to build on the proven strengths of the overall system.

The Importance of Tax Deferral to the Success of America's Retirement System

In the past year, ICI has continued its efforts to educate legislators, policymakers, and the public about the strengths and successes of America's retirement system—as well as the importance and popularity of the current tax treatment of defined contribution (DC) retirement savings plans.

Tax incentives of all kinds, particularly those for retirement savings, have come under increasing scrutiny. As interest in reforming the tax code grows on both sides of the aisle in Congress, ICI is working to ensure that any tax reform will preserve the tax incentives that provide the foundation for retirement saving, whether through DC plans, defined benefit (DB) plans, or individual retirement accounts (IRAs).

As ICI Senior Economist Peter Brady told a well-attended Senate staff briefing in March 2014, retirement plan contributions are neither tax deductions nor tax exclusions; they are tax deferrals. Though deferrals allow workers to defer taxes on their retirement contributions today, workers do pay taxes later on distributions from their retirement accumulations.

ICI Research demonstrates that proposals to limit the up-front tax benefit of deferral would represent a fundamental change in tax treatment. Further limits of any type on tax incentives for retirement would harm employee savings in DC plans and IRAs, reduce the availability of employer-provided plans, and impair the ability of families to prepare for retirement.

For example, proposals designed to reduce the tax benefits of employer-sponsored retirement plans for higher-income households could reduce the number of employers who are willing to provide a plan to their employees. The loss of plan coverage would affect all workers, not just higher-income households, costing workers the convenience of payroll deduction, automatic enrollment and auto-escalation, employer matches, and financial education, as well as the regulatory protections that surround employer-based plans.

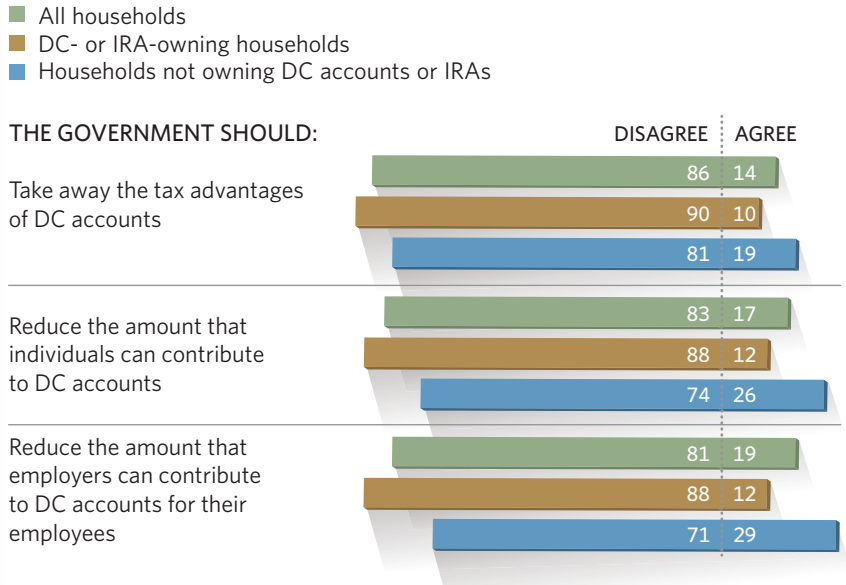
Household surveys consistently show that Americans overwhelmingly support the tax treatment of DC plans. They also say that DC plans encourage them to think about long-term savings.

As ICI Chief Economist Brian Reid testified before the Senate Finance Committee in mid-September, the U.S. retirement system—which includes Social Security, DC plans such as the 401(k), DB plans, IRAs, and other savings—is working for the majority of Americans approaching retirement. He stressed that any changes to the system should build upon, rather than replace, the current voluntary structure and tax incentives.

ICI believes it is critical to Americans' retirement security that any tax reform measures preserve strong retirement savings incentives for all Americans. ICI has remained deeply engaged, reaching out to Congress to advocate for the current incentives and educating policymakers about the strengths of the system, and will continue to advocate for the tools Americans need to build and secure savings for their retirement years.

Opinions of Suggested Changes to Retirement Accounts

PERCENTAGE OF U.S. HOUSEHOLDS AGREEING OR DISAGREEING WITH EACH STATEMENT BY OWNERSHIP STATUS, FALL 2013



Note: The figure plots in the "agree" column the percentage of households that "strongly agreed" or "somewhat agreed" with the statement, and the percentage of households that "somewhat disagreed" or "strongly disagreed" in the "disagree" column.

Source: ICI tabulation of GfK OmniTel survey data (fall 2013)

Retirement Preparedness: In the United States, Around the World

In the United States and other countries around the globe, policymakers are focusing on retirement savings challenges—examining in particular whether citizens are saving enough and how the public and private sectors can help them do more.

Meeting these challenges demands the best thinking and cooperation from all parties involved. That is why ICI and ICI Global convened forums this year to discuss retirement preparedness and the role that investment funds can play in providing retirement resources.

EXAMINING RETIREMENT PREPAREDNESS IN AMERICA

Whether or not Americans are accumulating enough for retirement continues to spark heated debates among government officials, journalists, and academics. To foster a more informed dialogue and examine the issue from all sides, ICI brought together top academics, industry experts, and policymakers at a one-day conference in Washington, DC, to discuss the leading academic research around retirement preparedness.

ICI SENIOR ECONOMIST PETER BRADY PRESENTED DATA AT ICI'S RETIREMENT SUMMIT SHOWING THAT RECENT GENERATIONS HAVE HIGHER LEVELS OF RETIREMENT RESOURCES THAN PREVIOUS GENERATIONS.

The 2014 ICI Retirement Summit, which took place in April, featured more than 150 participants and panelists who examined retirement preparedness and the different factors affecting it, including:

- the status of the Social Security system;
- what aging Americans face in terms of healthcare costs;
- retirement asset accumulation and consumption data;
- longevity risks facing today's workers; and
- alternative estimates of retirement preparedness.

Attendees and speakers also discussed the need for financial education, the reasons why researchers have different views about Americans' retirement preparedness, and the variables that go into calculations about long-term financial security.

One of the event's themes, articulated in a keynote speech by James Poterba, professor of economics at the Massachusetts Institute of Technology, was that saving for retirement is complex and retirement policy must take into account the heterogeneity of retirement savers: a one-size-fits-all solution for retirement planning will not work.

Steve Utkus, director of the Vanguard Center for Retirement Research, highlighted another theme from the summit: researchers' different models and measures have led to different conclusions about Americans' retirement preparedness.

A *Washington Post* article about the summit underscored this conclusion when it cited examples of contrasting studies presented at the event. "Studies vary widely," the author wrote, but "studies aside, there's little real-world evidence of pervasive undersaving."

In ICI's presentation at the summit, Senior Economist Peter Brady gave an overview of household resources, explaining why a pyramid is a better model than the traditional analogy of retirement resources as a "three-legged stool." Using a more holistic

Visit **www.ici.org/retirementsummit** to find a video about the summit, presentation materials, and speaker biographies.

perspective, the data show that, on average, more-recent generations of households have higher levels of resources to draw on in retirement than previous generations, he concluded.

ADDRESSING GLOBAL RETIREMENT SAVINGS CHALLENGES

Retirement preparedness and the role that funds can play in helping populations around the world build retirement resources also took center stage at an international forum in Geneva, hosted by ICI Global.

The second Global Retirement Savings Conference, held in June, focused on countries' different pension systems, the evolving role that defined contribution (DC) plans are playing in those systems, and the use of investment funds as retirement savings vehicles.

Delegates from 17 countries attended the event, including 20 speakers from 12 countries on five continents. Keynote speakers included Solange Berstein, former head of Chile's Pension Supervisory Authority; Pablo Antolín-Nicolás, principal economist and head of the private pension unit for the Financial Affairs Division at the Organisation for Economic Co-operation and Development (OECD); and Tim Jones, CEO of the United Kingdom's National Employment Savings Trust.

Attendees participated in discussions about a variety of issues, including the role of the government in building retirement resources, the use of default vehicles, investor engagement, and how to deliver sustainable outcomes. These conversations resulted in three overarching takeaways:

- Pension systems are complex—and must be considered holistically. Most systems are composed of interlocking, overlapping programs designed to deal with different sectors of the population and different social needs. Any assessment of a system's adequacy in providing retirement security must take into account all of these elements.
- The shift toward DC plan design continues.
- Though DC systems face a common set of challenges—including issues surrounding payout solutions, contribution levels, default investments, participation, and costs—solutions to these challenges must be country-specific, so that they reflect different economies, histories, and needs.

Speaking about the conference, Antolín-Nicolás said, "For us at the OECD, events like this are important.... It's very important to be able to listen to the industry, because if you want to have a global view of what's going on, you have to look at all of the stakeholders."

AT THE GLOBAL RETIREMENT SAVINGS CONFERENCE, PABLO ANTOLÍN-NICOLÁS, PRINCIPAL ECONOMIST FOR THE OECD, SAID IT WAS IMPORTANT TO LISTEN TO THE INDUSTRY.

The funds represented by ICI Global are essential stakeholders in this debate. The Institute remains committed to fostering more dialogues about retirement savings challenges, to ensure that investment funds have a strong voice in these conversations.

Read the post-conference report, *Insights from the 2014 Global Retirement Savings Conference*, at www.iciglobal.org/grsc.

New ICI Research Gives Insight on Roth IRA Investors

In June 2014, ICI released "The IRA Investor Profile: Roth IRA Investors' Activity, 2007–2012," the latest in a series of papers to use The IRA Investor Database™, which covers account-level data on more than 10 million traditional IRA investors and 5 million Roth IRA investors. The report is the first in the series to look specifically at Roth IRA investors.

This research project not only provides a detailed snapshot of Roth IRA investor activity in 2012, but also examines the behavior of these investors over five years. The analysis provides unique insight into how these investors fared through the financial crisis of 2008 and its aftermath. Although there was a slight decrease in contribution activity and a slight increase in withdrawal rates in the wake of the financial market crisis, withdrawals from Roth IRAs remained rare, with fewer than one in 25 Roth IRA investors taking withdrawals in 2012.

Investors have been using traditional IRAs to save for retirement since they were created by the Employee Retirement Income Security Act (ERISA) in 1974. Roth IRAs, named after Senator William Roth Jr. (R-DE) and available since 1998 after their creation under the Taxpayer Relief Act of 1997, have become another important tool for investors preparing for retirement. Assets held in Roth IRAs have increased from $106 billion in 2003, when they represented 4 percent of IRA assets, to $505 billion in 2013, when they represented more than 7 percent of IRA assets.

SIGNIFICANT DIFFERENCES BETWEEN IRA INVESTORS

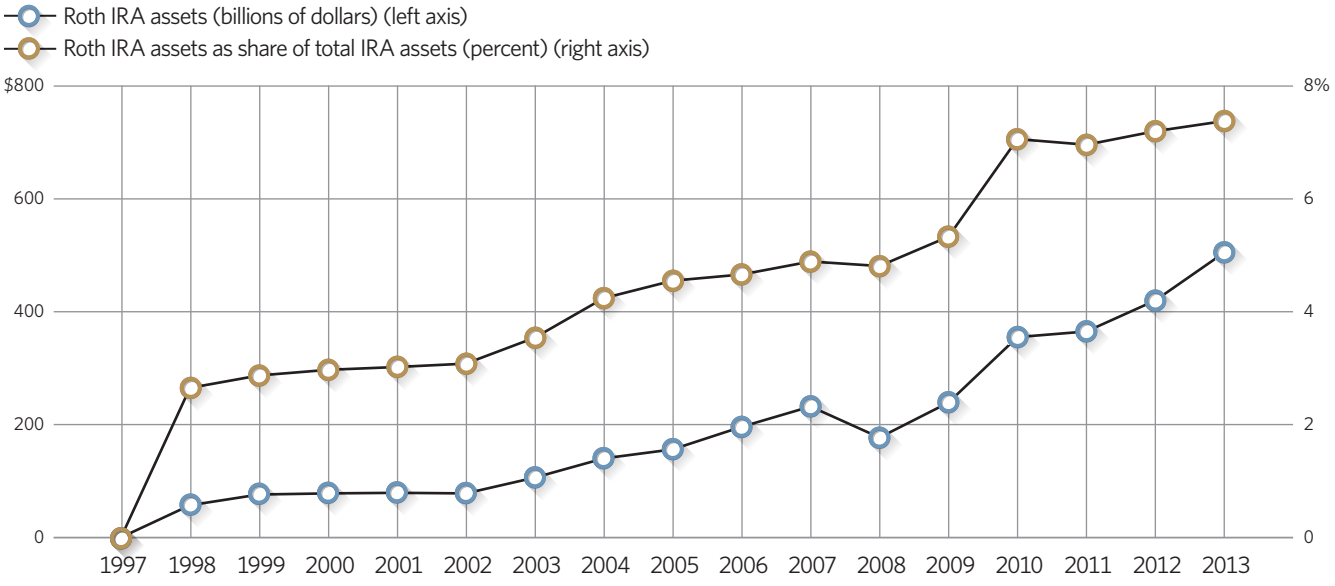
Although both traditional and Roth IRAs help investors save for retirement, ICI's new research shows that the different tax structures and rules of access for traditional and Roth IRAs lead to different behavior patterns for traditional and Roth IRA investors.

Roth IRA investors differ from traditional IRA investors in many ways—Roth IRA investors are younger, are more likely to make contributions to their accounts, and tend to open accounts with contributions rather than rollovers. In recent years, only about one in 10 Roth IRAs were created through rollovers, while nearly nine in 10 traditional IRAs in 2012 were opened only with rollovers. Withdrawal activity in Roth IRAs generally is lower than in traditional IRAs, which require investors aged 70½ or older to take required minimum distributions (RMDs). Because Roth IRAs generally are not subject to RMDs, withdrawal activity varies less by age, compared with traditional IRA investors. Roth IRA investors also tend to be more heavily invested in equities than traditional IRA investors.

In the relatively short time they have been available, Roth IRAs have become an important savings vehicle for millions of Americans. Along with other types of IRAs, Roth IRAs give American households another important tool to manage the timing of taxation of retirement accumulations.

Roth IRA Assets Are a Growing Share of Total IRA Assets

ROTH IRA ASSETS; YEAR-END, 1997–2013



Sources: Investment Company Institute, Internal Revenue Service Statistics of Income Division, and Government Accountability Office

Making the Case for IRAs as a Vehicle to Preserve Workers' Retirement Savings

In June 2014, the ERISA Advisory Council—a group of experts established to advise the U.S. Department of Labor (DOL) on employee benefit plans—began an examination of the factors surrounding the flow of assets out of employer-sponsored retirement plans and into individual retirement accounts (IRAs) and other savings vehicles not covered by the Employee Retirement Income Security Act. As part of the examination, the Council invited ICI to testify.

ICI provided the Council with a wealth of data on rollover activity and participant behavior. ICI research, for example, shows that IRAs play a significant role in preserving workers' retirement savings. Because American workers are mobile, IRAs are critical in protecting their retirement savings. Research also shows that plan participants make distribution decisions based on individual needs—and that they consult multiple sources of information when doing so.

Because there is no one-size-fits-all solution for the disposition of assets when changing jobs or retiring, plan participants must be able to understand their options. In its testimony before the Council, ICI noted that disclosure requirements for plan sponsors and IRA providers can be strengthened even further. ICI recommended that DOL update its guidance to enable plan sponsors and service providers to convey general information about distribution options without triggering fiduciary liability. This would likely encourage more plans to offer educational tools geared to the "decumulation" phase of retirement planning—and enhance the information that participants already have.

Once the Council completes the examination, it will submit recommendations to the Secretary of Labor. ICI will continue to engage with DOL once the recommendations are released.

Target Date Funds: Working to Clarify Investment Risk for Retirement Savers

Target date funds (TDFs) have proven to be a valuable innovation in long-term saving because they are an efficient way for investors to hold a diversified portfolio that is rebalanced toward income and stability of principal and lower investment risk as investors near and enter retirement. ICI is committed to enhancing investors' understanding of these useful financial products.

Accordingly, the Institute worked this year to ensure that reviews of TDF marketing materials by the Securities and Exchange Commission (SEC) and the Department of Labor were well informed—and that they took into account problems that would arise if either agency issued regulations requiring these materials to include a glide path illustration based on a standard measure of risk, as was recommended by the SEC's Investor Advisory Committee.

In detailed comment letters to the agencies and in meetings with staff members, ICI experts stressed that an asset allocation glide path illustration with a prominent graphic showing how TDF asset allocation changes over time—as both agencies proposed in 2010 with ICI support—would enhance investor understanding of TDFs. By contrast, a risk-based glide path could confuse or even mislead investors, potentially causing them to disregard other important considerations, such as longevity and inflation, in investing.

As explained in the letters, a risk-based glide path illustration for TDFs vastly oversimplifies their dynamic risk profile. Fund risk is simply too complex and multidimensional to tie to a single standard measure.

Advocating for Regulated Funds in the Financial Markets

The impact of technological advancements on the order-routing practices of broker-dealers and on trading were both in the spotlight during the year. Though such advancements have benefited funds overall, the effects of high-frequency trading and the potential for technological mishaps in the markets remain issues that ICI follows closely.

To help ensure the efficiency of order-routing and execution, and minimize conflicts of interest faced by broker-dealers, ICI advocated for greater transparency of broker-dealer order-routing activities. And because the safety and integrity of the markets are critical for funds, ICI made recommendations in comment letters, as well as in meetings with regulators and policymakers, to promote the continued resiliency of the markets.

In all of these cases, ICI continued to advocate vigorously for registered funds' dual interests—as investors in and issuers of securities traded on the markets.

In addition, ICI and ICI Global brought together members with lawmakers and regulators, convening conferences, events, and committee meetings where participants had the opportunity to openly discuss and debate a wide variety of market issues. Through such events, the Institute helps to shape domestic and global regulatory initiatives to improve the functioning and fairness of the financial markets, while benefiting regulated funds and their millions of shareholders.

ICI and ICI Global also have continued to advocate for funds with national and international regulators and policymakers on a wide range of other market-related issues. For example, ICI provided perspective to the Securities and Exchange Commission (SEC) as it considered implementation of a pilot program to increase "tick sizes" in certain securities, and to the Financial Industry Regulatory Authority as it examined alternative trading systems. The organizations also provided input to European regulators on initiatives to implement the second round of the European Union's Markets in Financial Instruments Directive (MiFID II). In Asia-Pacific countries, ICI Global shared its thoughts with regulators about important market initiatives, such as the Hong Kong Securities and Futures Commission's deliberations on the regulation of "dark pools" and the Monetary Authority of Singapore's consideration of ways to strengthen its securities markets.

Investor demand for exchange-traded funds (ETFs) has continued to grow rapidly, drawing scrutiny from policymakers and regulators who question ETFs' role in the markets and their potential to affect market stability. To further enhance understanding of ETFs, ICI engaged with the media and published its first in a series of research papers about the funds' structure, pricing, use, and regulatory challenges (see page 20). In addition, ICI's ETF Committee continued to provide a forum for members to discuss best practices, such as how to navigate the regulatory regime of the SEC when seeking to launch an ETF, among other topics.

For the 12 months ending September 2014, ETF assets increased **$289 billion,** or **18.7 percent.**

Discussing Regulatory Developments, Challenges, and Structural Changes Facing the Securities Markets

As securities markets grow increasingly complex, it has become more important than ever for institutional investors to fully understand how those markets work, and how changes to those markets could affect them. Bringing together market participants from around the world to discuss the latest trends and exchange information is critical.

To facilitate better understanding of market structure issues and the priorities of the buyside perspective, ICI held its 14th annual Capital Markets Conference in New York on October 10, 2013, convening senior representatives of the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), the Commodity Futures Trading Commission (CFTC), securities exchanges, mutual funds, broker-dealers, and other market participants.

The daylong conference explored the evolution of the nation's securities markets and its effect on institutional trading. Speakers included a panel featuring past and present directors of the SEC's Division of Trading and Markets (see photo below). The panel examined whether the current regulatory environment works for today's market structure, and upcoming challenges for the markets. The conference featured keynote addresses by CFTC Commissioner Scott D. O'Malia, NYSE Euronext CEO Duncan L. Niederauer, and NASDAQ OMX CEO Robert Greifeld.

Conference participants discussed the influence of economics in order routing, order execution, and attracting order flow; the impact on investor sentiment of market coverage by the media; and how to address operational risks in the markets.

FROM LEFT TO RIGHT: ROBERT COLBY, CHIEF LEGAL OFFICER, FINRA; RICHARD LINDSEY, PRESIDENT AND CEO, CALLCOTT GROUP LLC; ANDREW M. KLEIN, PARTNER, SCHIFF HARDIN; WILLIAM H. HEYMAN, VICE CHAIRMAN AND CHIEF INVESTMENT OFFICER, THE TRAVELERS COMPANIES INC.; BRANDON BECKER, EXECUTIVE VICE PRESIDENT AND CHIEF LEGAL OFFICER, TIAA-CREF; ANNETTE L. NAZARETH, PARTNER, DAVIS POLK & WARDWELL; RICHARD G. KETCHUM, CHAIRMAN AND CEO, FINRA; AND ROBERT W. COOK, PARTNER, CLEARY GOTTLIEB STEEN & HAMILTON LLP.

In addition, ICI Global held its second annual Trading and Market Structure Conference on December 9, 2013, in London. Like its U.S. counterpart, the conference focused on regulatory developments, compliance issues, and changes that are affecting funds and the markets.

Attendees heard keynote addresses from Martin Wheatley, chief executive of the UK Financial Conduct Authority, and David Wright, secretary general of the International Organization of Securities Commissions (IOSCO). During a luncheon address, SEC Commissioner Michael Piwowar discussed the need for a comprehensive, multiyear review of equity market structure. Panelists also examined issues surrounding:

- liquidity, buyside trading, and the "lit market versus dark market" debate;
- automated trading and operational risks in the markets;
- cost and accessibility of market data and concerns regarding a European consolidated tape; and
- cross-border implications of trading and market structure reform.

Both conferences stressed the importance of robust capital markets while stimulating dialogue and providing a deeper understanding of the nature and value of capital markets around the world. ICI and ICI Global look forward to continued success and expansion of these programs in the future.

For insights from these and other conferences, please visit ***www.ici.org/events/highlights****.*

QUESTION & ANSWER

An ETF Overview

Rochelle Antoniewicz, ICI senior economist, and Jane Heinrichs, ICI senior associate counsel, recently sat down to discuss exchange-traded funds (ETFs)—one of the fastest-growing products in the fund market.

> *"It would save fund sponsors time and resources if the SEC were to codify a rule that would permit ETFs that follow a more standard format to operate without engaging in the lengthy process of obtaining individual exemptive relief."*
>
> —JANE HEINRICHS

How have ETFs grown over time, and what factors are contributing to this growth?

ANTONIEWICZ: In the past decade alone, total net assets of ETFs have increased twelvefold, from $151 billion at year-end 2003 to $1.8 trillion as of June 2014. This growth demonstrates the appeal of ETFs to both institutional and retail investors. With the increase in demand, sponsors have offered more ETFs, with a greater variety of investment objectives. In fact, in June 2014, there were 1,364 U.S.-registered ETFs, up from 119 at year-end 2003.

Like mutual funds, ETFs provide a way for investors to participate in the stock, bond, and commodity markets. They also help investors build a diversified portfolio and gain access to a broad array of investment strategies. These attributes have helped drive the extraordinary growth of ETFs domestically and internationally.

HEINRICHS: Other factors that have contributed to the growing popularity of ETFs include intraday tradability, transparency, tax efficiency, and access to specific markets or asset classes. Still others correspond to more recent general trends in investing and money management, such as the rising popularity of passive investments, the increasing use of asset allocation models, and a move toward external fee-based models of compensation.

What are some of the biggest regulatory challenges facing ETFs in today's markets?

HEINRICHS: ETFs must receive Securities and Exchange Commission exemptive relief from certain provisions of the Investment Company Act. The growing popularity of ETFs has led to an onslaught of requests to create more funds, causing a lengthy backlog of applications.

It would save fund sponsors time and resources if the SEC were to codify a rule that would permit ETFs that follow a more standard format to operate without engaging in the lengthy process of obtaining individual exemptive relief. Lower costs for funds could translate into lower costs for shareholders—and the SEC would benefit because it would have more resources to focus on unique and exotic products.

What are the more recent innovations in the ETF space?

ANTONIEWICZ: Most ETFs currently available to investors track the performance of a specified target index, and there has been quite a bit of innovation in this space. Though early ETFs tracked traditional indexes, with weightings based on market capitalization, more recently launched index-based ETFs follow benchmarks that use a variety of index construction methodologies

and other fundamental factors, such as sales or book value. Some follow factor-based metrics—indexes that first screen potential securities for a variety of attributes, such as value, growth, or dividend payments—and then use either the equal weight or market-cap weight of the selected securities. Other customized index approaches include screening and weighting securities to minimize volatility, maximize diversification, or achieve a high or low degree of correlation with market movements.

Are there any regulatory challenges facing some of these innovations?

HEINRICHS: In the actively managed ETF space, the SEC is considering a number of applications from firms—including many traditional mutual fund firms—proposing to offer new types of ETFs that would not be required to disclose their portfolio holdings daily, which is currently a requirement of all actively managed ETFs. Instead, in an effort to avoid having other traders take advantage if holdings were disclosed each day—for example, by front-running their trades—these "nontransparent" actively managed ETFs would offer alternative ways for investors to price an ETF's shares so that they accurately reflect the market value of the underlying securities in the fund's portfolio without daily disclosure of holdings. Recently, the SEC denied the exemptive requests sought by two fund companies for nontransparent active ETFs, but other applications remain pending.

How is ICI engaging with its ETF members?

HEINRICHS: ICI's ETF Committee brings together the industry's leaders to define and pursue an active agenda on behalf of this large and growing segment of the industry. ICI educates policymakers, the media, and the public about the role that ETFs play and how they operate. For example, this year we have met with members of the media to further establish ICI as the go-to source for ETF data, regulatory updates, and perspective.

ANTONIEWICZ: We also have presented our research and commentary in *ICI Viewpoints* and reached key audiences through *Focus on Funds* video interviews and social media to promote our ETF research. As the variety of ETFs and their use by investors continue to grow, education is paramount. We hope that our series of ETF papers—the first of which was released in mid-September—will further educate policymakers and the public.

This effort by ICI was the first of its kind to take such an in-depth look at these funds. Tell us more about this series of papers.

HEINRICHS: The series takes a comprehensive look at all aspects of ETFs. The first paper covers the basics of ETFs—the origination, creation, and redemption of ETF shares; the role of the authorized participant; and how ETFs trade—as well as the regulatory framework for ETFs, clearing and settlement of primary market ETF shares, and primary market activity and secondary market trading in ETF shares.

ANTONIEWICZ: Our goal with the first paper is to educate a broader audience on the basics, then delve into more complex topics, such as whether secondary market trading in ETFs amplifies general market volatility or transmits financial stress, and whether there is a link between the arbitrage mechanism used by authorized participants and other ETF investors to volatility in the underlying securities held by ETFs.

The next paper in the series, which we expect to release by spring of next year, will further examine whether ETFs contribute to volatility. That will be followed by a third paper on ETF fees and expenses, similar to our annual *ICI Research Perspective* that we publish for mutual funds.

What are the priorities of the ETF Committee in the year ahead?

HEINRICHS: In the coming year, the committee will focus much of its attention on helping sponsors find ways to navigate the complex and sometimes frustrating SEC regulatory regime. And we will continue to urge the SEC to codify an ETF rule that would benefit shareholders by facilitating the ability of funds to more easily fulfill their shareholders' investment objectives.

For more information on ICI's work on ETFs, please visit ***www.ici.org/etf****.*

Representing the Interests of Funds and Their Investors Globally

More and more, international regulatory bodies drive the shape and direction of national policymaking and regulation, and national regulators are aware of and react to developments in other parts of the world. This dynamic impacts U.S. and non-U.S. member funds alike.

Recognizing this trend, the Institute's Board of Governors launched ICI Global in 2011. After three years, ICI Global's work, its overseas presence, and the solid relationships that its staff have developed with policymakers all have positioned the Institute to more effectively promote the interests of U.S. fund members regarding the many issues they face that have an international dimension.

Because of the synergies and cross benefits that ICI Global has brought to ICI's broad membership, the Institute has consolidated all its international activities—on behalf of both U.S. and non-U.S. members—under ICI Global. Its policy focuses on four key areas: funds and financial stability, trading and market structure, transnational regulatory developments, and the role of funds in pensions and long-term savings.

FUNDS AND FINANCIAL STABILITY. In early 2014, the Financial Stability Board (FSB) issued a consultation considering how to evaluate investment funds for possible designation as global systemically important financial institutions (G-SIFIs). The FSB's proposed methodology was deeply flawed and raised serious concerns, in particular for the largest U.S. funds. In a 92-page comment letter filed with the FSB in April 2014, the Institute outlined the many reasons why regulated funds do not pose systemic risks and should not be designated as G-SIFIs. It also described the harmful consequences of designation (see page 6).

TRADING AND MARKET STRUCTURE. Policymakers are continuing their work on how best to regulate rapidly evolving markets for securities and derivatives. In Europe, the passage of the second iteration of the Markets in Financial Instruments Directive (MiFID II) and the Markets in Financial Instruments Regulation (MiFIR) remains the most significant regulatory development relating to trading and market structure.

ICI Global met with policymakers and regulators to discuss issues under MiFID II and MiFIR, and commented on key parts of the corresponding consultation paper from the European Securities and Markets Authority. ICI Global also urged European regulators to harmonize their efforts with other national regulators on the implementation of derivatives rules, including the definition of foreign-exchange instruments and margin requirements for non–centrally cleared over-the-counter derivatives (see page 9).

TRANSNATIONAL REGULATORY DEVELOPMENTS. ICI Global also weighed in on cross-border regulations that are increasingly affecting funds and their investors worldwide, including implementation of the Foreign Account Tax Compliance Act (FATCA), the globalization of FATCA through the creation of similar cross-border tax-reporting regimes by other countries, and the development of fund passports in Asia-Pacific (see page 27).

THE ROLE OF FUNDS IN PENSIONS AND LONG-TERM SAVINGS. Countries of every size and economic situation are grappling with how they can help their populations build retirement resources. To facilitate an exchange of knowledge about different pension systems worldwide, the challenges facing those systems, and how funds can

As of December 2013, ICI and ICI Global members account for more than

55

percent of assets in mutual funds and ETFs worldwide.

help meet those challenges, ICI Global in June 2014 hosted its second Global Retirement Savings Conference in Geneva (see page 15).

Because working with national and international policymakers also remains crucial to helping countries address their long-term savings needs, ICI Global engaged on these issues with influential stakeholders—including the World Bank, the Inter-American Development Bank, and the Organisation for Economic Co-operation and Development's Working Party on Private Pensions. In addition, ICI and ICI Global hosted several meetings for international visitors to share information about the U.S. retirement system and highlight the role that funds can play in different countries' pension systems.

The Implementation and Globalization of FATCA

The Foreign Account Tax Compliance Act (FATCA)—designed to combat tax evasion by requiring reporting to U.S. tax authorities on U.S. investor assets held overseas—went into effect on July 1, 2014.

ICI has engaged closely with U.S. officials to minimize the law's burdens on funds and their investors since FATCA's enactment in 2010. These efforts contributed to the regulatory phase-in of FATCA's requirements; relief from penalties based on good-faith compliance efforts; and the creation of intergovernmental agreements (IGAs), which greatly simplify FATCA compliance for local institutions.

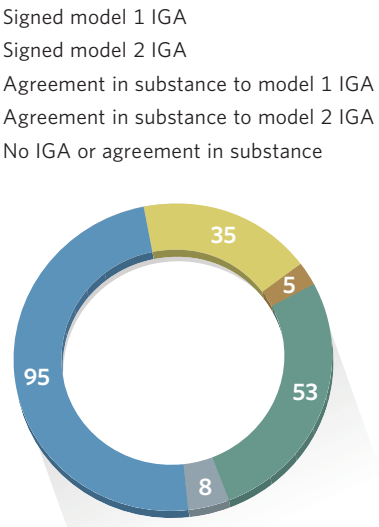
There are two types of IGAs: model 1 and model 2. Under model 1, a financial institution reports information about U.S. accounts to its country's tax authority, which in turn provides the information to the United States. Under model 2, a financial institution reports information about U.S. accounts directly to the United States, but it must register with the Internal Revenue Service to do so. As of September 2014, more than 100 countries either had signed an IGA or had an agreement in substance.

FATCA GOES GLOBAL

As other countries explore similar tax-compliance measures, the Organisation for Economic Co-operation and Development (OECD) has developed the common reporting standard (CRS) to promote consistent rules for collecting and sharing tax information between governments. More than 65 countries have announced plans to implement the CRS and receive its enhanced tax-compliance benefits.

Through the efforts of Senior Counsel for Tax Law Keith Lawson as chair of the Business Advisory Group to the OECD on these issues, ICI Global has led the global financial services industry's efforts to minimize the differences between FATCA and the CRS. Both the CRS and the OECD's "commentary" guidance for implementing the CRS largely address fund industry concerns, because both rely heavily on the IGA approach that most countries have adopted for implementing FATCA. This approach increases consistency and maximizes the value of the systems that firms put in place to comply with FATCA. ICI Global will continue to work closely with the OECD, government officials, and other financial industry participants to identify and correct deviations that would increase investor costs.

Number of Countries with a Signed IGA or Agreement in Substance for FATCA



Source: U.S. Treasury

ICI Global Leadership Roundtable

__Dan Waters__, managing director, ICI Global, talked with ICI Global's __Qiumei Yang__, CEO, Asia-Pacific, and __Susan Olson__, chief counsel, about the evolving regulatory landscape as well as industry changes in the Asia-Pacific region.

"In an increasingly interconnected regulatory environment, ICI Global's work with regulators outside the United States has been critical for all ICI members."

—DAN WATERS

How has ICI's attention to international issues through its London, Hong Kong, and Washington offices paid dividends for U.S. funds?

WATERS: In an increasingly interconnected regulatory environment, ICI Global's work with regulators outside the United States has been critical for all ICI members. By leveraging the Institute's respected economic analysis, legal insight, and operational expertise, ICI Global has been able to inform national and international policymakers about the unintended effects that their policies could have on other nations or regions. For example, we worked hard this past year to make sure global regulators understood why funds should not be designated as global systemically important financial institutions [see page 6].

ICI Global also engaged with European policymakers to explain the key differences between the European Union's proposed money market fund regulations and the final rules adopted by the U.S. Securities and Exchange Commission. Importantly, we discussed why the SEC's final rules, unlike the European Union's proposed regulations, did not include certain changes, such as capital requirements or a floating net asset value for all money market funds.

OLSON: Meeting with officials from outside the United States and with global regulatory bodies has allowed us to gain much deeper insight into international policymakers' concerns and approaches to an issue. ICI staff has brought this insight to bear when engaging with regulators in the United States. Through discussions and comment letters on issues ranging from collateral practices to restrictions on redemptions, for example, we have been able to explain to domestic regulators why an international approach to an issue may not work or how it can be adapted for the benefit of investors.

YANG: Having a physical presence in Hong Kong allows us to quickly and easily engage with regulators and market participants about a regulatory trend or regional issue. In turn, we're able to leverage this engagement to help member funds understand a specific development and how it could affect their investors.

For example, we closely monitored or engaged on a number of initiatives in the Asia-Pacific region this year, including the impending launch of the Shanghai–Hong Kong Stock Connect initiative and the development of fund passporting schemes. In September, we facilitated a webinar to help members understand more about the Shanghai–Hong Kong initiative and the opportunity it presents for asset managers and their regulated funds. We also gave presentations to U.S. member funds about the different fund passporting schemes during the General Membership Meeting in May.

Could you describe how ICI Global has grown and evolved since it was established in 2011?

WATERS: When we first launched ICI Global, we started with 12 global firms, all of which were based in the United States. Now we have 42 members on four continents. Thirty percent of our membership is based in the Asia-Pacific region, and nearly 40 percent of our membership is based outside of the United States.

YANG: The opening of the Hong Kong office contributed to this growth in and diversity of members, as well as to the number and variety of issues about which we're informed. Three years ago, ICI Global was only working on a few Asia-Pacific issues. Today, we have several task forces devoted to regional initiatives and are engaging on a variety of developments that could present numerous opportunities for funds and benefit investors inside and outside of the region.

How is the regulatory landscape changing?

WATERS: First, the number of regulators involved in various issues is increasing. Second, policymakers in one country are increasingly looking at how policymakers in another region approach an issue. In fact, it's almost expected for them to understand if other jurisdictions are undertaking, or have undertaken, similar types of reform, and what the consequences have been.

OLSON: Regulatory engagement also is changing. It's no longer enough to work with local regulators on an issue, because their thinking already may be influenced by a global policymaker's perspective. Regulators are consulting with each other more because they're starting to understand the benefits of considering other regulatory approaches. By working together, regulators are able to gain more insight into what approaches have or have not worked and why. Further, many concerns such as financial stability, derivatives reform, and even remuneration or executive compensation are not purely local issues—they're global issues.

Thus, it's essential that funds engage at the international level early in the regulatory process, so global and regional regulators understand, and are more thoroughly informed about, the issues at stake and how certain rules could affect U.S. funds—before they release a proposal that could guide local regulators' actions.

That type of engagement with global and regional regulators helps funds avoid unmanageable regulations or developments.

One of the ways we engage with international policymakers is through our work with the International Organization of Securities Commissions, or IOSCO. As an affiliate member, we have better insight into IOSCO's agenda and priorities, which enables us to respond earlier and more precisely to policymakers' concerns regarding funds. This membership also enables us to raise the visibility of our members' views and has raised awareness of ICI Global's resources and expertise.

Could you explain how the fund industry in the Asia-Pacific region is evolving and what the implications of those changes are?

YANG: During the past two decades, Asia-Pacific fund assets have increased more than 450 percent, to $3.3 trillion. Going forward, there is tremendous potential for further growth and development in the asset management sector. Part of this is due to the opening and deepening of capital markets in many areas of the region. And with this capital market development come important implications. There are potential investor benefits, including more-diversified portfolios, product innovation, and the growth of retirement resources. Fund companies will need to take into account the changes in the region and perhaps rethink their global strategies.

OLSON: It's important to understand that the Asia-Pacific region doesn't have a single fund industry or regulatory regime. Instead, countries have different histories, and their fund industries and capital markets are at different stages of development. Despite these differences, Asia-Pacific countries have a strong, common desire to not only strengthen and promote their local industries, but also to have their voices heard at the global regulatory level. And it is very important that their perspectives do in fact inform the global discussions occurring at global policymaking bodies, such IOSCO and the Financial Stability Board. By having an office in the region, ICI Global is in a position to know the issues and the regulators, and help member funds and their investors navigate the expected growth and changes in the Asia-Pacific region.

Examining the Rapid Growth of the Mutual Fund Industry Worldwide

Through ICI Global, the international dimensions of the Institute's policy agenda have grown substantially, and with them the scope of its research interests. Presenting a comprehensive analysis of the mutual fund industry, "Globalisation and the Global Growth of Long-Term Mutual Funds," published in March 2014, analyzes the development of the now-booming global environment for mutual funds in various regions around the world—and the reasons for the rapid growth of funds in various economic and regulatory environments.

Mutual fund assets worldwide have increased more than sevenfold since 1993—from $4 trillion in 1993 to almost $29 trillion in September 2013—explains the paper's author, ICI Senior Economist Chris Plantier. A number of factors account for this growth and the varied growth experiences across individual countries. They include:

- improving levels of economic development;
- deep and liquid capital markets;
- the existence of a defined contribution (DC) system that enables participants to invest in mutual funds; and
- strong, appropriate regulation.

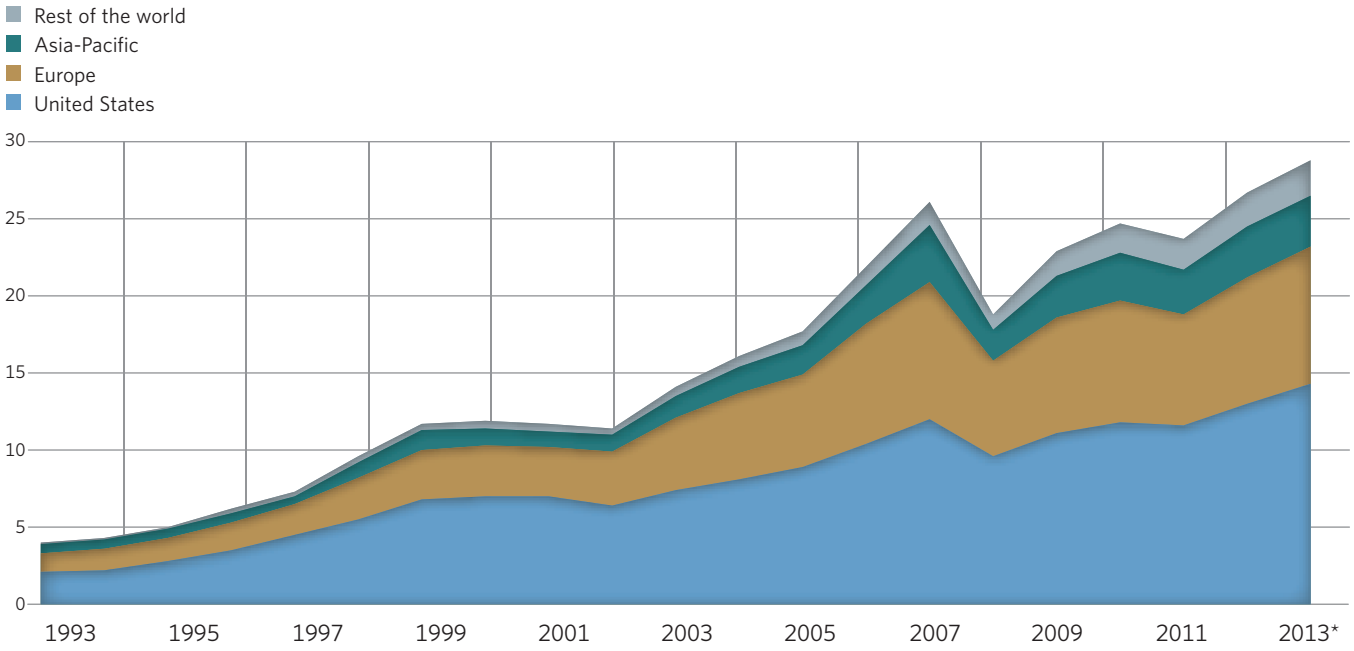
Though ICI Global's first research paper looks back at two decades of robust mutual fund growth, it also looks ahead at the potential demand for regulated funds, gauging the implications of further development for fund investors and managers.

For example, the economic and financial maturation of many developing economies, combined with a corresponding increase in per capita incomes, has given rise to a global middle class that is expected to increase from 1.8 billion people in 2009 to 4.9 billion by 2030, with most of this growth occurring in Asia. Another change in the Asia-Pacific region is expected to lead to significant growth of mutual fund assets: a gradual rise in the share of the population aged 65 and older. Over the next 50 years, this trend also will create pressure on public pension systems, which in turn will likely increase the relative importance of DC plans and the use of mutual funds as means to attain long-term savings goals.

Another potential factor that could contribute to the fund industry's growth in Asia-Pacific countries is greater access to cross-border funds domiciled within the region. This could further broaden the range and attractiveness of funds available to investors while bolstering the already strong global demand for mutual funds (see page 27).

Worldwide Total Net Assets of Mutual Funds

TRILLIONS OF U.S. DOLLARS; YEAR-END, 1993–2013*



* Data are as of September 2013.

Note: Data include equity, bond, mixed/other, and money market funds. Funds of funds are not included except for France, Italy, and Luxembourg. Data include home-domiciled funds, except for Hong Kong SAR, the Republic of Korea, and New Zealand, which include home- and foreign-domiciled funds.

Source: International Investment Funds Association

Opening Up a New World for Mutual Funds

Mutual fund assets in the Asia-Pacific region have increased more than 450 percent from 1993 to 2013, bolstered by a burgeoning middle class, rising per capita income, and an aging population that is increasingly recognizing the benefits of using funds to achieve long-term savings goals, such as retirement. The development of cross-border fund agreements between countries in the Asia-Pacific region has the potential to continue this strong trend of fund industry growth, provide greater diversity and more options to investors, and further deepen the region's capital markets.

Currently, three cross-border fund agreements—or "passporting" initiatives—are being developed in the region:

- the Association of Southeast Asian Nations (ASEAN) Collective Investment Schemes (CIS) framework, which would involve several members of the ASEAN Capital Markets Forum (Malaysia, Singapore, and Thailand);
- the Asia Region Funds Passport (ARFP), which would engage several members of the Asia-Pacific Economic Cooperation (APEC), including Australia, New Zealand, Singapore, South Korea, Thailand, and the Philippines; and
- a mutual recognition agreement between Hong Kong and mainland China.

Because these agreements present great opportunities and challenges for domestic and foreign fund managers, throughout the year ICI Global engaged with regional policymakers involved in these initiatives.

In March, for example, ICI Global commented on the development of the ASEAN CIS framework, expressing strong support for the framework's potential to provide a wider choice of products for investors and new cross-border fund distribution opportunities. The letter urged regulators to coordinate their implementation of the framework while calling for a pragmatic approach to the distribution of funds, a broader examination of the incentives and barriers to cross-border distribution, and consideration of how funds could satisfy the framework's investor disclosure requirements.

In August, the ASEAN Capital Markets Forum launched the framework and published a handbook for CIS operators that provides guidance on the application process for fund authorization and how to apply the rules in each jurisdiction. As the framework is implemented, ICI Global will continue to assess it and represent members' needs and concerns.

In April, ICI Global responded to a consultation paper on the ARFP. The comment letter focused on how to make the passport initiative more economically and operationally feasible by addressing issues in three broad areas: taxes, operations, and implementation.

ICI Global emphasized that tax neutrality and tax certainty for funds across APEC jurisdictions are critical to the passport's success. It also recommended that the passport create a more workable framework by reducing the operational challenges in numerous areas, including investment restrictions, investor disclosure, distribution, and delegation of portfolio management. Finally, ICI Global suggested that the six countries form a group of representatives to monitor passport developments and resolve implementation differences.

The six countries involved in the ARFP intend to finalize arrangements in late 2014 or early 2015, with an eye toward allowing funds to use the passport in 2016. ICI Global will continue to engage with fund managers, regulators, and other stakeholders to make any passport agreement an attractive and workable cross-border fund vehicle.

Cross-Border Fund Initiatives in the Asia-Pacific Region

Preserving Money Market Funds' Value to Investors and the Economy

Almost six years after the worst week of the financial crisis, the Securities and Exchange Commission (SEC) voted on July 23 to adopt sweeping changes to the rule that governs money market funds. The vote capped a long and intense period of study, analysis, and commentary involving a wide range of parties, both in the United States and abroad.

Throughout this six-year debate, the Investment Company Institute played a leading role. ICI pursued two primary objectives: increasing the resiliency of money market funds in even the most extreme circumstances, while preserving the value of these funds for investors, issuers, and the economy.

The new reforms build upon the significant changes to money market fund regulation adopted by the SEC in 2010 and tested during the European and U.S. debt crises of 2011. Notably, the SEC crafted its new rules to address those funds that showed the greatest susceptibility to heavy redemptions during times of market stress, such as that experienced in September 2008.

When the new rules are fully implemented in October 2016:

- Treasury and government money market funds will continue to offer a stable net asset value (NAV) for investors.
- Prime and tax-exempt money market funds offered to retail investors (defined in the rule as natural persons) also will have the ability to maintain a stable NAV.
- Institutional prime and tax-exempt money market funds will be required to price their shares to four decimal places ($1.0000 for a share offered at $1), making it likely that their NAVs will "float."
- All money market funds—like other funds—will be allowed under most circumstances to use amortized cost to value securities with remaining maturities of 60 days or less.
- All nongovernment money market funds will be required to impose a 1 percent liquidity fee on redemptions if a fund's

"Over the course of almost six years, ICI did not flag or falter in pursuit of the twin goals we had identified from the outset—strengthening money funds against the most adverse market conditions, while preserving their manifold benefits."

—PAUL SCHOTT STEVENS

Major Events in Money Market Fund History

OCTOBER 1971
The first money market fund (MMF), the Reserve Fund, opens to investors.

JULY 1983
SEC Rule 2a-7 permits MMFs to use amortized cost valuation and/or penny-rounding pricing to help maintain a stable NAV.

MARCH 1986
The SEC adopts Rule 2a-7 amendments that impose additional requirements on the quality and diversification of demand features.

FEBRUARY 1991
The SEC adopts Rule 2a-7 amendments that tighten credit standards for eligible investments by taxable MMFs, including addition of a diversification requirement.

SEPTEMBER 1994
Community Bankers U.S. Government Money Market Fund liquidates and distributes assets at $0.96 per share, becoming the first MMF to "break a dollar."

MARCH 1996
Amendments to Rule 2a-7 tighten investment restrictions on tax-exempt MMFs and address the rule's application to asset-backed securities.

weekly liquid assets fall below 10 percent of total assets, unless the fund's board determines that such a fee would not be in the best interests of shareholders. All money market funds will be permitted to impose fees of up to 2 percent on redemptions if weekly liquid assets fall below 30 percent of total assets.

» All money market funds will be allowed to suspend redemptions for up to 10 days under the liquidity circumstances that would trigger a redemption fee.

The new rules also increase disclosure of liquidity, flows, and NAVs; tighten diversification requirements; and enhance stress testing for money market funds. In conjunction with the SEC rule, the Internal Revenue Service and Treasury Department issued significant guidance addressing the tax implications of floating NAVs.

The 2014 reforms will allow investors of all types continued access to stable NAV cash management funds, whether through the retail exemption, government funds, or non-registered funds for institutional investors. ICI research estimates that more than three-quarters of U.S. money market fund assets are in funds that can continue to offer a stable NAV (see page 30). The SEC also rejected capital requirements, NAV buffers, and permanent "minimum balance at risk" holdbacks on redemptions, dismissing the latter as creating "a more complex instrument whose valuation may become more difficult for investors to understand."

The new reforms also allow fund boards significant discretion in deciding whether and how to impose redemption gates and fees in extreme market circumstances. Fund managers can avoid such gates and fees entirely by carefully maintaining liquidity within their funds.

The design of the new rules reflects a deliberate and constructive effort by the SEC to understand and address issues revealed by the financial crisis, without exaggerating risks or ignoring the value of money market funds to investors and issuers. That effort was aided by the research and insights provided by money market fund sponsors, investors and issuers in the money markets (including corporate and municipal treasurers), and ICI.

For the Institute, that work began immediately after the unprecedented events of September 2008, when ICI created the Money Market Working Group to "make recommendations to minimize risks and help assure the orderly functioning of this vitally important market." The *Report of the Money Market Working Group* and its recommendations—adopted unanimously by ICI's Board of Governors in March 2009—became the foundation of the SEC's substantial reforms of January 2010. That report stands out as the most conspicuous example of an

CONTINUED ON PAGE 30

SEPTEMBER 16, 2008
The Reserve Primary Fund, with $785 million invested in Lehman Brothers, becomes the second MMF to "break a dollar." Investors receive more than $0.99 per share.

SEPTEMBER 19, 2008
Federal Reserve announces the Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility for commercial paper. The AMLF ends February 1, 2010.

OCTOBER 10, 2008
SEC staff sends a letter to ICI temporarily allowing MMFs to value some high-quality, short-term securities at amortized cost for shadow pricing under Rule 2a-7.

SEPTEMBER 19, 2008
U.S. Treasury announces Temporary Guarantee Program, designed to restore to $1.00 the NAV of a participating MMF that breaks a dollar. Program expires after one year with $1.2 billion in fees paid by MMFs to the Treasury, but no claims paid by Treasury under the guarantee.

NOVEMBER 24, 2008
Federal Reserve Bank of New York provides senior secured funding to a series of special-purpose vehicles that purchase high-quality money market instruments from U.S. MMFs. The facility is never used.

industry, in the aftermath of the financial crisis, spearheading reforms for the benefit of markets and investors.

When bank regulators and the SEC's leadership at the time persisted in demanding further structural changes in money market funds after the 2010 reforms, ICI stepped up its research and advocacy. In conjunction with the Institute's leadership and members, ICI engaged with policymakers at all levels, weighed every serious proposal, and marshaled research, legal, and operational expertise to inform the regulatory process. Any number of proposals—including those ultimately rejected by the SEC in its final rule—surfaced, usually with strong support among bank regulators. By contrast, those most familiar with money market funds and the markets in which they invest lined up solidly against such ideas. Those included fund sponsors, investors, and issuers—and ultimately a majority of the SEC, the agency that has successfully regulated money market funds for the past 40 years.

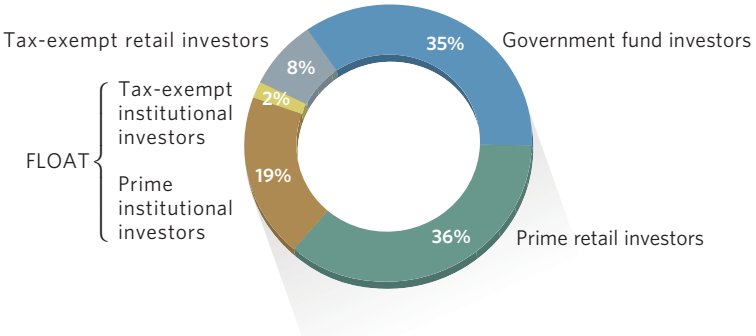
Though the SEC rule is now complete, ICI and its members must devote considerable effort and resources to its implementation over the next two years. Fund sponsors must reorganize their prime and tax-exempt funds to provide separate funds for retail and institutional investors. Sponsors and intermediaries must redesign systems to accommodate floating NAVs and redemption fees and gates. And investors may need to reconsider their approach to cash management in light of the changing money market fund landscape.

The new U.S. rules also will be closely studied in Europe, where a pending proposal by the European Union would require all money market funds and similar products to adopt either a floating NAV or a 3 percent capital requirement. ICI Global has reached out to European policymakers to help them understand the balanced approach adopted by the SEC and to encourage greater flexibility, in hopes that the eventual EU rule will preserve a viable stable NAV money market fund product to benefit investors and the European economy.

U.S. money market fund reform was a critical policy struggle for the Institute and its members. "Over the course of almost six years, ICI did not flag or falter in pursuit of the twin goals we had identified from the outset—strengthening money funds against the most adverse market conditions, while preserving their manifold benefits," ICI President and CEO Paul Schott Stevens wrote in a report to independent directors. "We can take great pride in the intellectual rigor and substance we brought to what was at times a fraught policy debate."

Nearly 80 Percent of U.S. Money Market Fund Assets Are Held in Funds That Will Retain a Stable Net Asset Value

PERCENTAGE OF TOTAL MONEY MARKET FUND ASSETS; YEAR-END, 2013



Note: Money market funds held $2.7 trillion in assets at year-end 2013. Institutional accounts include financial and nonfinancial businesses, nonprofits, state and local governments, and other unclassified accounts. Accounts held by fiduciaries, retirement plans, and 529 plans are considered to be retail accounts.

Major Events in Money Market Fund History CONTINUED

JANUARY 14, 2009
MMF assets hit $3.92 trillion, their highest level ever.

JUNE 2009
U.S. Treasury issues a white paper directing the SEC to move forward with plans to reduce the risk profile of individual MMFs and make the industry less susceptible to "runs."

OCTOBER 2010
The President's Working Group on Financial Markets issues a report urging additional changes to MMFs.

MAY–AUGUST 2011
Facing a possible federal government default on payments to bondholders, MMF managers adjust fund portfolios to mitigate risks.

MARCH 2009
ICI issues *Report of the Money Market Working Group*. ICI's Board voluntarily adopts its wide-ranging recommendations for stronger MMF regulation.

JANUARY 2010
The SEC adopts Rule 2a-7 amendments that incorporate many of the Money Market Working Group's recommendations: tighter MMF liquidity requirements, stricter quality requirements, reduced maturity limits, and enhanced disclosure of portfolio holdings, among others.

MAY–NOVEMBER 2011
U.S. prime MMFs continue their careful response to the worsening debt crisis in the eurozone, reducing their holdings of eurozone banks.

Money Market Funds by the Numbers

PRIZED BY INVESTORS

Investors continue to embrace money market funds—and have been rewarded with remarkable resilience, liquidity, and stability.

$2.6 TRILLION

Money market funds held nearly $2.6 trillion in assets in June 2014. That's nearly $740 billion (41 percent) more—at average yields of 1 basis point for taxable funds—than they held when average yields exceeded 6 percent in late 2000.

$517 BILLION

Prime money market funds held more than half a trillion dollars in weekly liquid assets as of June 30, 2014—roughly 37 percent of total prime money market fund assets, or well above the 30 percent requirement established in the SEC's 2010 reforms.

50 MILLION

Nearly 50 million individual shareholders owned money market funds in June 2014. This translates into nearly 30 million U.S. households.

996 PERCENT

During the past two decades, money market fund assets have grown nearly elevenfold—from $233.6 billion at year-end 1984 to $2.6 trillion in June 2014.

CENTRAL TO OUR ECONOMY

Money market funds have long played a crucial economic role, providing an important vehicle for short-term financing and cash management in both the public and private sectors.

$509.8 TRILLION

More than half a quadrillion dollars have flowed in and out of money market funds since 1984—shortly after the SEC adopted Rule 2a-7 of the Investment Company Act of 1940 to enable the funds to maintain a stable net asset value per share.

79 PERCENT

As of June 2014, money market funds held $268 billion of tax-exempt securities—nearly four-fifths of municipal short-term debt. State and local governments issue debt to finance roads, bridges, airports, water and sewage treatment facilities, hospitals, low-income housing, and other public projects.

35 PERCENT

As of June 2014, taxable money market funds held $347 billion—or more than one-third—of the commercial paper that businesses use to finance payroll, inventory, and other short-term liabilities.

$377 BILLION

As of June 2014, taxable money market funds held $377 billion—or 13 percent—of short-term debt issued by the Treasury.

AUGUST 2012
The SEC announces that it will not proceed with a vote to solicit public comment on potential structural reforms of MMFs.

SEPTEMBER 2012
Treasury Secretary Timothy Geithner urges members of the Financial Stability Oversight Council to recommend that the SEC proceed with MMF reform.

NOVEMBER 2012
SEC study examines what caused redemptions of prime MMFs during the 2008 crisis, the efficacy of the 2010 reforms, and how MMFs would have performed in 2008 had the 2010 reforms been in place.

NOVEMBER 2012
FSOC solicits public comment on three requirements for MMFs: a floating NAV, a NAV buffer of up to 1 percent of assets, or a risk-based NAV buffer of 3 percent.

SEPTEMBER 2013
European Commission proposes a new regulatory regime requiring EU MMFs to either maintain a capital buffer of at least 3 percent or float the NAV. These regulations remain pending.

JUNE 2013
SEC proposes amendments to the rules that govern MMFs. The proposal generates more than 1,400 comment letters.

JULY 2014
The SEC adopts amendments to the rules that govern MMFs (see page 28).

Keeping Directors Ahead of the Curve with Information, Advocacy

IDC's efforts to serve independent directors as they serve shareholders will continue and expand as it moves into its next decade.

The fund industry is constantly evolving. Globalization, new and more complex financial products, and increasing regulatory scrutiny are just a few of the developments affecting fund boards.

As it has for the last decade, the Independent Directors Council (IDC) worked tirelessly over the past year to help directors fulfill their responsibilities representing the interests of fund shareholders. IDC provided directors with a wide range of offerings supporting its four-point mission: educating independent directors, facilitating interaction and communication among them, advancing their policy positions, and promoting public understanding of their role.

EDUCATION—ALWAYS TOP PRIORITY

Education remains IDC's top priority, and nowhere did this show more than at its signature events, where hundreds in the director community heard from industry experts about a range of important topics. At the Fund Directors Conference in October 2013, panels on social media and cybersecurity, globalization, and alternative investment funds took center stage. IDC's Fund Directors Workshop—held concurrently with ICI's General Membership Meeting—featured a number of informative sessions, including one on what fund boards might look like and focus on in 2024.

To supplement these in-person meetings, IDC launched a five-part webinar series. The highly popular Core Responsibilities of Fund Directors—which had close to 100 attendees per session—was designed to educate newer directors about their roles and responsibilities while offering veteran directors a refresher. IDC also hosted webinars on other topics, including oversight of fixed-income funds, and the examination and regulatory priorities of the Securities and Exchange Commission (SEC).

CONVENING THE DIRECTOR COMMUNITY

Knowledge is more valuable when shared and discussed—especially in an industry experiencing rapid change. That's why IDC works so hard to promote interaction among directors from all types of funds and all parts of the country. During the many chapter meetings held this year, directors tapped their collective expertise and exchanged ideas on the latest regulatory, legislative, judicial, and industry developments. IDC also debuted "industry segment calls"—one for fund board leaders and another for audit committee chairs—that enabled these directors to discuss their unique governance responsibilities. IDC plans to build on the success of these calls next year.

A VOICE IN POLICY DEBATES

IDC's continued commitment to communicating director viewpoints extends into the policy arena. This year, IDC monitored the SEC's work on possible valuation guidance and provided SEC staff with input to ensure that any such guidance appropriately reflects boards' oversight role.

When the SEC and four other federal agencies proposed joint standards for assessing the diversity policies and practices of the entities they regulate, IDC expressed support for the proposal's measured approach. And when the Public

Company Accounting Oversight Board proposed major additions to auditing standards, IDC joined with ICI in strong opposition to a requirement that auditors include in their reports subjective, complex information that would increase auditing costs but not add meaningfully to the information shareholders already receive. IDC also weighed in on an SEC proposal to require that target date fund marketing materials include a standardized risk-based glide path, noting that the proposed approach could confuse or mislead investors.

KEEPING THE PUBLIC INFORMED

More than 90 million shareholders depend on fund directors to promote and protect their interests, and public understanding of directors' responsibilities is vital to shareholder confidence. IDC worked throughout the year to enhance this understanding by giving media interviews, holding meetings with regulators, and maintaining an informative website, among other activities.

IDC's efforts to serve independent directors as they serve shareholders will continue and expand as it moves into its next decade, responding to directors' needs. Even though directors operate in an environment that is always in flux, IDC's commitment to its mission will remain steadfast.

A Decade of Commitment to Strong Fund Governance

In May, IDC marked its 10th anniversary with a mix of reflection and celebration—and ambition. The council has grown into an invaluable resource for independent directors, supporting them as they meet their responsibilities to promote and protect shareholder interests. But there is no room for complacency. The fund industry is ever-changing, and IDC must continue to adapt with it in the years to come. "The Independent Directors Council will provide a forum to enable director involvement in public policy, promote best practices, and facilitate educational development," James H. Bodurtha, IDC's first chair, said at its launch in 2004.

DAWN-MARIE DRISCOLL, INDEPENDENT DIRECTOR FOR DEUTSCHE FUNDS, ADDRESSES ATTENDEES AT IDC'S 10TH ANNIVERSARY DINNER.

"Ten years on, we're proud of our work in pursuit of that vision—and indebted to all who have helped us live up to it," says Amy Lancellotta, IDC's managing director. "With the continued leadership and participation of the director community, we look forward to furthering our commitment to strong fund governance on behalf of more than 90 million fund shareholders."

IDC: Past, Present, and Future

Susan B. Kerley, outgoing chair of IDC's Governing Council, member of ICI's Board of Governors, and independent director for Legg Mason Partners Fixed Income Funds and MainStay Funds, recently answered a range of questions about IDC's past, present, and future.

> *"Funds have become more complex, giving retail investors access to investment strategies and securities that once were reserved for institutional and high-net worth investors.... Fund boards' oversight responsibilities have thus expanded to address new forms of operational and enterprise risk."*
>
> —SUSAN B. KERLEY

The Independent Directors Council recently celebrated its 10th anniversary. How has the landscape for boards changed since IDC opened its doors in May 2004?

One change is in the governance practices and oversight tools that boards use. The Securities and Exchange Commission (SEC) regulations adopted 10 years ago led to some substantial changes in board dynamics. For example, boards now conduct annual self-assessments, most independent directors are advised by independent legal counsel and set their own compensation, and all funds are required to have a chief compliance officer, who answers to the board. Also, independent directors now make up at least 75 percent of the seats on most fund boards—which is well beyond regulatory requirements—and most boards have independent chairs or independent lead directors.

Another change is in the funds that boards oversee. Funds have become more complex, giving retail investors access to investment strategies and securities that once were reserved for institutional and high-net worth investors. Exchange-traded funds, alternative investment funds, and target date funds—all popular today—weren't represented in most fund lineups a decade ago. Fund boards' oversight responsibilities have thus expanded to address new forms of operational and enterprise risk.

Boards also need to respond faster to evolving demands such as the rising popularity of social media and other new technology. And although technology has enhanced fund and board operations and the experiences of fund shareholders, it also has created the need for greater cybersecurity measures.

At this year's Fund Directors Workshop, you led the "2024 Fund Board" panel, a discussion of emerging trends that might affect boards over the next decade. Tell us about a few of those trends, and how boards might respond to them.

For one, there's the global integration and regulation of financial services organizations, financial products, and investment markets, which will continue and probably accelerate. U.S. funds are feeling the effects of events elsewhere in the world, even if those funds are not directly invested in the country or region where the events are occurring. Directors will have to better understand how global forces can influence how their funds invest—especially in emerging markets, where persistent political unrest can upset the investment environment.

The growing use of alternative investment funds—or "liquid alts," as they've come to be known—is another trend to keep an eye on. As more boards become responsible for overseeing these funds, directors will have to become familiar with their potential complexities, including their use of derivatives and shorting strategies. Directors will need to broaden their education on newer asset classes in which their funds might invest—such as hedge

funds, private equity, or even direct energy-related investments.

A third trend is an expanded generational shift, as current directors retire and younger directors replace them. Boards will continue to be made up of directors with substantial professional experience across a range of disciplines and skills, and building a diverse board is becoming more of a focus than in years past—diverse not only in professional experience and training, but also in gender and race. In addition, those joining boards will need to be able to satisfy the time commitment required of a fund director in today's environment.

How does IDC help directors keep up with an ever-changing industry?

The main way we help is through our educational programming, a process that starts with seeking input from directors about the topics they find important. Next, we bring together professionals with deep expertise in investments, operations, regulation, or audits—whatever the issue may be—and frame that expertise from the board perspective to give directors the information they need to make educated decisions on behalf of shareholders. With this varied input, we build the programs into finished products.

IDC's efforts in director education include a range of activities. We hold chapter meetings, and we host an annual conference and workshop where directors can engage with industry thought leaders and senior regulators. We also offer online training—including webinars that enable directors to stay informed about developments and dig deeper into more complicated subjects—and web-based tools, including a summary of fund director responsibilities called *Fundamentals for Newer Directors*. We produce white papers that draw on the knowledge of experienced directors, industry practitioners, and ICI's research and legal teams. Every month we publish *Board Update*, an e-newsletter that summarizes IDC activities while examining regulatory and industry developments.

Regulatory scrutiny of fund boards seems to have been increasing lately. What can you tell us about that?

Regulatory scrutiny, especially by the SEC, is nothing new. But lately it seems as if the microscope has grown more powerful. For example, over the last year, SEC Chair Mary Jo White frequently has referred to fund directors as "gatekeepers," and staff in the SEC's examinations office and enforcement division have expressed interest in reviewing directors' practices. Directors must be prepared for greater scrutiny, especially if their fund groups are unfortunate enough to become involved in regulatory investigations or private litigation.

Of course, helping directors stay up to date on changes in the regulatory environment is part of IDC's mission. Earlier this year, for example, SEC staff issued guidance related to fixed-income funds, as the Federal Reserve contemplated an end to quantitative easing and the period of near-zero interest rates. Soon after, IDC hosted a webinar for fund directors, especially those on fixed-income fund boards, to review the guidance and to discuss the role of boards in overseeing these funds and the advisers' risk management practices.

Speaking of regulatory developments, how will IDC engage with boards as funds implement the requirements under the SEC's new rules for money market funds?

These rules will impose major new responsibilities on fund boards. That much we know. However, IDC—along with ICI and the whole fund community—is still working to determine the precise implications. Our programming will center on educating directors about what the rules mean for funds and about how to manage their new responsibilities.

You'll step down from your post as chair of IDC's Governing Council in October 2014. Any advice for your successor, Paul K. Freeman, independent director, Deutsche Funds?

[laughs] Paul hardly needs my advice! He's a thoughtful, experienced leader with great ideas for the organization—and he already has made major contributions to the Governing Council. I know he'll continue to work well with the IDC staff, with our colleagues at ICI, and with the Governing Council's other members, whose talent and drive grow every year. I can speak only as one member of the fund director community, but I'm very much looking forward to Paul's tenure—and I have great confidence that, under his leadership, IDC's service to fund boards on behalf of shareholder interests will only improve.

Operations Initiatives Address Risk, Regulatory, and Compliance Needs

Over the past year ICI's operations specialists focused especially on members' needs around risk mitigation, regulatory matters, and compliance.

Responding to growing cybersecurity risks facing members, the ICI Board of Governors authorized the formation of the Chief Information Security Officer Advisory Committee, which includes ICI members and critical service providers to the industry. Vanguard's Ellen Rinaldi and ICI's Peter Salmon lead the committee, which provides a forum for security professionals to share information and common practices.

This year also saw advancement of a major voluntary industry proposal to shorten and standardize the settlement cycle for a range of securities to two days after the trade date (T+2), an initiative led by the Depository Trust & Clearing Corporation (DTCC) and endorsed by ICI's Board of Governors. A shortened settlement cycle helps reduce operational, liquidity, and counterparty risks while promoting significant process efficiencies and bringing the U.S. settlement cycle more in line with other countries. ICI's Kathy Joaquin is cochair of the initiative's Industry Steering Committee, which is providing guidance and support to the effort.

ICI also continued its work with members to enhance tools needed to conduct effective oversight of intermediary relationships. One example of this involved a task force of ICI's Operations Committee, which worked in conjunction with major audit firms and intermediaries to implement an update to one of the critical oversight tools available to the industry, the Financial Intermediary Controls and Compliance Assessment (FICCA) framework (see page 37). Other initiatives included efforts to enhance the data transparency and information sharing needed for fund compliance and oversight of intermediary activities, and efforts to improve the data collection on fund oversight programs and common practices.

In October 2013, the Financial Accounting Standards Board (FASB) considered requiring funds to disclose information about investments they make in other funds that exceed 5 percent of net assets. The changes would have significantly increased the amount of disclosure information required in a fund-of-funds shareholder report—as well as the costs of providing that information—for little benefit. ICI argued that the 5 percent threshold was too low, explaining that additional disclosure is unnecessary when the investee fund is a public fund, because investors could easily get information about the investee fund online. In April 2014, the FASB dropped the disclosure project from its agenda.

In December 2013, ICI and the Independent Directors Council (IDC) jointly submitted comments on a Public Company Accounting Oversight Board (PCAOB) proposal to overhaul the reporting model used by auditors for audits of all public companies. ICI and IDC argued that because funds' assets are securities, the only "critical audit matter" auditors would report for funds would relate to valuation of securities. Because funds already provide extensive disclosures in their prospectuses and shareholder reports about their valuation policies, this would have imposed a redundant and costly burden—for little benefit. The PCAOB plans to repropose changes to the auditor's reporting model during the second half of 2014.

More than

1,650

members participated in

10

webinars held by ICI's Operations team in 2014—the first year it has conducted the online events.

Shortening Settlement Cycles—and Making Markets More Resilient

In February 2014, the Institute's Board of Governors endorsed an industry initiative led by the Depository Trust & Clearing Corporation (DTCC) to shorten U.S. settlement cycles for a range of securities—including equities, municipal and corporate bonds, and unit investment trusts—from trade date plus three days (T+3) to trade date plus two days (T+2).

Overseen by an Industry Steering Committee (ISC) cochaired by Kathy Joaquin, ICI's chief industry operations officer, and Tom Price, managing director for operations, technology, and business continuity planning at the Securities Industry and Financial Markets Association (SIFMA), the initiative will:

- reduce operational and counterparty risks, enhance liquidity, promote better use of capital, and create significant process efficiencies for market participants—all major benefits to investors;
- bring U.S. settlement cycles in line with those across the globe, helping funds better manage liquidity and cash flows—which in turn will reduce and simplify financing needs; and
- further harmonize the settlement time frames between portfolio securities and fund shares, reducing any settlement-timing challenges for fund managers.

The move to T+2 has been under consideration for more than a decade, but recently DTCC and industry stakeholders resurrected the proposal. In 2012, DTCC commissioned consultants to analyze the costs and benefits of shortening the post-trade settlement process. The analysis found that the advantages gained by market participants would be worth the operational changes needed.

As cochair of the ISC, Joaquin is working to build out the buyside representation on that committee as well as on its Industry Working Group. Together, these groups will determine the best approach and the implementation timeline for reaching T+2, while ensuring that perspectives from across the industry are taken into consideration.

ICI believes that shortening U.S. settlement cycles on a time frame that works for all market participants will be a step toward sounder markets. The ICI operations team will continue to engage with ICI members, industry stakeholders, DTCC, and regulators to determine the best timing and requirements for the shortened cycle.

For more information about the move to T+2—including background, progress, and next steps—visit the initiative's website at ***www.UST2.com****.*

FICCA: An Efficient, Flexible Framework—Now Made Better

During 2013, a working group of ICI members, financial intermediaries, and representatives of the four largest national audit firms met to review the Financial Intermediary Controls and Compliance Assessment (FICCA) engagement framework—a standardized and efficient way for financial intermediaries to report to fund sponsors how effectively they are servicing and recordkeeping fund shareholders. Originally released in 2008, FICCA enables an intermediary to provide one comprehensive audit report, or a combination of reports, to all the firms they represent. Intermediaries can thus demonstrate the effectiveness of their control environment as it relates to specific activities that they perform for their shareholder accounts, and reduce the need for overlapping compliance reviews by each fund complex.

In January 2014, ICI released an updated and improved FICCA framework that refines requirements and clarifies terminology while preserving the flexibility that has made the framework such a useful tool for the industry. The updated framework still enables intermediaries to provide funds with independent assessments of 17 control areas. It also features a glossary and supplemental information to provide further clarity on the framework, as well as a mapping document to help fund sponsors determine where each control area is covered, in cases where the intermediary provides multiple reports to a fund.

For more information about the FICCA framework, please visit ***www.ici.org/ficca.***

Helping Members Meet Cybersecurity Challenges Through Collaboration, Education

Ellen Rinaldi, principal and chief information security officer for Vanguard, and Peter Salmon, senior director of operations and technology for ICI, recently discussed issues related to cybersecurity, including the risks facing mutual funds and their shareholders. Rinaldi chairs ICI's new Chief Information Security Officer Advisory Committee (CISOAC). Salmon coordinates both CISOAC and the ICI Technology Committee.

> *"Although there are many valuable third-party resources available on information security, we now have a wonderful resource with 90 or so committee members who have tremendous knowledge to share."*
>
> —PETER SALMON

What types of cyber threats are facing the industry? Do any stand out as more significant than others?

RINALDI: The cyber threats that face our industry actually have to be divided into two different attack vectors. The first involves our companies, and the second, our clients. Each faces different threats. Companies are addressing multifaceted threats, including insider threats and hacktivists—who have the ability to steal financial data and disrupt business—and even state-sponsored attacks. There are states funding armies of hackers, and state funding isn't limited to the usual suspects anymore—we're dealing with smaller nation-states and terrorist elements. The "client" side of our business is facing an onslaught of identity theft that could result in loss of assets.

SALMON: As to whether some cyber threats are more significant than others, I think a lot has to do with the behavior of employees and shareholders. Many of these threats are certainly serious, but a lot can be avoided by just good, basic, common-sense behavior on the part of everyone. For example, employees—no matter where they work in the organization—really need to think before clicking to access or download something received in an email.

RINALDI: That point also goes to the basic fundamentals for companies, which would include updating software and making sure patches are in order. We typically refer to that as "basic security hygiene." Those precautions—together with cautions to help clients and employees avoid clicking on things they shouldn't, as Peter said—go a long way to reducing cyber threats.

Tell us how the advisory committee's mission extends beyond regulatory and compliance matters in an environment of increasing cyber threats.

SALMON: All of our members strive to comply with applicable regulations. This is a large issue, however, and it can't be regulated or "enforced" away. The advisory committee seeks, in part, to make certain that all ICI members maintain effective information security programs, including training, testing, incident response plans, threat vector and mitigation strategies, et cetera. That's where information sharing plays an invaluable role. Although there are many valuable third-party resources available on information security, we now have a wonderful resource with 90 or

so committee members who have tremendous knowledge to share within the committee and to pass on to the broader ICI membership and industry participants.

RINALDI: Part of our mission for the committee is to educate other ICI members on the risks to their organizations and the industry as a whole. In addition, as Peter suggests, we need to ensure that the information is integrated throughout the industry. Finally, I think we also have a duty to provide information to inform ICI's legislative and regulatory efforts.

How do the cybersecurity challenges facing ICI members and their service providers differ, if at all, from those facing other types of firms within the financial services sector?

RINALDI: I think that the dangers and the risks are the same. Every time we talk about cyber, it sounds like we're talking about the negative side of it, but one of the good things that you see in this environment is the cooperation you find among all financial firms when it comes to security matters. Though competition in other areas is vibrant, we recognize the commonality of cyber threats, we assist each other, and cooperate as much as is possible in the business environment. The challenge is to continue to do that—especially now, when the financial services industry is a main target of cyber threats. It behooves all of us to cooperate as much as we can.

SALMON: We want to underline the element of cooperation involved in this area. We've seen this not only in the information-security space, but in other areas as well, such as business continuity. The security challenges facing our industry are not a competitive issue. What is called for is everyone coming together to provide intelligence and to figure out solutions that will enhance and improve information security for the entire industry and for all of its shareholders.

You've talked about how information sharing is important to achieving the goals of ICI members and others in the industry. What types of information and data are shared today within the industry, and with outside organizations?

RINALDI: I'd say that the source and value of the information that is shared vary depending upon the situation and the kind of threat we're dealing with. Awareness of threats is extremely important, so that is something we want to arm our committee members with, along with any current information that's going to place them in the best position to make independent decisions for their firms. There are significant sources of information available to us both as a committee and as individuals, including the Federal Bureau of Investigation, the Treasury Department, the Financial Services Information Sharing and Analysis Center—or FS-ISAC—and the Department of Homeland Security. Many of our members also use private and commercial sources.

How can the advisory committee help small and midsized firms better prepare to defend against cyber threats?

SALMON: The financial services sector is fortunate to have the FS-ISAC, which collects information on cyber threats and then disseminates that information to its members. We've found that the FS-ISAC is much more developed than similarly focused organizations in other sectors. It's a great, relevant resource that all ICI members should know. In the past year, we've been encouraging the FS-ISAC to focus more on asset management firms, particularly in terms of providing programs and benefits to smaller and medium-sized asset managers. We plan to continue that effort in the coming years.

RINALDI: Another thing we will do is help the FS-ISAC and ICI members wade through some of the hype and misinformation about cyber threats, to enable smaller and medium-sized firms to prioritize where they should focus their efforts from the start. That's another reason why our efforts are so important.

56th Annual General Membership Meeting: Serving Investors in an Evolving World

U.S. industry leaders, foreign counterparts, regulators, and policymakers gathered at ICI's 2014 GMM, held in Washington from May 20 to 22, to discuss a wide variety of topics, centered around the theme, "Serving Investors in an Evolving World." Marie Chandoha, chair of the GMM Planning Committee, and president and CEO of Charles Schwab Investment Management, used her opening remarks to motivate the audience to embrace the evolving world, as well as the possibilities provided by the conference. "Change forces us to innovate," she said, "to develop new and dynamic solutions. But it also requires action. So, while you're here, push yourself to ask the big questions; address the toughest challenges. This is our opportunity to take a step forward together, and to make progress as an industry."

FINK STRESSES THE NEED TO FOCUS ON OUTCOMES

The GMM Policy Forum kicked off the conference. In a wide-ranging conversation with Paul Schott Stevens, president and CEO of ICI, Laurence D. Fink, chairman and CEO of BlackRock, stressed that the fund industry needs to stop focusing on the moment when advising investors and instead start focusing on outcomes. A long-term focus on outcomes helps investors ignore the "noise" of everyday events, he said, and helps to balance the industry's focus on performance and returns.

Fink covered a number of other topics, including the country's retirement system, the potential designation of asset management firms as systemically important financial institutions (SIFIs), how BlackRock maintains a strong, unified culture in the midst of explosive growth, and the challenges of operating a global business.

BLAIR TALKS OF TOUGH CHALLENGES, VAST OPPORTUNITIES

Keynote speaker Tony Blair, former prime minister of Great Britain and Northern Ireland, sat down with ICI Chairman Bill McNabb, chairman and CEO of Vanguard, for a lively discussion about global issues. Blair told the packed ballroom that he believes one of the greatest challenges facing the free world today is political and economic reform. The pressing need for reform is not a "left/right" issue, he said, but one driven by change affecting the entire political spectrum. There is no place for ideologues in such a world, he stressed.

Countries must adapt their political and economic systems because the world around them has changed, Blair argued. "Europe needed reform regardless of whether the financial crisis had occurred," he said. "It's only that the crisis exposed that need." Expounding further on the financial crisis, Blair noted that "we're in much better shape than we might have

LAURENCE D. FINK

Save the date for the 2015 GMM, **May 6–8**, when ICI will celebrate its **75th anniversary** and look forward to many more years of serving the fund industry and its investors.

been," though he has an "instinctive anxiety" that regulation in the financial sector has gone too far in some cases. "A strong economy depends heavily on a strong financial sector," he stressed. "If we're not careful, we're going to flatten some of that with what we've done."

WHITE SUPPORTS EFFORTS TO BOOST MARKET CONFIDENCE

In her second consecutive appearance at GMM, Securities and Exchange Commission (SEC) Chair Mary Jo White talked with Stevens about a range of issues. She stressed that the Commission would continue developing a number of rules for the securities markets, including measures to address the perception that today's equity markets are unfair to small investors, because "it is essential that people have confidence in the markets." On the issue of money market fund reform, White said that the SEC was trying to adopt "a robust, workable rule to address the issue…and do it in the most cost-effective way." She stressed that the SEC's goal was to "accomplish what we need to in terms of structural reform, while preserving this very important product" (see page 28).

As a member of the Financial Stability Oversight Council (FSOC), White also stressed that it is essential for FSOC to tap many sources of knowledge—including capital market regulators and the fund industry—when looking at asset managers and financial stability, rather than relying solely on the Treasury Department's Office of Financial Research. She said that it is "enormously important for FSOC, before it takes, frankly, any decision of any kind, to make certain that it has the requisite expertise brought to bear on those issues."

DIVERSE PROGRAM

In addition to these keynote sessions, GMM provided attendees with a remarkably wide offering of sessions, including those from the Operations and Technology Conference, the Mutual Fund Compliance Programs Conference, and the Fund Directors Workshop, all run concurrently with GMM. One major issue on the agenda was cybersecurity. Given that cyber threats—as well as the solutions to them—are constantly evolving, the industry's focus on the topic served as one more reminder of the ever-changing nature of its responsibilities to investors. As one panelist remarked, organizations can't take a "set it and forget it" approach to planning—instead, they should "constantly monitor and update plans, to be able to keep up to date with evolving technology and macro-level trends."

After interviewing former U.S. senator Olympia Snowe (R-ME) and discussing how to move forward on policy and budget priorities, Chandoha closed the meeting by reminding the gathering of the one thing that should never change in our evolving world: "We must never forget—or be complacent about—the fiduciary obligation that we owe to our millions of shareholders."

TONY BLAIR

MARY JO WHITE

OLYMPIA SNOWE

Catching Up with the Chairman of the Chairman's Council

William F. "Bill" Glavin Jr. is chairman of ICI's Chairman's Council and chairman of OppenheimerFunds Inc. In September, he met with ICI staff to discuss the Council, ICI's political action committee (ICI PAC), and the crucial role that both play in ICI's advocacy.

> *"ICI PAC is one of the most important mechanisms we have to help members get directly involved in the issues that matter to them."*
>
> —BILL GLAVIN

Could you tell us about ICI's political program and how it fits into ICI's mission?

One of ICI's core missions is to advance the interests of funds and their shareholders. Those interests are affected on a daily basis by the debates and decisions on Capitol Hill. Thus, it's important to support members of Congress who understand the important role that our industry plays in Americans' financial security, and to inform those members' decisions with empirical research and industry knowledge. That is where ICI's political program and the Chairman's Council come into play.

ICI has had a political program since 1978. In 1995, the Institute created the Chairman's Council to develop an umbrella approach to supporting members of Congress and candidates who understand the fund industry and its shareholders' needs. That approach includes holding and attending fundraisers for a carefully selected group of congressional members, creating an annual list of recommended candidates, and promoting ICI PAC.

Today the Council—which is also referred to as the ICI PAC Board—oversees and provides policy direction for those political activities. Its annual duties include setting fundraising goals for ICI PAC and the overall program; approving the list of members of Congress whom ICI will support through fundraising events; and adopting a list of recommended candidates. ICI member companies can meet their targets for ICI political activity by contributing in any of those three channels.

How does the ICI PAC Board decide which candidates to support through ICI's political activities?

Two of our most important goals are ensuring that industry efforts are maximized and that members' resources are put to the best use. Therefore, we generally support incumbents who have expressed a strong interest in issues that affect funds and their shareholders. Often, that interest is expressed either through their work on a related committee or through their work in a leadership position.

We also believe it is important to support a variety of political views and perspectives. To that end, we always strive to have a balanced mix of members from both major parties and both houses of Congress when developing our lists of recommended candidates and candidates to support through fundraising events.

ICI CHAIRMAN BILL MCNABB (LEFT), CHAIRMAN AND CEO OF THE VANGUARD GROUP, TALKS WITH REPRESENTATIVE JEB HENSARLING (R-TX), CHAIRMAN OF THE HOUSE FINANCIAL SERVICES COMMITTEE, AT AN EVENT HELD IN HENSARLING'S HONOR.

How have ICI PAC and its fundraising efforts grown?

Our fundraising follows the two-year federal campaign cycle. Looking at the most recent non-presidential cycles, in 2005–2006, ICI PAC raised $1.1 million, while in 2009–2010 that amount grew to $1.5 million. For the 2013–2014 cycle, ICI PAC has raised a little more than $1.3 million, with two months to go. This growth is particularly important given these tight budgetary times where everything is on the political table, including such ideas as reducing retirement tax incentives.

Can you tell us about some of ICI PAC's initiatives this year?

ICI PAC plays a critical role in the Institute's comprehensive government affairs program. Our government affairs team worked on a number of policy initiatives this year, including vigorously engaging with influential legislators to explain why funds should not be designated as systemically important financial institutions and defending retirement savings provisions by highlighting the 401(k) system's success and its consistent popularity among plan participants.

ICI PAC also enhanced its brand by developing a new logo and a new tagline—"Get Invested." We added more content to our annual *ICI PAC Report* in response to member requests for further information about our work, and we increased our presence at this year's General Membership Meeting.

These initiatives have enhanced our credibility and, more importantly, increased awareness of our members' stances on issues important to funds and their investors.

One of the things that seems to hold ICI members back from participating in ICI PAC is the "prior approval form." Why is that important?

We require that a representative of every member company sign a prior approval form, or PAF. The law requires a representative to sign a PAF so we can send the company updates on our activities and keep it informed on our progress and issues.

It is important to note that signing the form does not obligate a company or its employees to contribute to ICI PAC. It is just the first step in allowing us to talk about the PAC in more detail with a company representative. I also think it is important for our members to know that we do not solicit their employees. We only work with the representative of the member firm who signs the PAF.

How can participating in ICI PAC help members "get invested" in the policy issues facing the industry?

I think ICI PAC is one of the most important mechanisms we have to help members get directly involved in the issues that matter to them. For example, member companies that participate in ICI PAC–hosted events are given the opportunity to engage in and maintain a robust dialogue with elected officials and candidates about the day-to-day implications of policy decisions.

Another important way that ICI PAC helps members "get invested" is through our participation on behalf of member funds in events for congressional candidates hosted by other groups. By aggregating ICI PAC resources and being present—as well as engaged—at candidate events, we are able to raise the industry's visibility and increase awareness about issues that matter most to investors.

REPRESENTATIVE TERRI SEWELL (D-AL) BRIEFS ATTENDEES AT A 2014 RECEPTION, WHILE PAUL SCHOTT STEVENS, ICI PRESIDENT AND CEO (RIGHT), AND DON AUERBACH, CHIEF GOVERNMENT AFFAIRS OFFICER AND CO-HEAD OF ICI'S GOVERNMENT AFFAIRS TEAM, LISTEN.

APPENDIX A
Governance and Finances

GOVERNANCE

ICI is a 501(c)(6) organization that represents registered investment companies on regulatory, legislative, and securities industry initiatives that affect funds and their shareholders.

ICI members include mutual funds, exchange-traded funds, closed-end funds, and sponsors of unit investment trusts in the United States, similar funds offered to investors in jurisdictions worldwide, and their investment advisers and principal underwriters. The 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 48).

ICI's Board of Governors is composed of 61 members, representing ICI member companies and independent directors of investment companies. Governors are elected annually to staggered three-year terms. The Board is geographically diverse and includes representatives from large and small fund families as well as fund groups sponsored by independent asset managers, broker-dealers, banks, and insurance companies. This broad-based representation helps to ensure that the Institute's policy deliberations consider all segments of the fund industry and all investment company shareholders.

Five committees assist the Board of Governors with various aspects of the Institute's affairs. These 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 also has appointed the ICI PAC Board to administer the Institute's political programs, including the political action committee, ICI PAC (see page 42). The ICI PAC Board includes 11 governors and the treasurer of ICI PAC. The Institute's president serves as an ex officio member. The Institute employs a staff of about 170 (see Appendix F, page 51).

ICI addresses the needs of investment company independent directors through the Independent Directors Council (see Appendix C, page 49). 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.

Seventeen standing committees, bringing together more than 1,700 industry professionals, guide the Institute's policy work. ICI standing committees perform a number of important roles, including assisting with formulation of policy positions as well as gathering and disseminating information on industry practices (see Appendix D, page 49). In addition, 37 industry advisory committees, task forces, forums, and working groups with more than 2,600 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 long-standing and well-established compliance policy and program.

Seventeen standing committees, bringing together more than 1,700 industry professionals, guide the Institute's policy work.

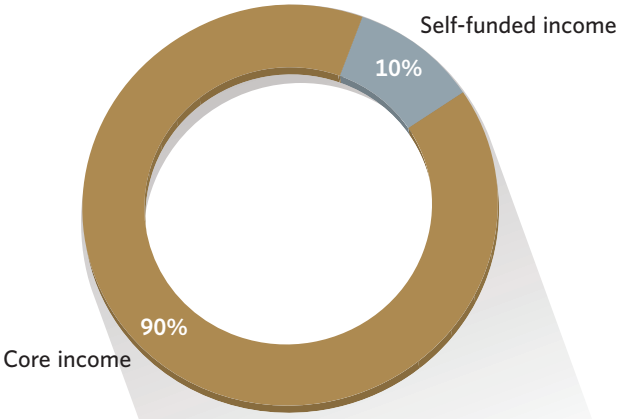
FINANCES

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

Core activities are related to public policy and include regulatory, legislative, operational, economic research, and public communication initiatives in support of investment companies and their shareholders, directors, and advisers. Reflecting the Institute's strategic focus on issues affecting investment companies, the Board of Governors has chosen to fund core activities with dues rather than seek alternative sources of revenues, such as sales of publications. The significant majority of ICI's total revenues, 90 percent, comes from dues, investment income, royalties, and miscellaneous program sources (see Figure 1). Similarly, by design, 91 percent of the Institute's total resources are devoted to core activities (see Figure 2).

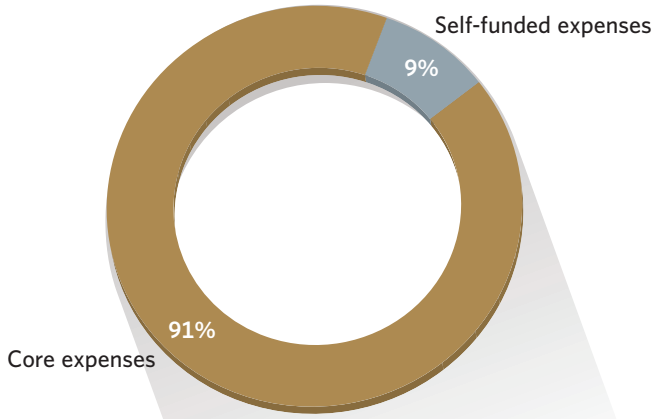
Core expenses support the wide range of initiatives described in this report. Self-funded activities (e.g., conferences, special surveys) are supported by separate fees paid by companies and individuals who participate in these activities. The financial goal for self-funded activities is that fees should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

FIGURE 1



FY 2014 = $65,595,562
TOTAL REVENUES

FIGURE 2



FY 2014 = $61,373,524
TOTAL OPERATING EXPENSES

ICI Unaudited Financial Statements

Statement of Financial Position
AS OF SEPTEMBER 30, 2014

ASSETS

Cash and cash equivalents	$ 1,435,679
Investments, at market value	54,514,068
Accounts receivable	1,534,620
Prepaid expenses	1,835,174
Other assets	749,107
Furniture, equipment, and leasehold improvements; net (less accumulated depreciation of $10,481,077)	5,610,585
Total assets	$65,679,233

LIABILITIES AND NET ASSETS

LIABILITIES

Payroll and related charges accrued and withheld	4,923,981
Accrued pension and postretirement liabilities	10,793,362
Accounts payable and accrued expenses	4,140,932
Deferred revenue	769,863
Rent credit	3,686,574
Deferred rent	3,804,846
Total liabilities	28,119,558

NET ASSETS

Undesignated net assets	39,812,179
ICI Global net assets	(3,252,504)
Board-designated net assets	1,000,000
Total net assets	37,559,675
Total liabilities and net assets	$65,679,233

Statement of Activities and Changes in Net Assets
FOR THE YEAR ENDED SEPTEMBER 30, 2014

CORE INCOME

Membership dues	$56,444,031
Investment income	658,455
Royalty income	882,073
Program income	1,306,335
Total core income	59,290,894

CORE EXPENSES

Administrative expenses	45,299,419
Program expenses	7,759,536
Depreciation and lobby proxy tax	2,959,967
Total core expenses	56,018,922
Change in net assets—core	3,271,972

SELF-FUNDED INCOME

Conferences	5,224,130
Other self-funded income	1,080,538
Total self-funded income	6,304,668

SELF-FUNDED EXPENSES

Conferences	4,763,901
Other self-funded expenses	590,701
Total self-funded expenses	5,354,602
Change in net assets—self-funded	950,066
Change in net assets from operations	4,222,038
ICI Global, net	(1,433,916)
Non-operating expenses	(188,036)
Actuarial pension plan loss	(4,689,150)
Change in net assets	(2,089,064)
Net assets, beginning of year	39,648,739
Net assets, end of year	$37,559,675

These financial statements are preliminary unaudited statements as of September 30, 2014. Audited financial statements for the fiscal year ended September 30, 2014, will be available after February 1, 2015. For information on obtaining copies of the audited statements, please contact Mark Delcoco at 202-326-5974.

2014 ICI Executive Committee

FROM LEFT TO RIGHT: GEORGE C. W. GATCH, WILLIAM F. TRUSCOTT, DOROTHY A. BERRY, WILLIAM F. GLAVIN JR., EDWARD C. BERNARD, PAUL SCHOTT STEVENS, F. WILLIAM MCNABB III, MELLODY HOBSON, JAMES A. MCNAMARA, LLOYD A. WENNLUND, PAUL L. AUDET, GREGORY E. JOHNSON, MARTIN L. FLANAGAN

NOT PICTURED: SUSAN B. KERLEY, JACQUES P. PEROLD, JAMES F. ROTHENBERG

Celebrating Jack Cogan's Record-Setting Service

This year saw the retirement of Jack Cogan, who joined the Institute's Board of Governors 43 years ago, in 1971—making him the longest-serving Board member ever.

During his tenure, he sat on almost 20 committees, many of which he chaired. He also is the longest-serving member of ICI's Executive Committee, having joined that group in 1976.

Jack was chairman of the Institute from 1978 to 1980, and his leadership was instrumental in the creation of ICI Mutual, which formed in 1987. He also served on the ICI Mutual Board since its founding, including two separate terms as its chairman.

Jack brought a unique set of skills to the ICI Board. He rose through the ranks at the Boston law firm Hale and Dorr to become chairman. He served as chairman of the Board of Trustees of Boston University Medical Center Hospital, a position that at the time was equivalent to CEO. And as leader of the Pioneer Group he was architect of that fund firm's global diversification strategy, expanding the boundaries of the company and industry.

Not many people lead a law firm, a hospital, and an asset management company over the course of their career. Even fewer have the energy and ability to do all of this simultaneously. It's easy to see why a *New York Times* reporter described him as "the Energizer Bunny of the asset-management world."

During my time as president and CEO of the Institute, I have relied extensively upon Jack and his wisdom. It's been an honor and privilege to work with him. Thank you, Jack, for your considerable contributions to ICI and to the fund industry as a whole.

—Paul Schott Stevens

AT THE 2014 ICI LEADERSHIP DINNER, HELD IN MAY, PAUL SCHOTT STEVENS (LEFT) PAYS TRIBUTE TO JACK COGAN, A FORMER ICI CHAIRMAN WHO RECENTLY RETIRED AFTER A LONG AND DISTINGUISHED CAREER.

APPENDIX B

ICI Board of Governors

AS OF SEPTEMBER 30, 2014

F. William McNabb III[2,3,4,6,7]
ICI Chairman
Chairman and CEO
Vanguard

Gregory E. Johnson[2,7]
ICI Vice Chairman
Chairman, President and CEO
Franklin Resources, Inc.

Paul L. Audet[2]
Senior Managing Director and Head of U.S. Mutual Funds
BlackRock, Inc.

Ashok N. Bakhru[1]
Independent Chair
Goldman Sachs Funds

Edward C. Bernard[1,2,6,7]
Vice Chairman
T. Rowe Price Group, Inc.

Dorothy A. Berry[2]
Independent Chair
Professionally Managed Portfolios
Independent Trustee
PNC Funds

Leonard P. Brennan
Chief Executive Officer
Russell Investments

Marie A. Chandoha[1]
President and CEO
Charles Schwab Investment Management, Inc.

Robert Conti
Chief Executive Officer
Neuberger Berman Management LLC

Patrick P. Coyne
President
Delaware Investments

Bruce L. Crockett[3]
Independent Chair
Invesco Funds

James E. Davey
President
The Hartford Mutual Funds

Thomas R. Donahue[1]
Chief Financial Officer and Treasurer
Federated Investors, Inc.

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

Nora M. Everett
President and CEO
Principal Funds

Thomas E. Faust Jr.[4]
Chairman and CEO
Eaton Vance Corporation

Martin L. Flanagan[1,2]
President and CEO
Invesco Ltd.

Paul K. Freeman
Independent Director
Deutsche Funds

Brian J. Gaffney
Chief Executive Officer
Allianz Global Investors U.S.

George C. W. Gatch[2,3,6]
CEO, JPMorgan Funds
JPMorgan Asset Management

William F. Glavin Jr.[1,2,6]
Chairman
OppenheimerFunds, Inc.

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

John T. Hailer
President and CEO, U.S. and Asia
Natixis Global Asset Management, L.P.

Peter A. Harbeck
President and CEO
SunAmerica Asset Management, LLC

Brent R. Harris[4,6]
Chairman
PIMCO Funds

Diana P. Herrmann
President and CEO
Aquila Investment Management LLC

Mellody Hobson[2,6]
President
Ariel Investments, LLC

Karen N. Horn
Independent Director
T. Rowe Price Funds

James A. Jessee
President
MFS Fund Distributors, Inc.

Lawrence H. Kaplan
Partner and General Counsel
Lord Abbett & Co. LLC

Alain Karaoglan
Chief Operating Officer
Voya Financial

Robert M. Keith[1]
Executive Managing Director, Head of Global Client Group
AllianceBernstein

Susan B. Kerley[1,2,5]
Independent Director
MainStay Funds
Legg Mason Partners Funds

Drew Lawton
Chief Executive Officer
New York Life Investment Management LLC

Arthur J. Lev
Managing Director and Head, Long Only Business
Morgan Stanley Investment Management Inc.

Susan C. Livingston[6]
Partner
Brown Brothers Harriman & Co.

Susan B. McGee[1]
President and General Counsel
U.S. Global Investors, Inc.

James A. McNamara[2]
President and CEO
Goldman Sachs Mutual Funds

Jerry W. Miller
Head of Asset and Wealth Management Americas
Deutsche Asset & Wealth Management

Thomas M. Mistele
Chief Operating Officer
Dodge & Cox

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

Catherine L. Newell
General Counsel
Dimensional Fund Advisors LP

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

Stuart S. Parker[1]
President
Prudential Investments

Jacques P. Perold[2]
President
Fidelity Management & Research Company

Karla M. Rabusch[1]
President
Wells Fargo Funds Management, LLC

J. Alan Reid Jr.
Chief Executive Officer
Forward Management LLC

Robert L. Reynolds
President and CEO
Putnam Investments

James E. Ross[1]
Senior Managing Director and Global Head of ETFs
State Street Global Advisors

James F. Rothenberg[2,6]
Chairman
Capital Research and Management Company

Thomas S. Schreier Jr.[3,6]
Vice Chairman, Wealth Management
Nuveen Investments

Laura T. Starks
Independent Director
TIAA-CREF Funds

Michael D. Strohm[1,3]
Chief Executive Officer
Waddell & Reed, Inc.

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

Thomas A. Swank
Head of Aegon Asset Management Americas
Aegon USA Investment Management, LLC

Jonathan S. Thomas
President and CEO
American Century Investments

Garrett Thornburg[6]
Chairman
Thornburg Investment Management, Inc.

William F. Truscott[2,4]
CEO, Global Asset Management
Columbia Management

Ralph F. Verni
Independent Chair
Eaton Vance Funds

Lloyd A. Wennlund[1,2,6]
Executive Vice President and Managing Director
Northern Trust Global Investments

[1] Governor on sabbatical
[2] Executive Committee member
[3] Audit Committee member
[4] Investment Committee member
[5] Chairman of the Independent Directors Council
[6] ICI PAC Board member
[7] ICI Education Foundation Board member

APPENDIX C

Governing Council of the Independent Directors Council

AS OF SEPTEMBER 30, 2014

Ashok N. Bakhru*
Independent Chair
Goldman Sachs Funds

Dorothy A. Berry*
Independent Chair
Professionally Managed Portfolios
Independent Trustee
PNC Funds

James H. Bodurtha
Independent Director
BlackRock Funds

Robert P. Bremner
Independent Director
Nuveen Funds

David H. Chow
Independent Chair
Market Vectors ETF Trust

Bruce L. Crockett*
Independent Chair
Invesco Funds

Diana M. Daniels
Independent Director
Goldman Sachs Funds

Dennis J. Dirks
Independent Director
Fidelity Equity & High Income Group of Funds

Peter S. Drotch
Independent Director
Voya Funds

Paul K. Freeman*
Independent Director
Deutsche Funds

Anne M. Goggin
Independent Director
RS Funds

Karen N. Horn*
Independent Director
T. Rowe Price Funds

Leonade D. Jones
Independent Director
American Funds

John P. Kavanaugh
Independent Director
MFS Funds

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

Garry L. Moody
Independent Director
AllianceBernstein Funds

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

Davey S. Scoon
Independent Chair
Allianz Funds

Erik R. Sirri
Independent Director
Natixis Funds

Laura T. Starks*
Independent Director
TIAA-CREF Funds

George J. Sullivan Jr.
Independent Director
SEI Funds
State Street Navigator Trust

Ronald E. Toupin Jr.
Independent Director
Guggenheim Funds

Ralph F. Verni*
Independent Chair
Eaton Vance Funds

Dawn M. Vroegop
Independent Director
MetLife Funds
Driehaus Funds

Jonathan F. Zeschin
Independent Director
Matthews Asia Funds

*On ICI Board of Governors

APPENDIX D

ICI Standing Committees and Chairs

AS OF SEPTEMBER 30, 2014

ACCOUNTING/TREASURERS
Brian W. Wixted
Senior Vice President and Treasurer of the Funds
OppenheimerFunds, Inc.

CHIEF COMPLIANCE OFFICER
Robert M. Zakem
General Counsel and Chief Compliance Officer
RidgeWorth Investments

CHIEF RISK OFFICER
Joseph A. Carrier
Chief Risk Officer
Legg Mason, Inc.

CLOSED-END INVESTMENT COMPANY
Keith A. Weller
Executive Director and Senior Associate General Counsel
UBS Global Asset Management (Americas) Inc.

ETF (EXCHANGE-TRADED FUNDS)
James E. Ross
Senior Managing Director and Global Head of ETFs
State Street Global Advisors

INTERNATIONAL
Liliane Corzo
Senior Vice President and Senior Counsel
Capital Research and Management Company

INVESTMENT ADVISERS
Vacant

OPERATIONS
Basil Fox
President
Franklin Templeton Investor Services LLC

PENSION
Douglas O. Kant
Senior Vice President and Deputy General Counsel
Fidelity Investments

PUBLIC COMMUNICATIONS
Kristin Chambers
Global Head of Media Relations
J.P. Morgan Investment Management, Inc.

RESEARCH
Gary Blank
Senior Vice President for Public Affairs and Policy
Fidelity Investments

SALES FORCE MARKETING
James A. Jessee
President
MFS Fund Distributors, Inc.

SEC RULES
John Zerr
General Counsel
Invesco Advisers, Inc.

SMALL FUNDS
Susan B. McGee
President and General Counsel
U.S. Global Investors, Inc.

TAX
Gregory K. Hinkle
Vice President and Funds Treasurer
T. Rowe Price Group, Inc.

TECHNOLOGY
Michael L. Radziemski
Partner and Chief Information Officer
Lord Abbett & Co., LLC

UNIT INVESTMENT TRUST
W. Scott Jardine
General Counsel
First Trust Advisors, L.P.

APPENDIX E

ICI Global Steering Committee

AS OF SEPTEMBER 30, 2014

Robert Higginbotham (Chairman)
President, Global Investment Services
T. Rowe Price International Ltd.

Mark Armour
Chief Executive Officer
Invesco Perpetual

Andrew Arnott
President and CEO, John Hancock Funds
John Hancock Financial Services, Inc.

Richard Bisson
President
Nomura Asset Management UK Limited

David J. Brennan
Chairman and CEO
Baring Asset Management Limited

Eddie Chang
Chief Executive Officer
China International Fund Management Co., Ltd.

Iris Chen
Chief Executive Officer
China Asset Management (Hong Kong) Limited

Peng Wah Choy
Chief Executive Officer
Harvest Global Investments Limited

Robert Conti*
Chief Executive Officer
Neuberger Berman Management LLC

Chen Ding
Chief Executive Officer
CSOP Asset Management Limited

Gregory P. Dulski
Senior Corporate Counsel, International Legal and Regulatory Affairs
Federated Investors, Inc.

Mark Flaherty
Chief Investment Officer, UK
Fidelity Management & Research Company, UK

Campbell Fleming
Chief Executive Officer
Threadneedle Investment Services Limited

Hamish Forsyth
President, Europe
Capital Group Companies Global

Toby E. Goold
Managing Director
Dodge & Cox Worldwide Investments Ltd.

Tjalling Halbertsma
Managing Director, EMEA Business Development
Nuveen Investments

James S. Hamman
Managing Director, Corporate Development/Legal
Artisan Partners Limited Partnership

James He
Director of Risk Management
HuaAn Fund Management Co., Ltd.

Arnie Hochman
Vice President, Legal
TD Bank Financial Group

Gaohui Huang
Chief Executive Officer
E Fund Management (HK) Co. Ltd.

Terry Johnson
Head, International Sales
Legg Mason Investments (Europe) Limited

John Kingston III
Vice Chairman
Affiliated Managers Group, Inc.

Arthur J. Lev*
Managing Director and Head, Long Only Business
Morgan Stanley Investment Management Inc.

Andy Lin
Chief Executive Officer
China Universal Asset Management Co. Ltd.

Zhang Lixin
Chief Executive Officer
Fullgoal Asset Management (HK) Ltd.

Ross Long
Chief Legal Officer
Nikko Asset Management Co., Ltd.

Brenda Lyons
Executive Vice President
State Street Bank and Trust Company

John McCarthy
Executive Vice President, Secretary, and General Counsel
Nuveen Investments

Lina Medeiros
President of Distribution for UCITS
MFS International (UK) Limited

Bryan Melville
Managing Director
Coronation International Limited

James M. Norris
Managing Director, International Operations
Vanguard Asset Management Limited

Nicholas Phillips
Co-Head of GSAM Distribution for Europe
Goldman Sachs Asset Management International

Jed Plafker
Executive Managing Director
Franklin Templeton Investments

Niall Quinn
Managing Director
Eaton Vance Management (International) Limited

Karla M. Rabusch*
President
Wells Fargo Funds Management, LLC

Tom Rice
Executive Vice President, European Legal Counsel
PIMCO Europe Ltd.

Timothy Ryan
Chief Executive Officer, UK and Co-Head, EMEA
AllianceBernstein, Ltd.

Jonathan Schuman
Executive Vice President, Head of Global Business Development
Matthews International Capital Management, LLC

Peter Schwicht
Managing Director
JPMorgan Asset Management (UK) Limited

Roger Thompson
Chief Financial Officer
Henderson Group plc

Liz Ward
Head of Europe
UBS Global Asset Management (UK)

Wu Yaodong
Chief Executive Officer
Bosera Asset Management Co., Ltd.

Ben Y. B. Zhang
Managing Director
Hai Tong Asset Management (HK) Limited

*On ICI Board of Governors

APPENDIX F

ICI Staff Leadership and Management

AS OF SEPTEMBER 30, 2014

EXECUTIVE OFFICE

Paul Schott Stevens[1,2,6]
President and CEO

Peter H. Gallary[3]
Chief Operating Officer

GOVERNMENT AFFAIRS

Donald C. Auerbach
Chief Government Affairs Officer and Co-Head

Dean R. Sackett III
Chief Government Affairs Officer and Co-Head

Peter J. Gunas III
Government Affairs Officer, Retirement Security and Tax Policy

Allen C. Huffman
Director, Retirement Security and Tax Policy

Michelle Y. Mesack
Director, Financial Services

George F. Shevlin IV
Political Affairs Officer

INDEPENDENT DIRECTORS COUNCIL

Amy B. R. Lancellotta
Managing Director

Annette M. Capretta
Deputy Managing Director

Lisa C. Hamman
Senior Associate Counsel

LAW

David W. Blass
General Counsel

Dorothy M. Donohue
Deputy General Counsel, Securities Regulation

Sarah A. Bessin
Senior Counsel, Securities Regulation

Ari Burstein
Senior Counsel, Capital Markets

Robert C. Grohowski
Senior Counsel, Securities Regulation

Frances M. Stadler[4]
Senior Counsel, Securities Regulation

Jennifer S. Choi
Senior Associate Counsel

Rachel H. Graham
Senior Associate Counsel

Jane G. Heinrichs
Senior Associate Counsel

Tamara K. Salmon
Senior Associate Counsel

J. Matthew Thornton
Assistant Counsel

David M. Abbey
Senior Counsel, Pension Regulation

Howard M. Bard
Associate Counsel

Elena B. Chism
Associate Counsel

Keith D. Lawson[5]
Senior Counsel, Tax Law

Karen L. Gibian
Associate Counsel

Ryan M. Lovin
Assistant Counsel

OPERATIONS

Kathleen C. Joaquin
Chief Industry Operations Officer

Linda J. Brenner
Director, Distribution Management and Operations

Martin A. Burns
Senior Director, Operations and Distribution

Joanne M. Kane
Director, Transfer Agency and Operations

Jeffrey A. Naylor
Director, Operations and Distribution

Peter G. Salmon
Senior Director, Operations and Technology

Gregory M. Smith
Senior Director, Fund Accounting and Compliance

PUBLIC COMMUNICATIONS

Mike McNamee
Chief Public Communications Officer

Ianthé Zabel
Deputy Chief Public Communications Officer

Todd Bernhardt
Senior Director, Policy Writing and Editorial

Miriam E. Bridges
Editorial Director

Janet M. Zavistovich
Senior Director, Communications Design

Jodi M. Weakland
Director, Design

Rachel W. McTague
Director, Media Relations

Stephanie M. Ortbals-Tibbs
Director, Media Relations

RESEARCH

Brian K. Reid
Chief Economist

Sarah A. Holden
Senior Director, Retirement and Investor Research

Peter J. Brady
Senior Economist

Kimberly D. Burham
Economist

Sean S. Collins
Senior Director, Industry and Financial Analysis

Rochelle L. Antoniewicz
Senior Economist

L. Christopher Plantier
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, Electronic Data Collection

William H. Jones
Director, Software Development

Mark A. Delcoco
Controller/Treasurer

Patricia L. Conley
Director, Accounting

Jane A. Forsythe
Senior Director, Conferences

Mary D. Kramer
Chief Human Resources Officer

Suzanne N. Rand
Director, Human Resources

Anne S. Vandegrift
Director, Benefits

Sheila F. Moore
Director, Office Services

Lee D. Butler
Director, Information Services

Michelle M. Kretsch
Senior Director, Membership

ICI GLOBAL

Daniel F. Waters
Managing Director, ICI Global

Qiumei Yang
CEO, Asia-Pacific, ICI Global

Susan M. Olson
Chief Counsel

Giles S. Swan
Director, Global Funds Policy

Anna A. Driggs
Associate Counsel

Eva M. Mykolenko
Associate Counsel

[1] Executive Committee of ICI's Board of Governors
[2] ICI PAC Board (ex officio)
[3] ICI PAC Board and Treasurer to ICI PAC
[4] Secretary to ICI
[5] Secretary to ICI's PAC Board, Assistant Treasurer to ICI PAC, Political Compliance Counsel
[6] ICI Education Foundation Board

APPENDIX G

Publications and Statistical Releases

ICI is the primary source of analysis and statistical information on the investment company industry. A complete list of ICI research publications and statistical releases is available on the Institute's website at **www.ici.org/research**. Participant-funded studies are not listed.

INDUSTRY AND FINANCIAL ANALYSIS

- *Market Access for Regulated Fund Managers in the United States and the European Union*, October 2013
- The Closed-End Fund Market, 2013, *ICI Research Perspective*, March 2014
- Trends in the Expenses and Fees of Mutual Funds, 2013, *ICI Research Perspective*, May 2014
- Understanding Exchange-Traded Funds: How ETFs Work, *ICI Research Perspective*, September 2014

INVESTOR RESEARCH

- Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2013, *ICI Research Perspective*, October 2013
- Characteristics of Mutual Fund Investors, 2013, *ICI Research Perspective*, October 2013
- 401(k) Participants in the Wake of the Financial Crisis: Changes in Account Balances, 2007–2011, *ICI Research Perspective*, October 2013
- The IRA Investor Profile: Traditional IRA Investors' Activity, 2007–2011, *ICI Research Report*, October 2013
- Defined Contribution Plan Participants' Activities, First Half 2013, *ICI Research Report*, November 2013
- Americans' Views on Defined Contribution Plan Saving, *ICI Research Report*, January 2014
- Defined Contribution Plan Participants' Activities, First Three Quarters of 2013, *ICI Research Report*, February 2014
- Profile of Mutual Fund Shareholders, 2013, *ICI Research Report*, February 2014
- The IRA Investor Profile: Traditional IRA Investors' Activity, 2007–2012, *ICI Research Report*, March 2014
- Defined Contribution Plan Participants' Activities, 2013, *ICI Research Report*, April 2014
- The IRA Investor Profile: Roth IRA Investors' Activity, 2007–2012, *ICI Research Report*, June 2014
- What Does Consistent Participation in 401(k) Plans Generate? Changes in 401(k) Account Balances, 2007–2012, *ICI Research Perspective*, July 2014
- Defined Contribution Plan Participants' Activities, First Quarter 2014, *ICI Research Report*, August 2014

RETIREMENT RESEARCH

- A Look at Private-Sector Retirement Plan Income After ERISA, 2012, *ICI Research Perspective*, October 2013
- Who Gets Retirement Plans and Why, 2012, *ICI Research Perspective*, October 2013
- The Role of IRAs in U.S. Households' Saving for Retirement, 2013, *ICI Research Perspective*, November 2013
- *Our Strong Retirement System: An American Success Story*, co-published with American Benefits Council and American Council of Life Insurers, December 2013
- 401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2012, *ICI Research Perspective*, December 2013
- The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2013, *ICI Research Perspective*, July 2014
- *Inside the Structure of Defined Contribution/401(k) Plan Fees, 2013*, August 2014

INVESTMENT COMPANY FACT BOOK

ICI's annual data and analysis resource, *2014 Investment Company Fact Book: A Review of Trends and Activity in the U.S. Investment Company Industry*, provides current information and historical trends for U.S.-registered investment companies, reporting on retirement assets, characteristics of mutual fund owners, use of index funds, and other trends. It is available in both PDF and HTML versions at **www.icifactbook.org**. The HTML version provides downloadable data for all charts and tables.

ICI GLOBAL

- *Insights from the 2013 Global Retirement Savings Conference*, October 2013
- Globalisation and the Global Growth of Long-Term Mutual Funds, *ICI Global Research Perspective*, March 2014

INDEPENDENT DIRECTORS COUNCIL

- *Investment Performance Oversight by Fund Boards*, October 2013
- *Considerations for Board Composition: From Recruitment Through Retirement*, October 2013

ICI VIEWPOINTS

At *ICI Viewpoints*, ICI publishes analysis and commentary from in-house experts in economics, law, fund operations, and government affairs on the key issues facing funds, their shareholders, directors, and investment advisers. *ICI Viewpoints* also offers short recaps of select ICI comment letters, as well as notes on ICI news and events. *ICI Viewpoints* is available on the Institute's website at **www.ici.org/viewpoints**.

APPENDIX H

ICI, IDC, and ICI Global Events

October 10, 2013	ICI Capital Markets Conference	New York
October 21–23, 2013	Fund Directors Conference[1]	Chicago
October 29, 2013	Opportunities for Asian Fund Managers in Europe	Hong Kong
November 5, 2013	Closed-End Fund Conference	New York
December 9, 2013	ICI Global Trading and Market Structure Conference[2]	London
January 31, 2014	Securities Law Developments Conference[3]	Washington, DC
March 16–19, 2014	Mutual Funds and Investment Management Conference[4]	Orlando
April 4, 2014	ICI Retirement Summit	Washington, DC
May 20–22, 2014	General Membership Meeting	Washington, DC
June 17–18, 2014	Global Retirement Savings Conference	Geneva
September 28–October 1, 2014	Tax and Accounting Conference	Phoenix

UPCOMING EVENTS

December 11, 2014	ICI Cybersecurity Forum	Washington, DC
February 10, 2015	ICI Capital Markets Conference	New York
March 15–18, 2015	Mutual Funds and Investment Management Conference	Palm Desert
May 6–8, 2015	General Membership Meeting	Washington, DC
May 6–8, 2015	Operations and Technology Conference	Washington, DC
May 7, 2015	Fund Directors Workshop	Washington, DC
May 7–8, 2015	Mutual Fund Compliance Programs Conference	Washington, DC
September 27–30, 2015	Tax and Accounting Conference	Orlando

For updated events information, please visit **www.ici.org/events**.

[1] Sponsored by IDC

[2] Cosponsored by ICI and ICI Global

[3] Cosponsored by the ICI Education Foundation. The 2013 Securities Law Developments Conference, which originally was scheduled for Wednesday, December 11, in Washington, DC, was cancelled due to inclement weather. In lieu of the conference, ICI hosted a webinar titled "Spotlight on the SEC: Developments Affecting Funds and Advisers," which featured many of the speakers who were scheduled to appear at the conference.

[4] Cosponsored by ICI and the Federal Bar Association

APPENDIX I

ICI Education Foundation

The ICI Education Foundation (ICIEF) partners with schools, government agencies, and other nonprofits to promote financial education initiatives on behalf of the mutual fund industry. Under a microgrant program launched in 2009, ICIEF awards grants to advance investor education within the greater Washington, DC, area. These grants fund teacher training in personal finance in Maryland, the District of Columbia, and Virginia, as well as adult and youth investment education programs online, on public television, and in workplaces, public libraries, job training programs, and the unique venue known as Finance Park. In addition, ICIEF participates in nationwide coalitions, conferences, and government events devoted to financial education and capability.

APPENDIX J

ICI Mutual Insurance Company

ICI Mutual Insurance Company, RRG (ICIM) is an independent company formed by the mutual fund industry to provide various forms of liability insurance and risk management services to mutual funds, their directors, officers, and advisers. An organization must be an ICI member to purchase insurance from ICIM.

ICI by the Numbers: 2014

20,500+
People that *ICI Daily* reaches each day

5
Editorials published

550
ICI Memoranda issued to members

25
ICI research publications released

187
Statistical releases posted

2,313
Visits to ICI's statistical report builder

41
Statements issued

45
Comment letters submitted to regulators

6
Appearances giving testimony before Congress

238,000
Downloads and visits to ICI's *2014 Investment Company Fact Book*

839,000
Unique visits to www.ici.org

2.2
MILLION
Page hits on www.ici.org

ICI Action on Select Policy Developments, Fiscal Year 2014

FUND REGULATION

Money Market Fund Reform: The Securities and Exchange Commission (SEC) finalized sweeping new rules for money market funds, largely preserving the fundamental characteristics of most money market funds. Although the final rules impose a floating net asset value (NAV) for prime institutional money market funds, they maintain use of the stable NAV for all retail fund investments—including those held through retirement plans and omnibus accounts—and for government (other than municipal) funds.

Due to six years of extraordinary effort by ICI and its members, several destructive proposals—including capital requirements and the "minimum balance at risk" proposal that would have denied investors at all times the full use of their funds—were not incorporated into the final rules. ICI alerted the SEC and Treasury to the significant tax reporting burdens for shareholders, funds, and intermediaries in reference to the floating NAV proposal. In response, Treasury issued proposed guidance on the same day that the SEC rule was released, effectively resolving most of the tax concerns.

Financial Stability: Asset managers and investment funds have come under scrutiny as U.S. and global policymakers, legislators, and the media have examined whether managers and/or funds pose risks to financial stability. Of particular concern to ICI is the possible designation of regulated funds or their managers as systemically important financial institutions, or SIFIs, and the resulting application of inappropriate, bank-like regulation. In September 2013, the U.S. Treasury Department's Office of Financial Research (OFR) published a report laying out hypothetical "vulnerabilities" posed by mutual funds and other asset managers, while in early 2014, the Financial Stability Board (FSB) issued a consultation proposing a methodology for identifying nonbank, non-insurer global systemically important financial institutions (G-SIFIs).

ICI has worked hard to demonstrate that regulated funds do not pose a threat to financial stability and should not be subject to SIFI designation. These efforts have included filing major comment letters letters in response to the report and consultation mentioned above, engaging in numerous meetings with regulators, providing testimony and other information and analysis on Capitol Hill, and leveraging ICI research and data to correct misperceptions. ICI will continue to argue against SIFI designation for regulated funds or their managers, urge that regulators instead focus on activities and practices as a better approach to risk mitigation, and provide industry information and expertise to policymakers. (For more information, see page 6.)

Derivatives: The International Organization of Securities Commissions/Basel Committee on Banking Supervision (IOSCO/BCBS) adopted the final policy framework establishing minimum standards for margin requirements for non-centrally cleared derivatives.

ICI and ICI Global successfully argued for the exclusion of foreign exchange swaps and forwards from the initial margin requirements, and for two-way margining—a requirement that would involve the mandatory exchange of both initial and variation margin between parties—rather than requiring counterparties (such as regulated funds) to post collateral only to dealers or systemically important entities. The Commodity Futures Trading Commission and the prudential regulators recently reproposed their margin rules to be consistent with the IOSCO/BCBS policy framework.

Adoption of the Volcker Rule: See page 10.

Closed-End Funds: A NASDAQ proposal would require listed companies, including registered investment companies, to establish an internal audit function to provide management and the audit committee with ongoing assessments of the company's risk management processes as well as its system of internal control.

ICI successfully convinced NASDAQ not to impose an internal audit requirement on registered investment companies listed on the exchange. NASDAQ withdrew the proposed rule change and subsequently decided not to resubmit it.

CFTC Rule 4.5: See page 9.

Anti–Money Laundering Customer Due Diligence Proposal: In 2010, regulators issued guidance setting forth their expectations for mutual funds and other financial institutions regarding customer due diligence (CDD) and obtaining beneficial ownership information for certain customer relationships under federal anti–money laundering rules and laws. The guidance and a subsequent advance notice of proposed rulemaking on CDD in 2012 raised substantial concerns for the fund industry. Most recently, following significant comment and public dialogue on CDD and the collection of beneficial ownership information, the Financial Crimes Enforcement Network (FinCEN) issued proposed rules to strengthen CDD requirements for mutual funds and other financial institutions.

The most recent CDD proposal addresses some of the fundamental concerns that ICI previously brought to regulators' attention. ICI filed a comment letter commending FinCEN's process in developing the proposed CDD rules but identified some remaining concerns for mutual funds. While the proposed rule is much more workable than originally contemplated, the implementation of a final CDD requirement will raise operational challenges and may require significant resources.

RETIREMENT

Pension Regulation: In *U.S. v. Windsor*, the Supreme Court struck down the provision in the Defense of Marriage Act limiting the meaning of the word *marriage* to a union between opposite-sex spouses. If the Treasury Department had applied this decision retroactively, plan sponsors, recordkeepers, and other administrators of retirement plans would have been saddled with significant administrative burdens.

ICI took the lead on a comment letter to Treasury, which 11 other retirement trade groups joined. In subsequent guidance, Treasury held that a retirement plan will not be treated as failing to meet applicable tax qualification requirements merely because it did not recognize the same-sex spouse of a participant as a spouse before the date of the Windsor *decision.*

Target Date Fund Disclosure: The SEC's Investor Advisory Committee recommended that the SEC develop a glide path illustration for target date funds that is based on a standardized measure of risk as a replacement for, or supplement to, the asset allocation glide path illustration that was part of the SEC's target date fund advertising rules amendments issued in 2010. While the Advisory Committee had not directed its recommendations to the Department of Labor, DOL had also issued a proposal in 2010, which would enhance disclosures about target date funds by amending its qualified default investment alternative and participant-level disclosure regulations.

ICI filed two separate comment letters on this issue, which urged the agencies not to adopt amendments mandating the use of a risk-based glide path illustration for target date funds. Among other things, the Institute argued that investors may be confused and misled by a risk-based glide path illustration and that an asset allocation glide path illustration—as set forth in the 2010 proposals—was, in fact, an effective proxy for market volatility risk.

DOL Fiduciary Standard: The DOL revised the expected issuance date for its reproposal of its rule defining the circumstances under which someone providing advice would be considered a "fiduciary" under the Employee Retirement Income Security Act (ERISA). The proposed rule is now slated to be issued as early as January 2015.

ICI continues to engage with policymakers and DOL staff in an effort to ensure that the proposal reaches only true advisory relationships of trust and confidence, rather than market interactions in which retirement savers receive much needed and routine input and information for their decisionmaking.

Retirement Plan Distributions: See page 17.

FINANCIAL MARKETS

Automated Trading and Technology: See page 18.

Decimalization: U.S. regulators continued to examine the impact of decimalization on the securities markets, including issuing a proposal to establish a pilot program that will widen minimum quoting and trading increments (tick sizes) for certain stocks with smaller capitalization.

ICI worked closely with regulators on this proposal, helping to resolve issues surrounding the pilot program and ensure that the fund industry's views were represented.

Broker-Dealer Order Routing Practices: See page 18.

Dark Pool Transparency: Regulators continued to examine the impact on the markets of "dark pools" and other alternative trading systems (ATS).

ICI filed a letter with the SEC on a Financial Industry Regulatory Authority (FINRA) proposal relating to the transparency of ATS volume. Our letter supported the FINRA proposal, saying that increased transparency of information about ATS volume can help investors make informed investment decisions and can enhance FINRA's ability to determine compliance with regulatory requirements.

MiFID Reform: European policymakers continued work on implementing reforms to the Markets in Financial Instruments Directive (MiFID II), a law that sets forth market rules and regulation of investment services for the European Union.

ICI engaged directly with European legislators and policymakers to discuss issues of concern for members under proposals related to the implementation of MiFID II. The Institute commented on the European Securities Markets and Authorities' MiFID II consultation, raising concerns related to the use of dealing commissions and inducements, as well as on key provisions affecting order routing and pre- and post-trade transparency.

Asia-Pacific Trading Issues: The regulators of several key jurisdictions in the Asia-Pacific region have proposed initiatives related to the regulation of their markets.

ICI Global provided views to these regulators on their market initiatives, which included the Hong Kong Securities and Futures Commission's examination of "dark pools" and the Monetary Authority of Singapore's consideration of methods to strengthen its securities markets.

INTERNATIONAL

EU Money Market Fund Regulation: In the European Union, the European Parliament and the European Council are actively considering proposed money market fund regulations. As part of their efforts, they also are seeking to ensure that they have an accurate understanding of the new U.S. amendments, the basis for these changes, and their impact.

ICI Global continued to stress—publicly and in meetings with policymakers—that money market fund regulation should be designed to strengthen the resilience of money market funds; preserve the benefits of these funds for investors; and develop, diversify, and deepen the sources of financing in the European Union.

Russia Sanctions: In response to recent events in Ukraine, the United States, the European Union, and other countries have been issuing sanctions related to Russia, including designating certain persons and entities, as well as issuing more targeted sanctions against entities operating in some sectors of the Russian economy. Members had to quickly understand and incorporate the sanctions into their existing compliance programs.

ICI held regular calls with members to discuss developments and changes in the sanctions and their effect on the activities of managers and regulated funds, including, for example, similarities and differences between sanctions issued by the United States and in Europe.

Asia Region Funds Passport (ARFP): See page 27.

OPERATIONS

Financial Reporting: The Public Company Accounting Oversight Board (PCAOB) proposed an overhaul of the reporting model used by auditors. One change would be to require reporting of "critical audit matters" by auditors.

In December 2013, ICI and the Independent Directors Council (IDC) jointly submitted comments arguing that fund disclosure documents currently provide extensive disclosures on matters likely to be deemed critical (e.g., valuation), making the proposed auditor reporting redundant and unnecessary. The PCAOB plans to repropose changes to the auditor's reporting model during the second half of 2014.

Oversight of Intermediaries/FICCA: See page 37.

Shortened Settlement Cycles: See page 37.

Cybersecurity: See page 38.

TAXES

Global FATCA: See page 23.

Base Erosion and Profit Shifting (BEPS): The Organisation for Economic Co-operation and Development (OECD) finalized several draft papers as part of its BEPS initiative to address tax avoidance by multinational entities.

ICI Global provided extensive comments on two papers, participated in public forums, and provided substantial additional follow-up. The report, released in September, was modified substantially to address our concerns.

Financial Transaction Taxes (FTT): FTT proposals, which have been stalled in Europe, will be the subject of extensive discussions for the remainder of the year while the Italians hold the presidency of the Council of the European Union.

In September, ICI met separately with government officials from several European countries to explain the negative effects that an FTT would have on fund investors, issuers, and the financial markets. As a result of ICI's strong advocacy, as well as that of others, the FTT debate is moving toward a narrower proposal.

Retirement Tax Incentives: See page 13.

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The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers.