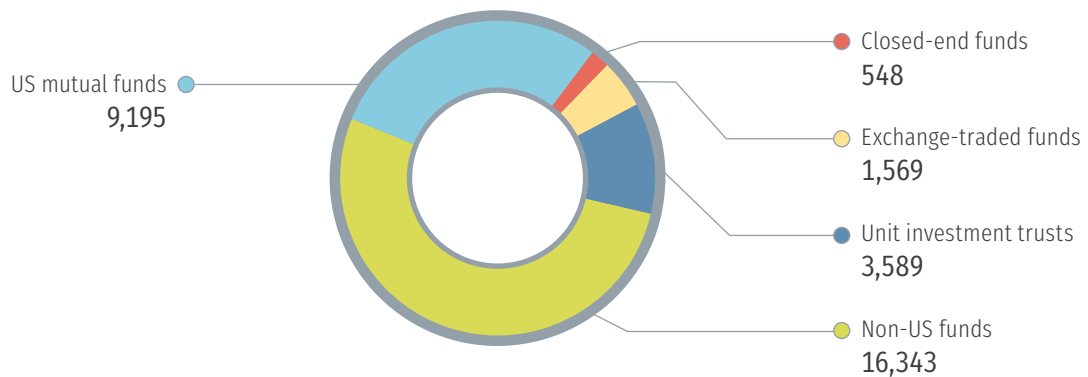


2017
ANNUAL REPORT TO MEMBERS

ICI REPRESENTS...

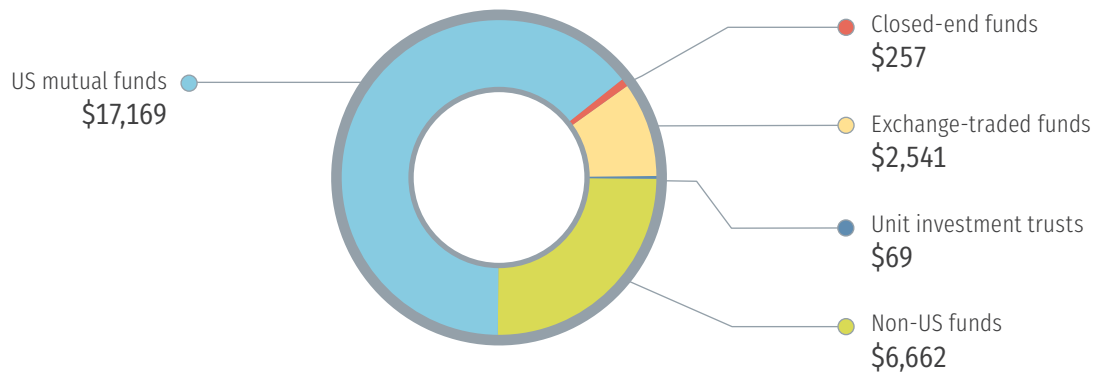
More than 31,000 funds

NUMBER OF INVESTMENT COMPANIES BY TYPE*



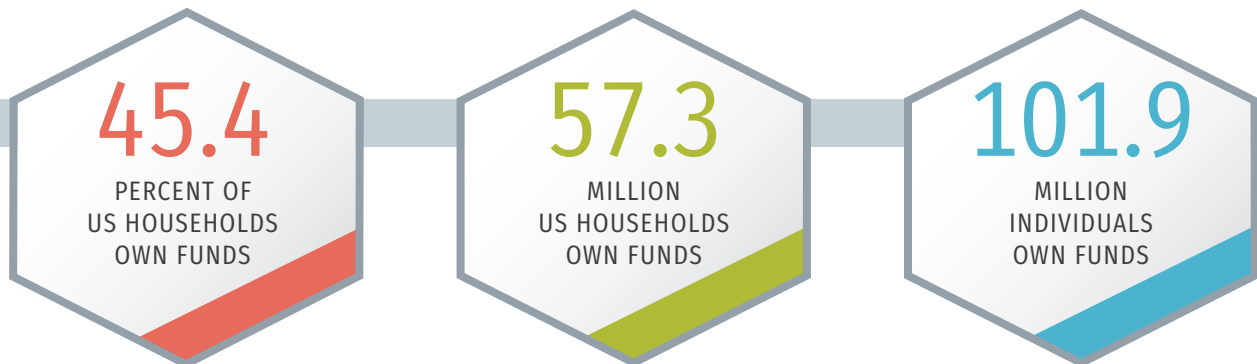
With \$26.7 trillion in assets

INVESTMENT COMPANY ASSETS, BILLIONS OF DOLLARS*



Serving more than 100 million shareholders

US OWNERSHIP OF FUNDS OFFERED BY INVESTMENT COMPANIES, MID-2017



*Data for mutual funds, closed-end funds, exchange-traded funds, and non-US funds are as of June 2017. Data for unit investment trusts are as of December 2016.

CONTENTS

CHAIRMAN'S LETTER

| | |
|-----------------------------------|---|
| A Message from the Chairman | 2 |
|-----------------------------------|---|

PRESIDENT'S LETTER

| | |
|-------------------------------------|---|
| Constancy in an Age of Change | 4 |
|-------------------------------------|---|

FUND REGULATION

| | |
|--|---|
| Advocating Broadly for SEC Policy Priorities | 6 |
|--|---|

RETIREMENT

| | |
|---|----|
| A Conversation with the Chief Economist | 10 |
|---|----|

EXCHANGE-TRADED FUNDS

| | |
|--|----|
| Representing the Interests of ETFs | 18 |
|--|----|

FINANCIAL MARKETS

| | |
|--|----|
| Working Toward Fairer and More Transparent Markets | 20 |
|--|----|

INTERNATIONAL

| | |
|---|----|
| Conducting Business in the Global Marketplace | 22 |
|---|----|

INDEPENDENT DIRECTORS COUNCIL

| | |
|---|----|
| Building Director Knowledge, Refining Director Skills | 26 |
|---|----|

OPERATIONS

| | |
|---|----|
| A Year of Engagement and Accomplishment | 28 |
|---|----|

ICI PROGRAMS

| | |
|--|----|
| Political Engagement on Capitol Hill | 32 |
|--|----|

| | |
|--|----|
| 59th Annual General Membership Meeting | 34 |
|--|----|

| | |
|--------------------------------|----|
| ICI Education Foundation | 36 |
|--------------------------------|----|

APPENDICES

| | |
|-------------------------------|----|
| Governance and Finances | 37 |
|-------------------------------|----|

| | |
|------------------------------|----|
| ICI Board of Governors | 40 |
|------------------------------|----|

| | |
|---|----|
| ICI Staff Leadership and Management | 42 |
|---|----|

| | |
|--|----|
| ICI Standing Committees and Chairs | 43 |
|--|----|

| | |
|-----------------------------|----|
| IDC Governing Council | 44 |
|-----------------------------|----|

| | |
|---------------------------------|----|
| ICI Global Policy Council | 45 |
|---------------------------------|----|

| | |
|---|----|
| Publications and Statistical Releases | 46 |
|---|----|

| | |
|--|----|
| ICI, IDC, and ICI Global Events and Webinars | 48 |
|--|----|

| | |
|------------------------------------|----|
| ICI Mutual Insurance Company | 49 |
|------------------------------------|----|

| | |
|--|----------|
| ICI ACTION ON SELECT POLICY DEVELOPMENTS, FISCAL YEAR 2017 | GATEFOLD |
|--|----------|

| | |
|--------------------------|-------------------|
| ICI BY THE NUMBERS | INSIDE BACK COVER |
|--------------------------|-------------------|

A MESSAGE FROM THE CHAIRMAN

WILLIAM F. "TED" TRUSCOTT

Chairman, Investment Company Institute
CEO, Columbia Threadneedle Investments



Every day, I'm reminded that each of us in the fund industry is driven to deliver ever-greater value for our fees and keep improving service to fund shareholders. Investors are demanding more from every asset manager—and the resulting competition drives us to innovate, find new efficiencies, and offer even better solutions for investors' needs.

Providing a Strong Voice for Funds

Through its data and research, the Investment Company Institute demonstrates how this dynamic works for the benefit of fund shareholders. In the United States, ICI data show, expense ratios incurred by investors in equity and bond funds have fallen by almost 40 percent over the past two decades. Both actively managed and index funds have seen falling expenses. Similar, though less pronounced, trends are evident in jurisdictions with smaller markets that are still maturing.

These trends are the result of robust competition. In the United States, the United Kingdom, and other jurisdictions around the world, investors have a growing number of funds and a wider range of investment objectives and strategies available, enhancing their choices. Even with high-profile moves toward consolidation, overall concentration in the fund industry remains low, thanks to

the constant entry of new competitors. Each decade, the list of the largest fund sponsors in a given market shifts: of the United Kingdom's 10 largest fund providers in 2008, for example, nine saw their ranking change by an average of almost four places, up or down, by 2015. The second-largest firm in 2015 wasn't even in the top 10 seven years earlier.

Vibrant competition helps focus the industry on meeting investors' needs. Similarly, regulation should also focus on best serving investors. In this area—and many others—ICI plays an important role in providing solid data and the collective experience of our members to help policymakers understand which measures will achieve their stated goals and better serve fund shareholders, and which will burden investors with higher costs or less service or advice. When armed with this information, regulators can ensure that they do not favor one investing approach over another, reduce competition, stifle innovation, or erode funds' ability to promote efficient markets.

Pursuing a Sound Regulatory Framework

For more than 75 years, ICI has pursued its core mission of preserving a sound framework of regulation for funds and their investors. The funds that we represent embrace appropriate regulation

as necessary and desirable to establish trust among investors. Without that trust, investors would not allow our funds to manage more than \$20 trillion in US funds, nor trillions more in regulated funds in other jurisdictions.

Undoubtedly, sound regulation is a cornerstone of our success. Achieving it requires policymakers to be informed by analysis, and to craft new rules with robust input from the public. When it's not, we must work to inform and improve it.

To that end, ICI has worked vigorously in the past year to inform US regulators of the potentially harmful consequences of an overly prescriptive regime for managing liquidity risk. ICI has advocated for a modern regime for funds' use of derivatives, to ensure that investors can have access to the best and most efficient portfolio management that our funds can offer. And the Institute has provided voluminous data and analysis of the harm that retirement savers face under the Department of Labor's fiduciary rule.

In the United States and in international circles, ICI has worked to preserve the framework of fund regulation in the face of pressure from banking regulators to subject asset management to a wholly inappropriate and unnecessary regime of

“Vibrant competition helps focus the industry on meeting investors’ needs. Similarly, regulation should also focus on best serving investors. In this area—and many others—ICI plays an important role.”

capital standards, enhanced prudential supervision, and other bank-like regulation. ICI’s steadfast advocacy has helped inspire a thorough reexamination, in Congress and the administration, of the role and processes of the US Financial Stability Oversight Council. The council’s global counterpart, the Financial Stability Board, also is rethinking its efforts to regulate asset management.

Playing a Growing Role Worldwide

As ICI’s work on financial stability illustrates, preserving the strength of funds also requires that we continue to expand our global perspective,

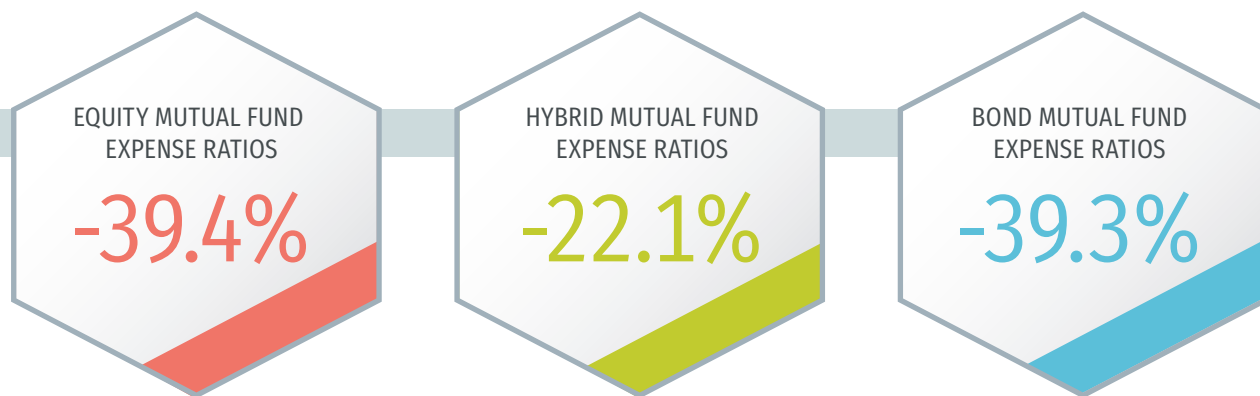
something I believe in deeply as the head of a global firm.

As political polarization has grown within and between nations, the international environment for investing has grown more and more challenging. Regulators continue to increase their collaboration and promote ideas that transcend borders, and the fund industry must be prepared to respond. Fortunately, ICI’s international program, ICI Global, continues to grow in stature and prominence, effectively advocating in favor of stronger capital markets, greater use of funds for long-term savings, and investor-focused regulation in

jurisdictions around the world. All of ICI’s member funds benefit from this work.

Finding the right balance in regulation isn’t easy. It’s imperative that we keep trying for a simple reason: our industry cannot exist unless it meets the needs of investors. More than 100 million Americans and millions of savers in other jurisdictions rely upon our funds to help them meet their most important financial goals. We must remain focused on providing those investors with great value, efficiency, and service. They challenge us—and each of us must rise to meet that challenge. 🙌

Expense Ratios Incurred by Mutual Fund Investors Have Declined Substantially over the Past Two Decades 1996–2016



Sources: Investment Company Institute, Lipper, and Morningstar. See “Trends in the Expenses and Fees of Funds, 2016” at www.ici.org/pdf/per23-03.pdf.

CONSTANCY IN AN AGE OF CHANGE

PAUL SCHOTT STEVENS
President and CEO
Investment Company Institute



“When people shake their heads because we are living in a restless age, ask them how they would like to live in a stationary one, and do without change.”

—George Bernard Shaw

The past year has been nothing if not filled with change. A new administration and a new Congress have meant a new regulatory agenda—and new possibilities for the fund industry. Indeed, given the breakneck pace of new proposals and rulemakings since the financial crisis, we have welcomed the opportunity to step back and reassess the regulatory initiatives facing us.

Of course, this isn't the first time that ICI and the fund industry have experienced a change in administration. Since passage of the Investment Company Act of 1940 under President Franklin D. Roosevelt, the White House has changed from one party to the other eight times. And every two years, we welcome new faces in both houses of Congress.

But no matter the political climate—no matter how unexpected the results of an election—ICI's advocacy follows a tried-and-true approach:

- » we pursue sound, effective regulation that protects investors and expands their opportunities; and
- » we work with lawmakers and regulators from both sides of the aisle to do so.

As you might imagine, we've learned a thing or two in all the years we've been doing this. And in an era of change like this one, we draw from experience—and from staff and member expertise—to help guide our thinking going forward.

An Ongoing Commitment to Research Excellence

A crucial element of the advocacy that we bring to bear on behalf of the fund industry is provided by ICI's Research Department, which operates on a scale that few industry associations can match. Empowered by member input, ICI is able to provide data on every aspect of the registered fund industry, its role in the markets, and its investors, while also providing informed, rigorous analysis that drives our engagement with lawmakers, regulators, and the media.

Since 2004, the department has been ably led by Chief Economist Brian Reid, who will retire on December 31. Brian, who joined the Institute in 1996, has for more than two decades been instrumental in transforming the Research team into the world-class asset it is today. On page 10, he looks back on his time here, and talks about the principles and practices that will continue to guide the Research Department going forward. I know I speak for the Institute's Board of Governors, members, and staff when I express my deep appreciation for his service, and best wishes on his upcoming retirement.

A Constant Record of Engagement

Throughout a year filled with change, ICI remained steadfast in the pursuit of its policy priorities, engaging vigorously on all fronts. We interacted with Securities and Exchange Commission (SEC) staff—including the new chairman, Jay Clayton—to educate them about the real-world burdens involved in implementing the Commission's liquidity risk management and fund reporting modernization rules, and asked that both rules be refined and delayed to help allay those burdens for members and shareholders. In addition, given ongoing concerns about data security at the SEC, we suggested that portfolio holdings be reported on new Form N-PORT on a quarterly rather than monthly basis until the Commission adequately addresses these concerns. ICI also pushed back against the SEC's derivatives and business continuity proposals, while asking that it move to allow online delivery of disclosure documents (see page 6).

And, as we have since the Department of Labor (DOL) originally proposed the rule, ICI advocated for changes to the DOL's fiduciary standard for investment advisers, asking that the SEC get involved in efforts to achieve a harmonized best-interest standard for *all* investors. In response to a request for information issued by the Commission on June 1, ICI asked the SEC to adopt—and the DOL to recognize, in a streamlined

“In an era of change like this one, we draw from experience—and from staff and member expertise—to help guide our thinking going forward.”

exemption—a consistent best-interest standard of conduct for brokers when they provide recommendations to retail investors in retirement or nonretirement accounts.

The DOL rule went partially into effect on June 9, and its unfortunate consequences are already being felt. Feedback from members indicates, for example, that hundreds of thousands of small retirement accounts have been “orphaned” since the rule was finalized. Since then, the agency has proposed delaying the applicability date of exemptions to the rule until July 1, 2019. Further, it has said that it intends to coordinate with the SEC and to make changes before the requirements become applicable (see page 17). Additionally, in recent congressional testimony, SEC Chairman Jay Clayton called the fiduciary rule “a priority for me.”

ICI strongly supports the principle that financial professionals should act in the best interest of their clients when offering personalized investment advice. We’re encouraged by recent developments, and look forward to working with the DOL and the SEC to achieve a harmonized best-interest standard for all investors.

A Wide Reach, at Home and Abroad

This year’s *Annual Report* also reflects efforts by teams throughout the Institute

on a broad range of other issues. Our Industry Operations team, for example, continued its work bringing members together to implement regulations, explore new technologies, and enhance efficiency. In one notable development, Chief Industry Operations Officer Marty Burns and his team played a key role leading a multiyear effort to shorten the settlement cycle for most trades on the US securities markets from trade date plus three days (T+3) to two days (T+2). The initiative, which went into effect without a hitch on September 5, reduces risk in the financial system, produces numerous settlement efficiencies, and aligns the United States with major markets around the world—all big wins for investors (see page 28).

And ICI continued to advocate throughout the year for retirement savers, publishing research demonstrating the strengths and successes of the US retirement system and advocating against measures that would jeopardize it—including a patchwork of ill-considered, state-based retirement plans based on faulty assumptions that could actually end up damaging workers’ retirement prospects (see page 14). ICI provided key leadership, data, and analysis in the effort to direct the retirement debate toward better solutions. Now, with tax reform dominating the policy conversation

in Washington, we will continue our efforts to defend the tax incentives that support the country’s voluntary, employer-based system for retirement savings (see page 15).

Running throughout all of our work is a strong focus on the role that our industry plays worldwide. Every team at ICI has a global perspective, and contributes to the Institute’s global efforts—as this *Annual Report* reflects, through its section highlighting ICI Global (see page 22) and the “Global Spotlight” feature in other sections. With a membership that comprises funds and managers in the United States and other jurisdictions around the world, I am pleased to say that ICI now is the first truly global fund association, with ICI Global as the banner under which we proudly pursue our international program on behalf of all members.

It has been a busy year, full of changes. But ICI’s commitment to our members—and to their shareholders—has remained constant. Our industry is built on the trust of many millions of people throughout the world who invest in regulated funds to save for their most important and cherished financial goals. For more than three-quarters of a century, we have always placed their interests first. That will not change. 🌱

ADVOCATING BROADLY FOR SEC POLICY PRIORITIES

Since the change in administrations—and with new leadership at the fund industry’s main regulatory body, the Securities and Exchange Commission (SEC)—ICI has worked to engage vigorously with SEC commissioners and staff on how best to achieve an environment where, as SEC Chairman Jay Clayton has stated, “all Americans...have the opportunity to participate in, and benefit from, our capital markets on a fair basis.”

At ICI’s 2017 General Membership Meeting (GMM), ICI President and CEO Paul Schott Stevens strongly endorsed Clayton’s goals, explaining that “the funds ICI represents are an essential vehicle for this purpose.” He called on the SEC to help funds serve investors by:

- » modernizing communications with fund shareholders;
- » preserving the fundamental framework of fund regulation;
- » ensuring that all investors—whether in retirement plans or retail accounts—have access to financial advice that puts their interests first; and
- » permitting funds to continue to use the most advanced investment tools and techniques.

Consequently, throughout the year the Institute continued its advocacy efforts around several ongoing SEC initiatives that affect funds and their shareholders. For example, the Institute called on the SEC to pursue and expand upon initiatives to update the

delivery and content of disclosures to shareholders. In addition, based on the challenges that members are facing in implementing the Commission’s 2016 rules on liquidity risk management and fund reporting modernization, ICI appealed for delayed compliance dates and targeted rule amendments.

Modernizing Delivery and Content of Fund Disclosure Documents

ICI staff urged the Commission to allow mutual funds, exchange-traded funds (ETFs), and closed-end funds to fulfill their disclosure-delivery obligations by posting required documents online and providing investors with the opportunity to receive paper—an approach that would create substantial cost savings for fund investors. ICI also recommended, as a longer-term initiative, that the Commission review the content of fund shareholder reports to modernize these reports and make them more useful to investors.

Managing Liquidity Risk

At a number of ICI conferences and industry meetings, senior staff described industry efforts to implement the SEC’s liquidity risk management rule as enormously expensive and time-consuming—particularly the rule’s uniform four-bucket classification scheme for all portfolio securities. ICI recommended prompt SEC action to delay compliance and to reexamine this provision, which the Institute called the “most costly and vexing piece of the rule to implement.”

ICI recommended that each fund be permitted to formulate its own policies and procedures for classifying investment liquidity—a change that would greatly reduce implementation and administration costs and complexity, and help to avoid potentially adverse marketwide effects that could result from uniformity in liquidity classification. ICI also recommended an extension of the rule’s compliance dates and related reporting requirements.

At the same time, ICI continued to work with members’ risk, legal, and compliance teams to help members implement the new requirements. ICI held monthly calls, conducted member surveys, held in-person working group meetings, and submitted proposed FAQs on the liquidity rule to SEC staff.

Securing Fund Data

ICI continued to express strong concerns to the SEC about its ability to maintain the confidentiality of fund data reported under its new data reporting rules. ICI stressed that the SEC must take prompt action to address its information security weaknesses, to avoid irreparable harm to funds and their investors.

A breach of the SEC’s data security, ICI contended, could expose funds to predatory trading practices, including front-running of fund trades, “free riding” of fund investment research, and reverse engineering, or “copycatting,” of fund investment strategies. ICI recommended aggressive

countermeasures—including third-party testing and verification of the SEC’s information security programs—and suggested that funds continue to report portfolio holdings on a quarterly rather than monthly basis until the Commission adequately addresses the industry’s information security concerns. The Institute’s concerns were heightened in September when Clayton reported a major breach of the SEC’s Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system, renewing calls for independent assessment of the SEC’s security environment.

ICI continued to work with members’ risk, legal, and compliance teams to help them understand and implement requirements around the SEC’s new reporting rules, including new Forms N-PORT and N-CEN. In addition, ICI asked that the Commission provide more time for implementation of the new rules.

Promoting a Best-Interest Standard of Conduct for Brokers

ICI praised Clayton in public remarks and op-eds for his decisive action inviting public feedback on the standards of conduct for investment advisers and

broker-dealers. In an August letter, the Institute encouraged the SEC to establish a best-interest standard of conduct for brokers providing recommendations to retail investors in nondiscretionary accounts, whether they are saving for retirement or other important financial goals. ICI urged the SEC to coordinate closely with the Department of Labor, as more fully detailed on page 17.

Regulating Funds’ Use of Derivatives

ICI criticized certain key aspects of the SEC’s original rule proposal governing funds’ use of derivatives, out of concern that funds would be deprived of an important portfolio management tool. The original proposal, Stevens told attendees at GMM, imposed “arbitrary limits that would hobble funds’ ability to best serve US investors, and put them at a competitive disadvantage to other investment options.”

ICI is seeking a reproposal of the rule that would modernize and strengthen the regulatory framework by requiring a formalized derivatives risk management program with an appropriate asset segregation regime.

Pushing Back Against Unnecessary Proposals

In addition to urging a reproposal of the derivatives rule, the Institute urged the Commission to revisit other initiatives that it sees as unnecessary—including the SEC’s proposed rule to require advisers to adopt business continuity and transition plans.

ICI stated that the Commission’s traditional approach of publishing periodic and topical staff guidance and examining funds’ and their critical service providers’ business continuity plans and capabilities following disruptive events (e.g., hurricanes) has worked well, should be continued, and is warranted particularly given the evolving nature of this area.

ICI also recommended that the Commission suspend development of a stress testing proposal for large funds and advisers because a stress testing regime focusing on capital sufficiency, while perhaps suited for banks, does not make sense for funds or advisers. 📌



ICI has worked to engage vigorously with SEC commissioners and staff on how best to achieve an environment where, as SEC Chairman Jay Clayton has stated, “all Americans...have the opportunity to participate in, and benefit from, our capital markets on a fair basis.”

A Robust Reform Agenda amid Transition in DC

New leadership in the White House and on Capitol Hill in 2017 breathed new life into efforts to revisit inappropriate and burdensome financial regulation and thus enhance investment in US capital markets and boost US economic growth. Throughout the year, ICI's Government Affairs team engaged constructively with both the administration and Congress in work toward these goals, pressing for reforms that would advance the Institute's policy priorities on behalf of its members and their shareholders.

The administration's work so far has centered on two workstreams led by the Department of the Treasury:

- » a review of how existing laws and regulations fit with the president's "core principles" for US financial regulation, as stated in a February executive order; and
- » a review of the processes undertaken by the Financial Stability Oversight Council (FSOC) when determining whether to designate nonbank financial companies—including registered funds and their managers—as systemically important financial institutions (SIFIs).

To inform the core principles review, ICI wrote to the Treasury secretary and met with agency staff, explaining the harm caused by the staggering pace, reach, and complexity of regulations in recent years.

The Institute also recommended a range of measures that would advance the core principles in key areas affecting registered funds and their shareholders.

At a roundtable on the FSOC review with Treasury officials, FSOC members, and other trade associations, ICI asserted that the council should use tools other than SIFI designation to address potential risks to financial stability, and outlined the many flaws in its designation work to date.

A Strong Interest in Reform

On Capitol Hill, members of the House of Representatives expressed strong interest in legislation—especially the Financial CHOICE Act, introduced by House Financial Services Committee Chairman Jeb Hensarling (R-TX)—to reform the Dodd-Frank Act. ICI educated committee members and staff on provisions important to the registered fund industry, including language revoking the FSOC's SIFI designation authority for nonbank financial companies and specifying that registered funds and their managers fall outside the scope of Dodd-Frank's bank-oriented stress-testing requirements.

Although the CHOICE Act passed the House easily, it has not reached the Senate floor. In fall 2017, the Senate Banking Committee was working on a separate package of Dodd-Frank reforms. In response to a related committee

request for input on legislative proposals to foster economic growth, ICI wrote to committee Chairman Mike Crapo (R-ID) and Ranking Member Sherrod Brown (D-OH) recommending, among other reforms, legislation to preclude the FSOC from designating registered funds and their managers as SIFIs.

The Institute also is advocating major improvements to the FSOC's process, including:

- » giving companies under consideration for designation an opportunity to "de-risk" before being designated;
- » enhancing the FSOC's review of companies after they are designated; and
- » codifying supplemental procedures that the FSOC has adopted so that it could not change procedures without notice.

In the year ahead, financial services issues are expected to become an even greater priority in Washington. As regulators and lawmakers continue their deliberations, the Institute will continue working to explain the benefits that sensible reforms would bring to the US economy—and to ensure that any new legislation or regulatory initiatives take the interests of registered funds and their shareholders into account. 🙌

ICI's Government Affairs team engaged constructively with both the administration and Congress, pressing for reforms that would advance the Institute's policy priorities on behalf of its members and their shareholders.

ICI Confronts “Common Ownership” Theory

Swift ICI action and independent economic research combined this year to challenge an emerging academic theory that has troubling implications for registered funds and their shareholders. Based mostly on studies of the airline and banking sectors, the theory posits that when an asset manager acquires stock in more than one firm in a concentrated industry, the firms have less incentive to compete, driving prices up and hurting consumers.

A Misguided Proposal

As this common-ownership theory spread in academic circles and the media, it began to catch the attention of policymakers around the globe—and even prompted some academics to call for strict limits on how asset managers can invest. This misguided proposal would undermine index investing, restrict how active fund managers can build their portfolios,

damage the capital markets, and impose higher costs on fund shareholders.

Convinced that any theory eliciting such a proposal should stand up to an objective review, ICI asked economic consulting firm Bates White to conduct an independent analysis of the common-ownership work so far. Bates White’s research, produced without substantive input from ICI or its members, found no empirical evidence showing that common ownership raises prices—and major flaws in the theory itself. The common-ownership theory:

- » mistakenly assumes that an asset manager has one common set of interests and thus would benefit from artificially high prices across an industry, when in fact asset managers serve a wide range of funds and other clients with different holdings and investment objectives;

- » exaggerates the influence of asset managers that hold minority shares of public companies; and
- » presents a distorted view of the incentives of corporate management.

Bates White has presented its research at several academic conferences, and the first of its two papers has been accepted by a major antitrust journal.

ICI is encouraged by the much-needed balance this work has brought to the common-ownership conversation. The Institute will continue to confront any harmful policy proposals derived from these theories, and continue promoting the important role of fund investing in the capital markets and the economy. 🟩



IOSCO Takes a Sensible Approach to Liquidity Risk Management

At every turn taken by the Financial Stability Board (FSB) in its years-long review of potential risks in the asset management industry, ICI has contended that capital markets experts would be better equipped to handle such a review—and to determine the appropriate regulatory response.

In a pair of consultations on liquidity risk management released this year, the International Organization of Securities Commissions (IOSCO) advanced the type of sensible, measured approach for which ICI, working through ICI Global, has long advocated.

The consultations build on IOSCO’s thoughtful, comprehensive work in

this area from 2013, while responding to the FSB’s January 2017 policy recommendations to address “liquidity mismatch” in open-end funds. ICI Global’s comments on the consultations commended IOSCO for:

- » preparing two consultations—one with recommendations for regulatory authorities and another suggesting good practices for regulators, the industry, and investors to consider;
- » recognizing that how regulatory authorities implement IOSCO’s recommendations may vary across jurisdictions; and
- » focusing on protecting investors.

Yet despite IOSCO’s positive contribution to the liquidity risk management conversation, concerns remain. The FSB hasn’t given up on its flawed, unsubstantiated narrative that open-end funds could suffer massive, destabilizing redemptions. Nor has it ruled out returning to its ill-conceived work on methodologies for identifying investment funds and asset managers that it believes could threaten global financial stability.

In the coming months, IOSCO will consider public comments on its consultations and then finalize them—but the FSB’s next steps are unclear. ICI will continue monitoring developments as work in this space moves forward. 🟩

A CONVERSATION WITH THE CHIEF ECONOMIST

BRIAN REID

Chief Economist
Investment Company Institute



For more than two decades, Chief Economist Brian Reid has helped shape ICI's Research Department into one of the Institute's most valuable assets. As he finishes his last few months before his December 2017 retirement, he sat down to discuss the key strengths of ICI's research program and his confidence in the way forward.

You are wrapping up your 21st year at ICI, and 13th year as chief economist. Looking back, what stands out most? What are you most proud of?

When I was hired, ICI and its members had just begun to use economic analysis to inform policy positions. Today, data and economic analysis are central to our policy work. Many people were instrumental in helping to build our role and expertise, and I am very proud to have contributed to this effort.

A few issues really stand out. First, helping policymakers understand how competition has helped reduce fund fees. Second, supporting our retirement research to help counter the conventional wisdom that the US retirement system is failing. Third, bringing data and analysis to the conversation about funds and financial stability, to demonstrate that the conclusions reached by some researchers and policymakers were not based on settled science.

The Research Department brings together the highest-quality data and scholarship to facilitate sound, well-informed public policies. Why is this mission so central to your team's work, and what are the guiding principles?

We gather and analyze data to provide fact-based, defensible policy proposals. We don't use data and analysis to defend predetermined positions. Simply put, the data lead us to the conclusion, not the other way around. If you allow bias to affect your approach, or operate out of either theory or conjecture rather than hard data, you'll never truly understand the behavior of markets or investors.

Let me give you an example. In our work evaluating the Department of Labor's fiduciary rule, one of the issues at hand was whether the investments of investors who use brokers underperform investments of other investors. The DOL believed very

strongly that they do. But our analysis showed that the agency was using data to help justify its predetermined conclusion, rather than to craft appropriate rules.

We challenge ourselves here at ICI to let the data guide us, as opposed to letting our prior beliefs or convictions guide us. Sometimes that might mean we get an answer that we hadn't expected. But relying on objective data and analysis ultimately provides ICI and our members a much more defensible position when looking at public policy issues.

This means sometimes having to take the long-term view, rather than looking for easy answers and short-term results. Even when our research leads us to a conclusion that may contradict some prior beliefs that regulators or members have, we must think in the long term, knowing that our credibility is at stake. If we choose that short-term gain to make a rhetorical point

“Simply put, the data lead us to the conclusion, not the other way around. If you allow bias to affect your approach, or operate out of either theory or conjecture rather than hard data, you’ll never truly understand the behavior of markets or investors.”

or to support a desired policy position, but sacrifice our long-term credibility, we then diminish our ability to effectively weigh in on future policy issues.

Recognizing that guiding principle—of fact-based analysis—has been one of the key strengths of the research department. It’s how we have served—and will continue to serve—our members well.

What’s required to build and maintain a world-class research organization?

I think two factors are key. First, you must assemble a group of well-trained economists who not only have strong empirical skills, but also a deep institutional knowledge—an understanding of the institutions of funds, investors, and the financial and retirement markets. Second, you have to establish and maintain the highest standards when you undertake research—be it for a comment letter, an academic paper, or a presentation to a group of members or policymakers.

Bringing those two pieces together sets us apart from a purely academic or

theoretical approach, which may ignore the institutional details, or a pure policy approach, which may have a political objective that is driving a policy forward.

Can you explain more of what you mean by “institutional knowledge”?

An example would probably help. When we were trying to understand the implications of the SEC’s proposed derivatives rule, we had extensive conversations with our members to understand how they use derivatives in their portfolios. One of the key insights gained from these conversations was that derivatives can be an alternative way of reducing exposure to an asset class or duration—rather than selling securities. In other words, a bond fund manager might use derivatives to decrease or change the risk in a fund’s portfolio, not to increase the leverage in the fund. This was a critical piece of information that we provided to the SEC. I think another piece of information that the SEC didn’t have is how widely derivatives are used in bond funds—and, thus, how many bond funds would have been negatively affected by their proposal.

The fund industry is bound by such institutional details. One of the unique characteristics about ICI Research is that we spend a lot of time working with our members to understand their everyday practical experiences—and we bring this understanding into our research analysis. This gives us a deep understanding of the real world, to better understand how investors and markets operate. Incorporating this institutional knowledge into our work is one of the great strengths of the Institute. It requires a substantial investment of time and effort, economists with long tenure and experience, and robust dialogue with our members.

As economists and lawyers at the SEC or other regulatory bodies put together rules and proposals, we are able to use our institutional knowledge to create a bridge between the members’ practical experience and the thinking of regulatory agencies that are considering a new rule. We’re able to say, “This is how it works in the real world; this is how this rule would apply”—and that makes this job very exciting. No other organization in town combines data and institutional details in their analysis the way that we do.

CONTINUED ON NEXT PAGE

CONTINUED FROM PREVIOUS PAGE

What’s even better is that this is a two-way street. We also provide valuable insight to members, thanks to our connection to the regulatory and policymaking community. In addition, because ICI is an association made up of many different parts—Law, Operations, Government Affairs, Public Communications—our research, and our work with members, is informed by those perspectives as well.

Every day that I come in here, I learn new things. For 21 years it’s been a learning experience—I could stay here for 21 more and it would continue to be a learning experience! And that’s the way I like it. If we approached our work as if we had nothing to learn, then we wouldn’t shed light on any of the questions that we are trying to answer.

How has ICI’s research expanded in scope over time, and how has it captured the changing landscape?

When I came to ICI in the 1990s, we focused on three things: funds, their investors, and the retirement market.

In the years since, we have not only deepened and broadened our knowledge of these topics, but we have also expanded into areas beyond that.

For example, 20 years ago we were focused for the most part on the US market. We did some work on US funds that were investing abroad, but it was largely US-centric. Our international perspective began to expand long before the establishment of ICI Global in 2011, and it has grown rapidly since then—especially around the financial stability debate. ICI was one of the few nongovernmental organizations that brought data and analysis to the discussion. I think it’s safe to say that we significantly influenced the course of that debate.

Tell us about the recruitment of new economists to the research team this year.

ICI has hired two new economists this year, to enhance our coverage of the retirement and financial markets. What we looked for were individuals who

not only had empirical expertise, but also a comprehensive knowledge of the industry. So, we hired a financial economist who can enhance our understanding of the interaction of funds with financial markets, and an economist who has long experience working with a number of important databases that focus on Americans who are in retirement, or near retirement.

In addition to all this research, your staff have been actively using the Institute’s blog, *ICI Viewpoints*, to share analysis and commentary. Would you tell us a little about that?

Traditionally, the way that we would approach answering questions would be through long papers—either our own papers or academic papers and the like. Recognizing that we are now in a world where information flows very quickly, and where we often have audiences who need a 40-page paper distilled down to a two-page paper, we’ve made this shift.

We recognize that subject matter experts and economists aren’t the only



Reid introduces the “Improving Retirement Savings and Promoting the Use of Funds” panel at the 2013 meeting of the International Investment Funds Association in New Orleans.



In oral testimony to the House Subcommittee on Health, Employment, Labor, and Pensions on June 17, 2015, Reid provides insight on the costs of the DOL fiduciary rule.



Reid gives a 2015 talk at the Brookings Institution on investor behavior and the structure of the asset management industry.

people looking at the issues. Forcing a member of Congress or their staff to dig deeply into a complicated paper is not necessarily serving them well—or serving funds and their investors well. We've found that the blog is a great way to deliver information and analysis in a clear, concise, and compelling way. It can be a real challenge for an economist to distill a complex idea down to two pages, but with the help of our Public Communications and Law teams, we've been able to. And—speaking as an economist!—the data show it's helped us reach a much broader audience.

What trends does Research have its eye on now?

There are a few places where I see research going forward. One involves the growing role that funds play in household portfolios—not only for US investors but also outside the United States. How do these funds interact with the broader financial markets? Do investors who own funds react differently to market events than those who don't own funds? It's an

important area of work that ICI will be developing over the next few years.

Another issue that has been and will continue to be important is our analysis of the US retirement market. Are there ways to enhance it? Are there ways in which public policy may actually hinder Americans' ability to prepare for retirement? How are US households using funds to save for retirement?

We're focusing on how they are using funds and other sources of income, such as Social Security, as part of the overall solution set. Learning more about how Americans prepare for retirement, and what their behaviors actually are in retirement, will better inform us—and enable us to better inform policymakers—about how well the current policies and programs are working. Proposals based on incomplete information or misinformation can lead to bad public policy.

We also are focusing on issues that are being identified by the broader academic community. Our primary interactions—

particularly over the past 10 years since the financial crisis—have been with policymakers, here in Washington and globally. But ICI economists are increasingly bringing our unique perspective—including our institutional knowledge—into an academic setting, to provide further context for academic research. Having a voice there will be critical, as academic research finds its way into policymaking.

By challenging what at times may seem to be perceived truth, and providing evidence and research to demonstrate why a particular point of view or approach is not really capturing the full extent of how the economy works, we can further everyone's understanding of the way in which markets and funds work.

What you will miss most after you leave ICI?

What I'll miss most is working with my highly talented colleagues. I am confident that they will carry on the type of influential research that ICI is known for, and I look forward to learning from them as I read their work. 🌱



“One of the unique characteristics about ICI Research is that we spend a lot of time working with our members to understand their everyday practical experiences—and we bring this understanding into our research analysis....What's even better is that this is a two-way street. We also provide valuable insight to members, thanks to our connection to the regulatory and policymaking community.”

Restoring Protections and Promoting Alternatives to State-Run Retirement Programs for Private-Sector Workers

Looking to increase coverage of private-sector workers who are not covered by retirement plans, several states and cities have begun efforts to create and administer government-run plans that would automatically enroll such workers. ICI's data and analysis have shown that these plans, although well intentioned, rest on shaky economic and legal foundations. In addition, ICI has worked to ensure that workers automatically enrolled in state-run programs are covered by the same strong investor protections that private-sector plan enrollees enjoy under the Employee Retirement Income Security Act of 1974 (ERISA). ICI also has proposed policy alternatives that would expand the availability of private-sector workplace retirement plans.

Warning Against Unintended Consequences

Drawing upon decades of research on how Americans save for retirement, ICI analyzed a number of state-run retirement plan designs and feasibility studies, and found they incorporated unrealistic expectations about account balances, opt-out rates, contribution rates, and myriad administrative and compliance expenses.

With respect to California's plan design, ICI predicted that fees would need to exceed the 1 percent cap initially proposed by the state—a point that the state subsequently conceded, removing the fee cap for the first six years of the program. Oregon's

plan faces similar problems. An analysis from the Center for Retirement Research at Boston College found that the plan will need to charge participants fees that will constitute an exceptionally high percentage of assets in the early years of the program—which of course will reduce returns for the workers forced to enroll.

As ICI's analysis shows, starting from scratch to create automatic enrollment programs, recordkeeping systems, and investment plans is expensive. Those costs could lead to unreasonably high fees for the low-income and part-time wage earners who will make up most of the workers automatically enrolled in such programs, and may have long-run consequences for state taxpayers as well.

Restoring Investor Protections

To protect enrollees, ICI worked to ensure that state and city governments that initiate retirement plans for private-sector workers must abide by the same strong investor protection standards that private-sector employer-sponsored retirement plans have been subject to for the past four decades.

ERISA requires those running private-sector retirement plans to act solely in the interest of participants. Unfortunately, in the waning days of the Obama administration, the Department of Labor (DOL) instituted a safe harbor rule that would have allowed states and cities to sidestep this fiduciary obligation (and

other ERISA requirements) when creating and maintaining retirement accounts for private-sector workers.

ICI took the fight to restore ERISA protections to the US Congress, where lawmakers had just 60 legislative days to reject the DOL's rulemaking by exercising their authority under the Congressional Review Act (CRA). The Institute worked aggressively to inform members of Congress about the overlooked risks of state- and city-run plans, and Congress responded, ultimately passing two CRA resolutions—each later signed by the president—to repeal the DOL safe harbor rule for both state-run and city-run plans.

Promoting Stronger Alternatives

To improve the country's retirement system, ICI is advocating for federal solutions that build upon the retirement system's strengths and make it easier for small workplaces to offer plans under federal protections.

For example, ICI is working to promote open multiple employer plans, which would make it easier for unrelated firms—particularly small businesses—to band together and share the administrative burden of creating and running retirement plans for their employees. ICI also is supporting a simpler 401(k) model that would similarly reduce administrative burdens and costs for employers looking to provide their workers with a retirement savings option. 📌

ICI has worked to ensure that workers automatically enrolled in state- and city-run programs are covered by ERISA, while advocating for federal solutions to expand coverage.

Highlighting the Importance of Tax Deferral to the Success of America’s Retirement System

Comprehensive reform of the tax code has emerged not only as a priority for Congress, but also as a key plank in the new administration’s platform to encourage capital formation, enhance the competitiveness of US companies in international markets, and trigger faster economic growth. ICI has strongly supported these goals, but has advocated vigorously against proposals to pay for lower tax rates by impairing tax deferral for retirement savings.

Marshaling research and data, ICI is actively engaging with policymakers to highlight the critical role that deferral plays in encouraging individuals to save adequately for retirement and in maintaining the success of the nation’s voluntary employer-provided retirement system. In meetings with policymakers and through engagement with the media, the Institute also stresses strong public support for the current system of tax deferral. Institute surveys show, for example, that 89 percent of all US households disagree with the statement

that the government should take away the tax advantages of defined contribution (DC) accounts, while 90 percent disagree with the idea of reducing the amount that individuals can contribute to DC accounts.

In March, members of ICI’s Board of Governors met with key members of the House and Senate, including House Speaker Paul Ryan (R-WI). Organized by ICI’s Government Affairs team, this event was an example of ICI’s continued work to educate policymakers and their staff about the need to preserve tax deferral for retirement savings contributions as part of any future tax reform, and that limiting retirement-related tax incentives would hurt all savers.

Working with other retirement-focused trade associations, companies, and groups, ICI also has advanced its advocacy through a new group, the Save Our Savings (SOS) Coalition. Along with other SOS Coalition members, including AARP, ICI Government Affairs is conducting in-person meetings

throughout the House and Senate. And as tax reform draws increasing attention, the SOS Coalition has provided—and continues to provide—substantial support in dealing with media queries.

ICI also is continuing to play an extremely active role in educating policymakers about the importance of maintaining the tax exemption for municipal bond interest—an important incentive for investors to help finance state and local governments. ICI’s Government Affairs team helped to facilitate meetings involving ICI member senior executives with expertise in the municipal bond market and other members of the Municipal Bonds for America (MBFA) Coalition with staff in key offices on Capitol Hill in June 2017.

Though the fate of comprehensive tax reform was uncertain at the end of fiscal year 2017, the Institute’s efforts to ensure that tax changes do not impair retirement savings will continue until the issue is settled. 🙌

Households’ Opinions of Suggested Changes to Retirement Accounts

PERCENTAGE OF US HOUSEHOLDS DISAGREEING WITH EACH STATEMENT, FALL 2016

The government should:



Number of respondents: 2,027

Source: ICI tabulation of GfK KnowledgePanel® OmniWeb survey data (fall 2016)

Correcting Misperceptions About the US Retirement System

In findings that run counter to the “retirement crisis” narrative too often found in academia and the media, ICI in April released analysis of tax data showing that American workers are able to preserve their standard of living after they claim Social Security.

Working with economists from the Statistics of Income Division of the Internal Revenue Service (IRS), ICI economists Peter Brady and Steven Bass found that most Americans either maintain or increase their spendable income after claiming Social Security, and that replacement rates tend to be higher for lower-income individuals.

The analysis also found that income from retirement plans was widespread—nearly 90 percent of individuals had income from or held employer-sponsored retirement plans, annuities,

or individual retirement accounts (IRAs). Further, the income they gained from these sources was substantial—similar in magnitude to the benefits that middle-income individuals, on average, receive from Social Security.

The research is significant because it is based on income data reported to the IRS—a far more reliable source than surveys. The research was able to demonstrate that retiree income—and particularly income from employer plans and IRAs—is much higher than what is reported in the US Bureau of Labor Statistics’ Current Population Survey, the source for retiree income statistics that is most commonly cited by the media.

The authors followed working taxpayers aged 55 to 61 in 1999 who had not yet claimed Social Security. They compared these taxpayers’

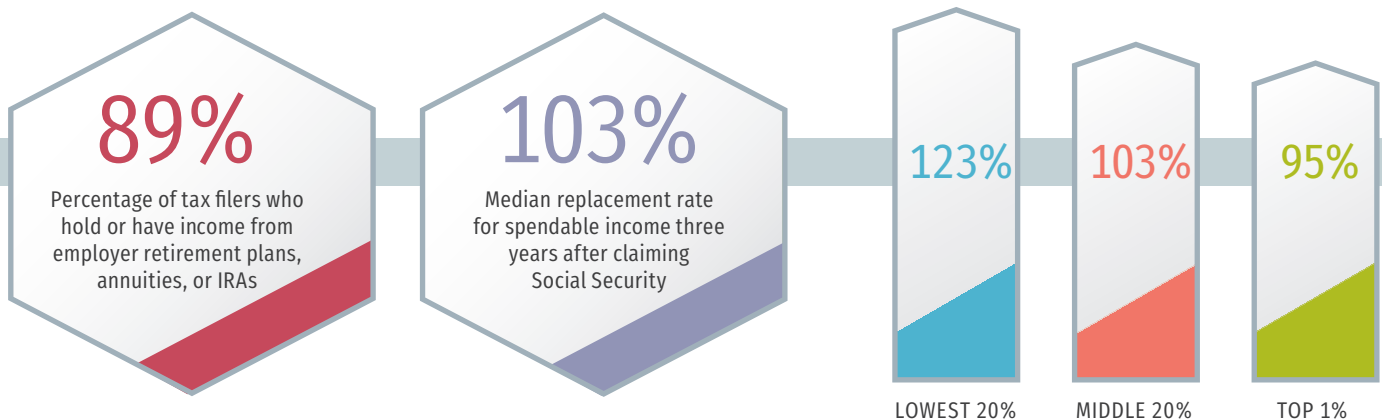
spendable income (as reported on their tax returns and on information returns provided to the IRS) three years after they had claimed Social Security with their spendable income the year before they claimed, and found that the median worker replaced 103 percent of spendable income after claiming Social Security.

Brady presented these findings at the National Tax Association’s 2016 annual conference. He then followed this debut with presentations at a number of forums, including the American Enterprise Institute (AEI), the Tax Economist Forum, the Savings and Retirement Foundation, the Consumer Financial Protection Bureau, and to congressional staffers at Capitol Hill briefing sessions. 📌

For more information, visit www.ici.org/retirement.

Most Americans Maintain or Increase Their Spendable Income After Claiming Social Security, Tax Data Show

LOWER-INCOME TAXPAYERS REPLACE MORE OF THEIR SPENDABLE INCOME



Sources: Investment Company Institute and Internal Revenue Service Statistics of Income (SOI) Division

Pursuing a Consistent Best-Interest Standard for Brokers

When the Department of Labor (DOL) issued its final fiduciary rule in April 2016, a pair of poor options awaited many American retirement savers: pay more for investment advice or go without it entirely. Now, thanks to new federal leadership and vigorous ICI advocacy, relief could soon be on the horizon.

The road in between has been long and winding. As one of its first orders of business, the Trump administration directed the DOL to reexamine whether the rule could harm Americans' access to retirement information and financial advice—and, if so, to publish a proposal to revise or rescind it. The DOL responded by delaying the rule's first applicability date by 60 days—not nearly long enough to complete its required reexamination—and by issuing a request for comments to inform the reexamination.

In response to the request, ICI explained how the pending application of the rule was already harming retirement savers and disrupting the market for retirement advice, and asserted that implementing the rule before completing the reexamination would

only make things worse. For these reasons and others, the Institute urged the DOL to further delay the rule—and contended that it must ultimately revise or rescind the rule to comply with the administration's directive.

Though disappointing, the DOL's decision not to further delay the rule yielded a long overdue collaboration. In explaining the decision, Secretary of Labor Alexander Acosta announced that the DOL would seek yet more public input on the rule, and invited the Securities and Exchange Commission (SEC) to help improve it. SEC Chairman Jay Clayton welcomed Acosta's invitation and formally requested comments to support his examination of standards of conduct for investment advisers and broker-dealers.

Long an advocate of requiring brokers to act in their clients' best interests when offering personal investment advice, ICI took this opportunity to lay out its view in more detail. Writing to Clayton, ICI asked the Commission to establish and enforce a new best-interest standard for SEC-registered brokers that would apply consistently across

retirement and retail accounts—and to coordinate with the DOL in doing so.

Writing to the DOL, ICI called on the agency to recognize this new SEC standard by adopting a streamlined exemption covering brokers subject to it, to narrow the rule's overly broad definition of "fiduciary," and to delay by a year the rule's second applicability date. The DOL has since proposed delaying the second applicability date by 18 months—to July 1, 2019—giving the DOL and SEC a real opportunity to work together toward this new standard.

As the two agencies continue their work in this area, ICI looks forward to engaging closely—and is staking out a clear position. Establishing a consistent best-interest standard for brokers would make much more sense than regulating their retirement and retail advice under separate, incompatible regimes. It would strengthen investor protections without subjecting brokers to undue legal liability. And it would preserve investors' access to the products and services they depend on to reach their savings goals. 📌



Private Pensions and the Role of Regulated Funds in Europe

To help EU citizens increase their retirement savings, the European Commission is considering a voluntary, pan-European personal pension (PEPP) product. The PEPP could present new opportunities for funds and their investors, and support the Commission's Capital Markets Union initiative (see page 25).

In June, the Commission published a proposed regulation for a PEPP, a process similar to introducing draft legislation in the United States. The PEPP would supplement existing national retirement systems, and would be distributed on a cross-border basis, enabling EU citizens to save for

retirement through the same account even if they move among member states.

In comments on earlier PEPP consultations, ICI Global advocated for striking the right balance between offering providers some flexibility and standardizing some features. The Commission's June proposal attempts to achieve this balance, giving providers flexibility to design investment and payout options while standardizing such features as distribution and authorization. ICI Global's comments also emphasized the importance of developing a tax approach that would enable a PEPP to better compete with national personal pension products.

Though ICI Global generally supports the direction of the Commission's proposal, some provisions will require further work. For example, the rules applying to a default investment option require "recoup[ment] of the capital invested." Guaranteeing savers' capital would require defaulting them into low-yielding fixed-income vehicles, depriving them of greater growth potential that can be achieved with a long-term investment horizon. ICI Global believes the Commission should remove that requirement and that the default option should be a diversified investment vehicle, such as a lifecycle fund. 📌

REPRESENTING THE INTERESTS OF ETFs

Exchange-traded funds (ETFs) in 2017 recorded another year of remarkable growth, with assets under management in the United States increasing from \$2.4 trillion in September 2016 to \$3.1 trillion in September 2017. As the funds have become more prevalent in investors' portfolios, ICI has continued its focused engagement with the public, lawmakers, regulators, and the media to educate and inform them about ETFs.

Providing a Strong Voice

During the year, ICI experts weighed in on several ETF issues through conferences and media outreach. For example, ICI Associate General Counsel Jane Heinrichs provided a review of the industry's regulatory agenda to attendees at the January 2017 Inside ETFs conference, a gathering of roughly 2,000 financial advisers and ETF strategists. Heinrichs moderated a panel discussing how current and proposed regulations, including the Securities and Exchange Commission's liquidity management rule and the Department of Labor's fiduciary rule, might affect ETFs. In addition, at the 2017 ETF Trading and Market Structure Conference, ICI Senior Economist Shelly Antoniewicz dispelled myths regarding the "illusion of liquidity" in bond ETFs and examined the effects of index investing through ETFs on financial markets.

ICI also worked throughout the year to counter the misinformation about ETFs sometimes found in media reporting and commentary by providing data and fact-based analysis. Teams across the Institute engaged with the media by giving interviews, writing opinion pieces and *ICI Viewpoints* posts, and producing *Focus on Funds* video segments.

Building Understanding

To help explain an often complicated and misunderstood process—how the SEC and national securities exchanges regulate the listings and trading requirements of ETFs—ICI published *Understanding the Regulation of Exchange-Traded Funds Under the Securities Exchange Act of 1934*. The paper offers background information on ETFs and on the history of ETF regulation under the Securities Exchange Act; provides a history of the ETF listing process and standards; details the current listing standards and the Rule 19b-4 process; and explains the requirement to obtain exemptive or no-action relief under the Securities Exchange Act before listing.

Academics' concerns about ETFs were also addressed at the Academic and Practitioner Symposium on Mutual Funds and ETFs, cohosted by ICI and the University of Virginia's Darden School of Business in September. The one-day conference near Washington, DC, brought

together more than 90 academics, executives from ETF sponsors, staff from regulatory agencies, and other stakeholders to focus on two topics: ETFs and common ownership (see page 9).

At the conference, a panel of academics, a regulator, and an ETF sponsor discussed active versus index investing, liquidity of ETF shares and underlying securities, ETF share lending, and myths around bond ETFs. Subsequent panels then provided opportunities for academics to present research findings about different aspects of ETFs and the markets, and for experts to provide feedback. For example, two academics presented research on bond ETFs, followed by practitioners from proprietary trading firms that deal in bond ETFs, who provided the papers' authors with feedback in an effort to improve the authors' empirical analysis and interpretations. Other panels examined, in a similar manner, ETF arbitrage and common ownership.

Bringing Stakeholders Together

As part of ICI's role to bring ETF member sponsors together, ICI organized a roundtable that brought together members of the ICI ETF Committee with representatives from the three ETF exchanges, market makers, and authorized participants to discuss issues of ETF

As the funds have become more prevalent in investors' portfolios, ICI has continued its focused engagement with the public, lawmakers, regulators, and the media to educate and inform them about ETFs.

CONTINUED FROM PREVIOUS PAGE

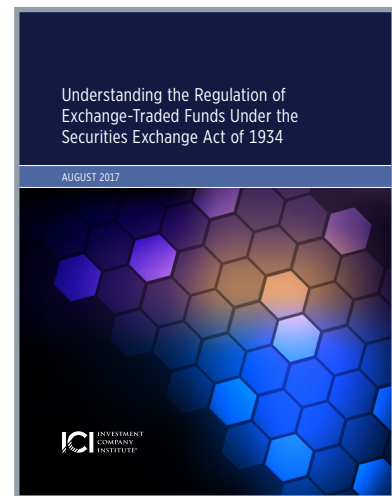
trading from the perspectives of various participants in the ETF ecosystem.

ICI also brought together members and lawmakers at a July “Lunch and Learn” briefing session for congressional staff on Capitol Hill, where ICI’s Antoniewicz moderated a panel that included representatives from three member companies. ICI’s Government Affairs team also organized a session for members to answer questions posed by senior Treasury officials engaged in issues affecting the ETF industry.

The tremendous growth of ETFs will undoubtedly continue to draw widespread attention from markets, government officials, regulators, and the public—and ICI will be there, continuing its ongoing efforts to support the industry in a complex market environment. 🌱

ICI Publishes Paper Explaining ETF Listing and Trading Requirements

A core component of ICI’s mission is to educate policymakers and the public about registered funds, including ETFs. This year, these efforts included publication of a paper—*Understanding the Regulation of Exchange-Traded Funds Under the Securities Exchange Act of 1934*—explaining how the SEC and national securities exchanges regulate the listing of ETFs under the Securities Exchange Act of 1934. 🌱



To find this paper and other ETF resources, visit www.ici.org/etf.

Responding to Global Regulators on Analyses of European ETFs

The exponential growth of ETFs—and the resulting interest in the funds—has not been limited to the United States. Assets of non-US ETFs more than doubled, to \$1.2 trillion, from 2012 to August 2017. Meanwhile, regulatory agencies in Europe are focusing more attention on ETFs to explore the potential impact of these funds on investors and the financial system.

Two EU regulators examined ETFs and issued research reports this past year.

» The Central Bank of Ireland (CBI) issued a discussion paper on Irish-domiciled ETFs, focusing on potential regulatory challenges that could arise from the growth of ETFs. In August, in response

to a request for input, ICI Global submitted a comment letter to the CBI that examined the growth of Irish-domiciled ETFs in the past decade, and provided preliminary analysis on the effects of European ETF creations and redemptions. The letter argued that, similar to ETFs in the United States, creations and redemptions of European ETFs account for a relatively small share of total European ETF activity, indicating that ETF trading in Europe has little impact on underlying securities.

» France’s financial services regulator, the Autorité des Marchés Financiers (AMF), released a study focusing on French-domiciled ETFs. The paper’s main

empirical findings showed that equity ETF net share issuance did not dictate price moves in underlying French stocks, and that creations and redemptions of French equity ETFs are countercyclical—meaning they dampen broader moves in the underlying French equity market rather than amplify them.

As more data on ETF trading become available through enhanced reporting measures under the revised Markets in Financial Instruments Directive (MiFID II), ICI intends to extend its analysis of European ETFs, and is ready to respond to any additional moves by global regulators regarding ETFs. 🌱



WORKING TOWARD FAIRER AND MORE TRANSPARENT MARKETS

Funds and their investors benefit from financial markets in the United States and abroad when they are highly competitive, transparent, and efficient. Accordingly, throughout the year, ICI continued to advocate reforms to advance certain key principles: minimizing potential conflicts of interest, promoting transparency and liquidity, ensuring stability and resiliency, and treating all market participants fairly and equitably.

Encouraging Continued Reforms

In meetings with regulators, ICI pursued changes to the “maker-taker” pricing model—paying rebates to firms that supply liquidity and charging fees to those that remove it—often used by exchanges to stimulate trading on their markets. This system harms regulated funds and their investors by reducing market transparency and creating needless complexity and conflicts of interest. ICI continued its support for a Securities and Exchange Commission (SEC) pilot program to assess how investors might benefit from reforming maker-taker pricing.

ICI also believes that the SEC should improve the governance of national market system (NMS) plans, which the SEC has used in lieu of rulemakings to alter key aspects of equity market structure. Presently, self-regulatory organizations (SROs)—the exchanges and the Financial Industry Regulatory Authority—make all decisions

for these plans. In November, the Institute submitted a comment letter to the SEC recommending that NMS plan governance be opened to a broader range of market participants, including regulated funds.

Improving the governance of NMS plans likely would result in better plan operations and increased transparency. One example where improved governance structure would encourage transparency is the NMS plan for securities information processors (SIPs). These exclusive providers of public data feeds operate without sufficient disclosure about the allocation of revenue among SROs, making it difficult for market participants to evaluate whether SROs are appropriately using plan revenues to support the SIPs. An improved governance structure also would benefit the SEC’s consolidated audit trail (CAT) plan by enabling a broader range of industry participants to better address data security and other challenges.

ICI continued to support other SEC efforts to improve transparency in equity markets, including enhanced disclosures of broker-dealer order-handling practices, as well as requirements that alternative trading systems (ATS) disclose key information about their operations and operators. For example, ICI took a lead role in advocating for stronger order-handling disclosures, which will better enable funds to understand potential conflicts of interest and make more informed routing decisions.

Working with Global Regulators to Support Derivatives Markets

As the role of central counterparties (CCPs) has grown in derivatives markets, global regulators and regulatory bodies have started to consider how to address a CCP failure. ICI submitted four comment letters in response to proposals on CCP resiliency, recovery, and resolution last year. These letters generally encourage regulators to ensure that CCPs have adequate risk management processes and to provide transparency and certainty about the procedures that will be used to recover or resolve a failing CCP. ICI also argued that the CCP recovery and resolution process should protect the assets of non-defaulting customers, such as regulated funds.

With European authorities considering requirements that certain derivatives trade exclusively on regulated venues, ICI submitted comments to the European Securities and Markets Authority (ESMA) identifying several steps that EU authorities should take to prevent the trading obligation from disrupting derivatives markets. The Institute urged ESMA to work with regulators in other jurisdictions to ensure that market participants can satisfy the trading obligations of both the European Union and any third country, stressing that a failure to do so could fragment derivatives trading along national or regional boundaries, with broader consequences for liquidity. 🌱

ICI continued to advocate for reforms to advance certain key principles: minimizing potential conflicts of interest, promoting transparency and liquidity, ensuring stability and resiliency, and treating all market participants fairly and equitably.

Bringing Market Participants Together

In December 2016, ICI Global brought market participants together in London for a fifth annual conference to discuss regulatory issues affecting the financial markets for the buy-side. More than 100 industry leaders discussed an array of topics, including the expanded role that funds play in evaluating execution quality in equity markets and how best to preserve the orderly functioning of bond markets.

Attendees heard from a range of regulators and other market experts, including Jean-Paul Servais, vice-chairman of the International Organization of Securities Commissions (IOSCO) and chairman of Belgium's Financial Services and Market Authority (FSMA), who provided opening remarks. Verena Ross, executive director of the European Securities and Markets Authority (ESMA), delivered the closing keynote address, focusing on

implementation of the revised Markets in Financial Instruments Directive and Regulation (MiFID II and MiFIR), set to take effect in January 2018.

ICI Global also partnered with Chatham House for a conference on the global

implications of recent geopolitical and macroeconomic developments in capital markets. The conference, held in London in March, focused on the implications of Brexit for the global fund industry, and the potential for increased cross-border investment in Europe. 📌



Dan Waters (left), ICI Global managing director, discusses the implications of Brexit on the global capital markets with Paul Andrews, secretary general of IOSCO, and Sharon Donnery, deputy governor of the Central Bank of Ireland, at the March 2017 Global Capital Markets Conference, held at Chatham House.

Helping Funds Navigate MiFID II and MiFIR

The EU Markets in Financial Instruments Directive and Regulation (MiFID II and MiFIR) are scheduled to take effect on January 3, 2018. Taken together, MiFID II and MiFIR provide a regulatory framework for the operation of EU financial markets. MiFID II governs trading venues and structured products; MiFIR governs the operation of those venues and products, specifically the processes, systems, and governance measures that market participants use. Though aimed at the European Union, MiFID II and MiFIR will have an extraterritorial impact on funds and their managers around the world, given the international nature of trading and markets.

ICI Global engaged with stakeholders on issues affecting funds during the MiFID II and MiFIR legislative process, and is now helping members prepare for implementation. For example, ICI Global held a series of webinars and calls featuring regulatory and legal experts to help members better understand what MiFID II and MiFIR will mean for them. The first webinar offered an overview of the directive and regulation and of the key issues affecting global asset managers and funds. The subsequent webinars and calls each focused on one of those key issues, specifically:

» dealing commissions and investment research;

- » best execution;
- » trade reporting;
- » transaction reporting; and
- » product governance.

For each issue, experts discussed the new requirements under MiFID II and MiFIR, who would be affected, how the requirements would be applied cross-border, and when funds and their managers would need to comply with the various requirements.

Nearly 650 members participated in the series. The webinars are archived on ICI Global's site at www.iciglobal.org/webinars. 📌



CONDUCTING BUSINESS IN THE GLOBAL MARKETPLACE

Jim Norris and Michael Falcon, cochairs of the ICI Global Policy Council, discuss the council's work and how ICI Global is addressing the challenges and opportunities facing regulated funds and their investors worldwide.

The ICI Global Policy Council provides strategic direction to ICI's international program. Given the myriad issues facing regulated funds and their managers, how is the council setting priorities for ICI Global's work and regulatory engagement?

Falcon: Helping funds meet the needs and protect the long-term interests of investors worldwide is at the heart of ICI's mission, so that guides our decisions on which international issues to address. ICI Global, however, must engage strategically on policy priorities, so we are focusing on issues that transcend boundaries and are important to members worldwide, such as tax, pension, and liquidity risk management reforms. In addition, we are selectively engaging on regional issues that have extraterritorial effects and that may rise to the global level—such as the revised EU Markets in Financial Instruments Directive and Regulation, also known as MiFID II and MiFIR [see pages 21 and 30].

Norris: The policy council is also categorizing policy issues by urgency and importance. ICI Global is actively working on critical issues such as Brexit, because they are significantly affecting funds and their investors, right now. Then there are issues that ICI Global is closely monitoring and responding to as necessary. An example is the debate surrounding whether funds or their managers should be designated as global systemically important financial institutions, or G-SIFIs. Finally, there are thought leadership issues that ICI Global engages on proactively, such as exchange-traded funds and policymakers' understanding of them [see page 19].

What are some top policy priorities in the European Union, and how is ICI Global addressing them?

Norris: Brexit is one of the most pressing issues. There are several aspects that members are concerned about, but one of the most important is preserving the Undertakings for Collective Investment in Transferable Securities [UCITS] brand, including UCITS' ability to delegate portfolio management.

Recent regulatory proposals could limit UCITS' ability to delegate portfolio management to countries outside the European Union, including the United Kingdom, post-Brexit. In addition, proposed legislation that aims to strengthen the power of the European Securities and Markets Authority [ESMA] would empower ESMA to challenge delegation to non-EU countries. Delegation is a key part of UCITS' global success. Constraining funds' ability to delegate would not only fundamentally alter UCITS, but also severely limit the range of investment choices for investors worldwide. To help policymakers better understand the global repercussions of such limitations, ICI Global and members of its Brexit Task Force met with EU government officials throughout the year. ICI Global representatives also engaged with the media and gave high-profile speeches about the importance of preserving UCITS.

Another top policy priority involves the regulatory debate about how competition in the fund marketplace is affecting fund fees and expenses. The UK Financial



“The challenge is not to become ‘regionally siloed.’ And the key to meeting that challenge is communication....We’re helping ensure that we’re all connected and operating at a truly global level.”

JIM NORRIS

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

Conduct Authority published a report concluding that the UK fund industry is not competitive, and that certain types of funds—both active and index—don't deliver value for money. ICI Global pushed back, on the data set and the study's overall conclusions, and made the point that investors clearly are choosing funds with lower fees [see page 24].

What are some issues facing members in the Asia-Pacific region, and where can ICI Global make the biggest difference?

Falcon: Building and maintaining a high level of trust in the way funds are distributed is essential everywhere in the world, including in the Asia-Pacific region. In this context, there are ongoing discussions between regulators and industry players about the importance of transparency and about how to effectively disclose fees and expenses to help investors and intermediaries. Ensuring that investors have the information they need to make informed decisions underscores another top priority: promoting trust and understanding among Asia-Pacific investors of regulated funds as long-term investment vehicles. There is a great deal of opportunity for ICI Global to help Asia-Pacific policymakers

and retail investors better understand how funds can help investors save for financial goals, such as retirement.

That brings me to a third priority: pension system reforms. Demographic and economic pressures are increasingly straining government retirement systems, which is leading governments in the region to examine how private pension systems can help citizens build adequate retirement resources. ICI Global has an incredible amount of expertise in this area, and has engaged with policymakers in such jurisdictions as Japan, Hong Kong, and China about the benefits of a well-constructed private pension system and how funds can play an important role in such systems. We believe ICI Global will have more opportunities to continue this work as more jurisdictions consider pension reforms.

How have members responded to the new policy structure for setting ICI's international priorities, and how have the Policy Council and chapters fostered member engagement?

Falcon: Members have supported the alignment because it gives ICI an opportunity to assess its international

policy priorities, and devote its resources to the overarching global issues that matter most to funds and their investors. They also appreciate the regional policy council branches and chapters, as they enable us to meet the needs of our members on a local level while not losing sight of our global priorities.

Norris: In addition, geographically distinct branches and chapters foster better member engagement, because it is easier for members to physically come together and have substantive conversations on a consistent basis. The challenge is not to become "regionally siloed." And the key to meeting that challenge is communication. For example, by sharing meeting minutes and communicating the other branch's or chapter's initiatives, we're helping ensure that we're all connected and operating at a truly global level. 🙌

“ICI Global has an incredible amount of expertise in [pension system reform], and has engaged with policymakers...about the benefits of a well-constructed private pension system and how funds can play an important role in such systems.”

MICHAEL FALCON

Chairman, ICI Global Pacific Policy Council
CEO, Asia Pacific, J.P. Morgan Asset Management



Marketplace Competition and Fund Fees: Setting the Record Straight

Concerned about the impact of costs on investor returns, many regulators and policymakers are examining how competition in the fund market affects fund fees and expenses. In the United Kingdom, the Financial Conduct Authority (FCA) administered a two-year study of the UK asset management market to ensure it was efficient and competitive, and that savers were using funds—among other investment products and services—that offer “value for money.” The FCA published an interim report on its findings in November 2016, followed by a final report in June 2017.

A Comprehensive Campaign

Though ICI Global supports the FCA’s goal of promoting transparency and robust competition, it disagreed with the interim report’s conclusion that the UK fund industry is not competitive, and that certain types of funds—both active and index—do not deliver value for money. The FCA’s assertion was based on data it gathered from the UK market. Given that the report will likely influence regulatory debates about fund competition and fees in other countries, ICI Global mounted a comprehensive campaign, demonstrating

that—contrary to the FCA’s assertions—the UK fund industry is highly competitive and investors are making choices that help them incur lower fund fees.

In a comment letter, meetings with UK and EU policymakers, and press interviews, ICI Global explained that the data, including much presented by the FCA itself, simply do not support the FCA’s depiction of a highly uncompetitive market. ICI Global conducted its own analysis of the UK market, examining such factors as the number of fund firms in the market, the types of funds available, barriers to entry, and fund flows. In addition, ICI Global carefully examined and compared fund fees and expenses in both the United States and United Kingdom. The analysis yielded many conclusions, including:

- » The UK fund management industry is highly competitive, with a large number and variety of funds and fund providers competing for assets.
- » UK investors have incurred lower fund charges over time, in both active and index funds.

- » Active and index funds compete head-on and provide choice to the benefit of investors.
- » The intermediation of funds must be assessed to better understand investor choice and competition.

In late June, the FCA released its final report, which described possible remedies to address the report’s findings. The FCA also published a consultation paper on other proposals and its plans for future consultations, including a market study on fund platforms in the United Kingdom.

ICI Global expressed its disappointment that the final report reaffirms many of the interim report’s conclusions, including the FCA’s view that there is weak price competition. To help ensure that other countries do not give the FCA’s report undue weight, ICI Global is engaging with EU policymakers about issues surrounding competition and fund fees, and explaining how cross-country fee comparisons can help inform discussions about these issues. 📌

Helping Funds Seize Opportunities in the Asia-Pacific Region

Asset management throughout the Asia-Pacific region is rapidly evolving, with different markets at different stages of development. During the past year, ICI Global engaged on policy issues in India, Hong Kong, and New Zealand, to help members take advantage of the opportunities in this dynamic region.

India. The Securities and Exchange Board of India (SEBI) proposed changes to certain eligibility and registration requirements for foreign portfolio

investors, including simplifying the requirements a fund needs to meet to be considered a broad-based fund. In its comments to SEBI, ICI Global expressed support for many of the proposed changes affecting regulated funds. ICI Global explained, however, that SEBI’s changes to the broad-based fund requirements do not go far enough in addressing the challenges that regulated funds face in meeting SEBI’s requirements, and proposed alternative provisions.

Hong Kong. The Securities and Futures Commission (SFC) of Hong Kong issued a soft consultation on its review of the Code on Unit Trusts and Mutual Funds (UT Code), which is akin to the UCITS Directive in Europe or the Investment Company Act of 1940 in the United States. In its comments to the SFC, ICI Global supported the Commission’s goal of aligning its standards and practices with those at the international level and in other jurisdictions. ICI Global encouraged

Supporting the Growth of Capital Markets

As part of its jobs and growth agenda, the European Commission continues work on its capital markets union (CMU)—an initiative designed to foster stronger sustainable growth by diversifying funding sources and integrating the region’s capital markets. A well-constructed CMU is not only critical to the sustainability and growth of the EU economy, but it also could present many benefits to funds and their investors worldwide, including a broader range of investment opportunities.

Given the importance of the CMU, ICI Global engaged on many proposals and consultations, including the Commission’s mid-term review of its original CMU action plan.

The Commission conducted the review to take stock of the implementation’s progress and identify potential additional measures required to improve the financing of the economy. It published a consultation on the

review, and ICI Global submitted a comprehensive response, reiterating its support for the CMU and highlighting three priorities for regulated funds:

- » The removal of barriers to the cross-border distribution of investment funds, which would entail developing a harmonized cross-border marketing regime for UCITS, simplifying and converging authorization and notification requirements, and eliminating other impediments.
- » The development of a single, pan-EU private placement regime for professional investors that would remove the inefficiency and complexity associated with complying with individual member state regulatory frameworks.
- » The creation of a pan-European personal pension (PEPP) product that supports cross-border pooling, management, and administration of assets, to help build

adequate retirement income and better accommodate a mobile EU workforce.

The European Commission published its mid-term review in June, noting that it had completed more than half the initiatives from the original CMU action plan, and outlining further actions and priorities.

ICI Global was pleased that the Commission took into account members’ feedback and committed to advancing a legislative proposal for a PEPP product (see page 17).

ICI Global once again highlighted the removal of barriers to the cross-border distribution of investment funds as a key priority, and urged the Commission to ensure that any agreements made within the context of Brexit do not inadvertently add barriers and jeopardize the success of the CMU. 🙌

CONTINUED FROM PREVIOUS PAGE

the SFC, however, to think about the different funds available to investors in Hong Kong, such as SFC-authorized funds that are domiciled outside of Hong Kong, and whether and how provisions of the UT Code will apply to them.

New Zealand. To reduce conflicts of interest and foster transparency, the Financial Markets Authority (FMA) of New Zealand proposed guidance on substantial product holder (SPH)

disclosures. If a fund holds 5 percent or more of a company, the FMA requires a fund to explain its interests in that company via an SPH form. The FMA’s guidance proposed that an individual managing a fund should file SPH disclosures about his or her personal investments in addition to the SPH disclosure that the manager may have to file on behalf of the fund. In comments to the FMA, ICI Global explained that

adopting such guidance would be at odds with current international practices and may lead to more confusion, rather than enhancing transparency. ICI Global also urged the FMA to examine how other jurisdictions approach issues surrounding conflicts of interest, and whether those approaches may address the FMA’s goals. 🙌

BUILDING DIRECTOR KNOWLEDGE, REFINING DIRECTOR SKILLS

Serving on a board is an important and challenging commitment for fund independent directors. As soon as they set foot in the boardroom, they must begin applying their knowledge and skills to protect shareholder interests. And in an industry and regulatory environment continually becoming more complex, they must work constantly to keep up with their evolving role and responsibilities.

Creating Firm Foundations

For more than a decade, the Independent Directors Council (IDC) has developed an array of innovative initiatives to educate directors of all levels of experience. This year, its efforts centered on creating *Foundations for Fund Directors*—a comprehensive orientation program designed to help newer directors bolster their core skills and succeed in their role (see opposite page).

Through an online course and in-person education in Boston, participants in the program's inaugural session learned about the fundamentals of fund structure and regulation, their core responsibilities as directors, and their fiduciary duty to protect shareholder interests and provide an independent check on fund advisers. The well-received program is already slated for three sessions in 2018.

IDC's premier annual events—the Fund Directors Conference in Chicago and the Fund Directors Workshop in Washington, DC—also featured prominently among its education initiatives, enabling the director community to hear from seasoned board members, industry leaders, board and litigation counsel,

and others, while networking with peers from across the country.

Discussion at the 2016 Fund Directors Conference focused on the Securities and Exchange Commission's liquidity risk management rule and the Department of Labor's fiduciary rule. Attendees also learned about the uses of financial technology in asset management, the latest updates on excessive fee litigation, how boards should respond to crises, and how political and economic pressures around the globe, including Brexit, are affecting the fund industry. A discussion with ICI's chief government affairs officers on the political landscape ahead of the November elections rounded out the event.

At the 2017 Fund Directors Workshop, directors gathered over breakfast to share ideas about governance practices, cybersecurity, and oversight of derivatives, among other topics. In panel sessions, directors and panelists discussed how best to build an effective board, how fund boards are approaching liquidity oversight during the SEC rule's implementation period, and how to increase diversity and inclusion at their firms and on their boards.

Covering a Wide Range of Topics Online

IDC also hosted informative webinars to keep directors up to date on the latest regulatory, judicial, and industry developments that could affect their work. This year's webinars covered the SEC's liquidity risk management rule and the new board responsibilities it creates; new technologies and their uses in the fund industry; board oversight of fair valuation; and the litigation and

regulatory enforcement environment for registered funds, their directors, and their advisers.

Building on its annual events and webinars, IDC arranged opportunities for directors to come together for meaningful dialogue, including regional chapter meetings held free of charge in 11 locations across the country for directors of ICI member funds. At this year's meetings, directors discussed what they have learned from experience, shared approaches to handling new regulatory responsibilities, and heard from industry experts on a range of topics, including oversight of subadvisers, oversight of liquidity risk management, the state of the global markets, and the advisory contract renewal process.

Customized Calls

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

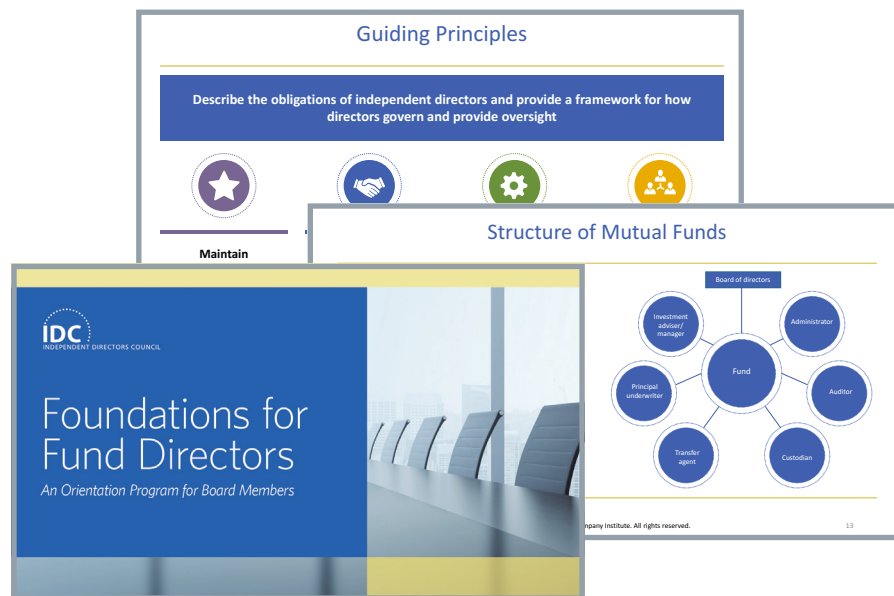
More than 100 million fund shareholders depend on the robust oversight of fund directors to protect their interests—and robust oversight requires ongoing education. Equipping directors with the knowledge and skills they need to perform their oversight role effectively has long been the cornerstone of IDC's education initiatives, and will remain so for years to come. 🙌

At Foundations for Fund Directors, a Hands-On, Interactive Approach to Learning

Through case studies and group discussion at the inaugural session of IDC's *Foundations for Fund Directors* orientation program, newer directors learned about the guiding principles of director oversight and the nuances of their statutory and regulatory responsibilities, including:

- » approving advisory contracts;
- » evaluating fund performance; and
- » overseeing valuation, liquidity, compliance, and risk management.

Keep an eye on www.idc.org for details on the 2018 sessions of *Foundations for Fund Directors*. 🧑🏫



IDC Weighs In on UK Fund Governance Reform Proposals

In its examination of the United Kingdom's asset management industry, the UK Financial Conduct Authority (FCA) has considered a wide range of approaches to enhance price competition, with a sharp focus on the governance structure of the country's authorized fund managers (AFMs).

Writing in a pair of reports released over the past year, the FCA posited that reforming AFM governance would improve price competition by strengthening the duty of AFMs to act in the best interests of their investors. Among other options, the reports weighed the merits

of reconfiguring AFM boards to make them more independent; introducing a separate independent governance body to work alongside AFM boards; and replacing AFM boards with boards that have a majority of independent directors, similar to most US mutual funds.

ICI Global's response challenged the FCA's premise that the UK fund business is uncompetitive (see page 24). Drawing on its own expertise, IDC helped to shape the fund governance discussion. Robust fund governance is primarily a tool to mitigate conflicts of interest, the response explained, and any governance

reforms should be assessed from that perspective. Good governance can promote competition, the response said, but that is not its primary purpose, and its ability to do so should not be a metric on which governance is judged.

The response also urged the FCA to consider how fund structure and governance in the United Kingdom differ from those in other jurisdictions—including the United States—and to review approaches to fund governance across the world. 🧑🏫



A YEAR OF ENGAGEMENT AND ACCOMPLISHMENT

For more than 75 years, operations teams at fund complexes have managed the essential, behind-the-scenes services that keep these organizations running efficiently and effectively for the benefit of the millions of shareholders who entrust them with their savings. Now, because of a raft of regulations adopted in recent years, these teams are working harder than ever before—with the support of ICI and the committees and advisory groups it convenes.

Adjusting to a New Fiduciary Standard

One of the largest efforts involved the fiduciary rulemaking from the Department of Labor (DOL). Though the final rule, issued by the DOL in April 2016, is under review by the new administration and Labor secretary and is likely to be changed (see page 17), its initial compliance dates were in April and June 2017—and members needed to be ready. To help with this effort, ICI's Operations team convened four working groups to address a number of challenges.

- » *Back-Office Operations* focused on how best to service investor accounts in the context of level-fee account structures and the Best Interest Contract (BIC) exemption.
- » *Communications and Disclosures* addressed how funds, retirement plan recordkeepers, and intermediary organizations should communicate

with investors about each organization's fiduciary status under the DOL rule, as well as how fiduciaries operating under the BIC exemption should disclose fees.

- » *Custodial or Intermediary Resignations from Accounts* addressed the operational effects of an unfortunate side effect of the rule—hundreds of thousands of small accounts being “orphaned” by intermediaries that are realigning business models to become compliant with the rule.
- » *Product Structure* examined the effects of the rule on existing share classes and characteristics, and described considerations for creating compliant share classes.

ICI has encouraged the Securities and Exchange Commission (SEC) to adopt a clear, best-interest standard of conduct for brokers when they provide recommendations to retail investors in retirement or nonretirement accounts, and has called on the DOL to work closely with the Commission in its efforts. In the meantime, says Chief Industry Operations Officer Marty Burns, the DOL rule has already changed the industry by accelerating the move to flat-fee advisory services, and by creating an environment for intermediaries to review their business models and offerings. Whatever

further changes may come from the SEC, ICI's Operations team stands ready to build on the foundation that members have already created to deal with the DOL rule, Burns says.

Preparing for New SEC Rules

ICI and member operations teams also focused throughout the year on implementing two significant rulemakings that the SEC adopted in October 2016, involving fund reporting modernization and liquidity risk management. Facing rolling deadlines that began in August and continue into 2019, ICI asked the Commission to delay its compliance dates and reexamine certain aspects of the rules (see page 6), to help members meet the considerable challenges they present. Meanwhile, given the scope and scale of the rulemakings, Institute staff have continued to work closely with members on efforts to prepare.

The Operations team has been especially busy working on the reporting modernization initiative, forming a working group that includes members responsible for a wide range of functions within their firms—including operations, accounting, legal, and compliance—to figure out how to meet the requirements of this complex rule in the most efficient way.

“The challenge here is that the vast amount of new data that members are required to report resides in a wide variety of systems, both internal and external,” explains Greg Smith, senior director, fund accounting and compliance. “Once the data have been gathered from these disparate sources, they have to then be aggregated correctly to do the reporting required under the rule. Building the systems and processes to do this, and ensuring that everything works as it should within the tight time constraints defined by the rule, requires a substantial investment of resources.”

Over the past year, the team has brought members together for numerous meetings, provided material for a resource center on the ICI website, and helped to inform a series of frequently asked questions that the SEC staff released in July. These FAQs include questions that cover use of the new forms that firms will eventually be required to submit in a structured data format—Form N-PORT for portfolio holdings

information, and Form N-CEN for census information—as well as new or amended rules relating to how information is displayed in financial statements included in shareholder reports.

Shortening the Settlement Cycle

Working closely with partners throughout the financial services industry, the ICI Operations team also brought to a successful close a multiyear, industry-led initiative to shorten the settlement cycle from transaction plus three days (T+3) to two days (T+2). The transition, which occurred on September 5, went smoothly, thanks in part to a command center that incorporated staff from ICI, the Depository Trust & Clearing Corporation (DTCC), and the Securities Industry and Financial Markets Association (SIFMA).

A shortened settlement cycle has many benefits, including:

- » closer links between settlement time frames for portfolio securities and fund shares;

- » consistency between US settlement cycles and those across the globe, helping funds better manage liquidity and cash flows; and
- » reduced operational and counterparty risks, enhanced liquidity, better use of capital, and significant process efficiencies for market participants—all major benefits to investors.

As it wrapped up the initiative, the team brought together market participants of all types, provided a forum for the industry to raise and discuss broad issues beyond the scope of firm-specific challenges, created and distributed updates, and worked with appropriate parties to determine any additional steps required for a successful launch.

As part of its role in the DTCC’s Industry Steering Committee (ISC), ICI helped create a comprehensive white paper that spelled out the key milestones—including trade processing activities, asset servicing functions, documentation, and regulatory changes—that were required

CONTINUED ON NEXT PAGE



Facing a raft of regulations adopted in recent years, member company operations teams are working harder on behalf of shareholders than ever before—with the support of ICI and the committees and advisory groups it convenes.

CONTINUED FROM PREVIOUS PAGE

to make the move to a shorter cycle. The ISC also worked closely with regulators to advocate for language and rule changes needed for a successful transition, and—in response to a request from then SEC Chair Mary Jo White—created a playbook including detailed timelines, milestones, and dependencies necessary to achieve a shortened cycle. The ISC plans to issue a follow-up report that will review the transition and create a record for the future as it examines further efforts to shorten the settlement cycle.

Increasing Efficiency

In the midst of all these high-profile initiatives, the ICI Operations team has continued its focus on helping members increase efficiency. For example, it has convened a working

group on the medallion signature guarantee, which helps facilitate the transfer of securities. The group has drafted a white paper to review recent developments as well as leading practices that firms are following.

The Operations team also has continued to encourage the use of DTCC services—such as direct account networking, retirement plan reporting, dividend reporting, and the new Security Issue Database (SID) profile—all of which can help increase efficiency. Along the same lines, the team has continued to work with members to examine new technology and automation solutions that can enhance efficiency—including blockchain, artificial intelligence, robotics, and robo-advice.

“We’re looking at how these processes, services, and technologies are currently being used, and how they can influence the existing operations of large and small organizations,” says Burns. “It’s not just about what’s new—it’s about whether, and how, we can use new technologies to make current processes even more efficient.”

Member contributions make this possible, he emphasizes. “We always draw on member expertise, through the committees and the working groups formed from them. This enables us to cut through ambiguity, which is important in operations. The more consistent your approach is, the cheaper and more efficient it is. That’s what ultimately benefits shareholders.” 🌱



How Well Do You Know Your Distributor?

To reduce conflicts of interest and bolster investor protections, EU policymakers are implementing new product governance provisions under the revised Markets in Financial Instruments Directive (MiFID II)—a sweeping set of rules that provides a regulatory framework for the operation of EU financial markets.

MiFID II goes into effect in early January 2018, and its product governance provisions create new obligations for fund managers and intermediaries. For example, the rules require fund managers to send detailed product information to distributors so that

they can assess the target market, and distributors to send information about their distribution strategies and types of clients to fund manufacturers.

In response to these new regulations, many fund companies are revising and formalizing their intermediary oversight programs. ICI’s International Operations Advisory Committee (IOAC) is helping members gather better data from distributors about their business practices.

One of the tools that funds are using is the Know Your Distributor (KYD) questionnaire. Created by IOAC

members, the survey includes a wide range of questions that enable fund managers to gain more detailed and standardized information about distributors during the onboarding process—such as whether distributors have policies and procedures in place to comply with MiFID II requirements.

Several service providers are now adopting the KYD questionnaire as part of their offerings to clients, and the IOAC is continuing to work on solutions that help funds build robust intermediary oversight programs. 🌱

Enhancing Cybersecurity Through the “Human Network”

The world is more connected by technology than ever before, a trend that has brought countless benefits to modern society—and, seemingly, endless risks. Cyber criminals have conducted high-profile hacks in Hollywood, breached information security at the Securities and Exchange Commission (SEC), and even accessed the personal information contained in credit reports maintained by Equifax.

The fund industry, which knows its reputation is built on trust, also knows that it must protect shareholders’ interests against such threats. So as members have worked to protect their information networks, ICI has continued to create and expand its human networks—bringing members together at committee meetings and forums to exchange information about the latest threats, gathering and distributing information about how best to guard against them, and building relationships between members and outside agencies that can help with cybersecurity.

Building a Baseline of Information

For the third year in a row, ICI reached out to domestic and international members through comprehensive surveys that ask about information security practices at their firms. Answers are aggregated and anonymized, and shared in detail with firms that participate in each survey.

The domestic survey, which this year included 130 participants, tiers its responses by fund size, enabling firms to compare how their program compares to practices in their peer group. The global survey, conducted in partnership with the International Organization of Securities Commissions (IOSCO), also provides powerful benchmarking information for members. This survey, which in previous years included firms in much of Europe, as well as Hong Kong, Korea, and Singapore, was expanded this year to include firms in Australia, Ireland, and Japan.

The surveys, which are the only ones of their kind specific to the fund industry, generate valuable information that can be shared across the organization and leveraged in a number of ways. Members have told the ICI Operations team that they share the results with their technology, compliance, and risk teams, and that survey findings are an essential resource to reference when discussing cybersecurity with their board.


Bringing People and Resources Together

ICI brought stakeholders together throughout the year, at meetings of the Chief Information Security Officer Advisory Committee (CISOAC) and the ICI Global Information Security Officer Committee, and at cybersecurity forums held in Ireland and Singapore.

These successful international forums, which are organized in partnership with local fund associations, feature cyber experts as well as representatives from international and local law-enforcement agencies. Participants gain valuable information and insights about threats and vulnerabilities—and the latest defensive strategies—and can proactively establish relationships with law enforcement before they might need to call on them to help investigate any issues.

Though these forums might boast a higher profile than the domestic and international committee meetings, those meetings are just as important, says Peter Salmon, senior director of operations and technology. “The value of the interaction among peers when they start talking about threats, or deployments of an application, or an approach to a problem, is incredible. The fact that they know each other, that they trust each other, creates an environment that is very candid—and that, frankly, you can’t get anywhere else.”

Ultimately, he says, “it’s all about the people and their involvement. I don’t want to discount the role of technology, but if people don’t leverage it correctly, it’s of no use. So we focus on the human element in cybersecurity. Bringing people together is, without a doubt, the greatest value we provide.” 🌟



ICI has continued to create and expand its human networks—bringing members and outside stakeholders together to build relationships that can help strengthen cybersecurity.

POLITICAL ENGAGEMENT ON CAPITOL HILL

ICI's Government Affairs program effectively represents the interests of funds and their shareholders on Capitol Hill on a wide range of issues. This year, key issues have included asset management and financial stability, tax reform, retirement plan coverage, the Department of Labor's fiduciary rule, electronic delivery, and derivatives regulation. Institute staff provide elected policymakers and their aides with analysis of issues that are supported by ICI's unique research findings, legal assessment, and fund operations expertise.

One of the ways that ICI engages with Capitol Hill is through its political action committee (ICI PAC). Since 1985, ICI PAC

has worked to increase awareness among key lawmakers of fund-related issues, and to demonstrate the fund industry's support for elected officials who most closely work on issues that affect fund investing.

Members can support elected officials through ICI's political program in several ways. Employees of member companies can donate directly to ICI PAC, contribute directly to specific candidates by participating in fundraisers hosted by ICI PAC, or contribute directly to lawmakers recommended by the Chairman's Council. Contributions in 2017 have supported the reelection campaigns of 173 legislators who have an interest in or oversight of fund industry issues.

Support like this complements ICI's ongoing efforts to build relationships with legislators who support public policies that benefit fund shareholders. It also enables member engagement on Capitol Hill. One of the most prominent examples this year was in March, when members of ICI's Board of Governors spent a day meeting with 15 House and Senate leaders of both parties to discuss subjects of importance to the fund industry. 🌱

Please contact George Shevlin, who manages the day-to-day operations of ICI PAC, at george.shevlin@ici.org or 202-326-5892 with any questions about ICI's political program. The ICI PAC Annual Report is available at www.ici.org/pac.



ICI PAC works to increase awareness among key lawmakers of fund-related issues, and to demonstrate the industry's support for elected officials who work on issues that affect fund investing.

Chairman's Council Selects Susan Livingston as Chair

Each year, the Institute's Board of Governors appoints a group of its members—the Chairman's Council—to oversee and provide policy direction for ICI's political activities. In October 2016, Susan Livingston was chosen to lead the Chairman's Council.

Livingston has made outreach a goal of her tenure by reaching out to all member companies (not just those represented on the Board of Governors), adding a focus on smaller fund groups, and meeting in person with members about ICI's political program. 🌱



Susan Livingston answers questions at the ICI PAC booth during the Institute's General Membership Meeting.



Representative Bill Huizenga (R-MI), chairman of the House Financial Services Subcommittee on Capital Markets, Securities, and Investment, updates attendees on issues before Congress at a 2017 fundraiser in his honor. Paul Schott Stevens, ICI president and CEO, listens.



From left: Greg Johnson, chairman and CEO of Franklin Resources; Lloyd Wennlund, former executive vice president of Northern Trust; and Tom Faust, chairman and CEO of Eaton Vance Corp.; stand with Senator Tom Cotton (R-AR, second from right) at a 2016 fundraising reception held in his honor.



Senator Joe Donnelly (D-IN), a member of both the Senate Special Committee on Aging and the Committee on Banking, Housing, and Urban Affairs, greets Kelly King Dibble of Northern Trust and Joe Barry of State Street Corporation at a 2017 fundraising reception held in his honor.



Jeanne de Cervens of Transamerica Companies (left) and Jordan Quinn of The Hartford (center) listen as Representative Kyrsten Sinema (D-AZ), member of the House Financial Services Committee, gives a Capitol Hill update.



Representative Virginia Foxx (R-NC), chair of the House Committee on Education and the Workforce, briefs attendees at an ICI PAC reception in 2017.



Representative Richard Neal (D-MA), ranking member on the House Committee on Ways and Means, addresses attendees during a fundraiser at ICI's 2017 General Membership Meeting.

59TH ANNUAL GENERAL MEMBERSHIP MEETING

Each year, ICI's General Membership Meeting (GMM) brings together fund industry leaders, regulators, and policymakers to discuss policy, politics, and the domestic and global regulatory environment. This year's gathering, held in Washington, DC, from May 3 to 5, combined the broad perspective of the general meeting with specialized programming at three concurrent conferences, covering operations and technology, mutual fund compliance programs, and fund directors—enabling attendees to build their own diverse programs.

GMM Planning Committee Chairman James McNamara, president and CEO of Goldman Sachs Mutual Funds, set the stage in his opening remarks for the topics that would dominate many of the discussions, including globalization, diversity, flexibility, technology, and regulation.

Building on Industry Successes

ICI Chairman William F. “Ted” Truscott, CEO of Columbia Threadneedle Investments, followed McNamara with an invitation to lead the charge on making the US retirement system even stronger—not by radically changing the system, but by building on the success of the current structure. “Our retirement system is dynamic, innovative, and evolutionary,” he said. “We need to preserve that spirit and expand upon it.”

In a keynote address, ICI President and CEO Paul Schott Stevens surveyed the regulatory landscape facing funds, calling on the Securities and Exchange

Commission (SEC) to help enhance economic growth while taking a balanced approach to regulation. Of the new administration, Stevens said, “We are pleased by the emphasis on regulation that serves investors and the economy—rather than regulation for its own sake.”

Responding to Industry Change

Over the course of several sessions, panelists discussed the greatest drivers of change in the fund industry—and the world at large. Some common themes included shifting demographics and investor preferences, globalization, and regulation. In “Facing the Future: Fresh Perspectives,” panelists agreed that one way to respond to rapid change is to build a flexible, adaptable, and diverse workforce with broad skill sets. Technology also is key to providing custom solutions for customers in a cost-efficient, scalable fashion. Shundrawn A. Thomas, executive vice president and head of the funds and managed accounts group for Northern Trust Asset Management, moderated the panel.

Shifting investor preferences were the focus of another panel, “The Future of Investment Advice,” which was moderated by Stuart Parker, president of PGIM Investments. Panelists noted that investors increasingly want instant access to information and to be able to manage their accounts online, which requires robust technological solutions. But many still want to have the option of the “human touch,” so firms are continuing efforts to balance automated and human advice.

Keys to Success: Adaptation and Flexibility

The GMM Policy Forum featured retired US Army General Stanley McChrystal, cofounder and partner at the McChrystal Group, engaging in a lively discussion with Stevens on the need for adaptability and flexibility on the battlefield—and in business. When he realized that the approach US troops were using in fighting insurgent forces in Iraq was not working, McChrystal remembered, he quickly changed course. Because “I can't stand to lose,” he said, “we started to adapt.” The fund industry must be willing to take up this same “fail fast” approach, he explained, arguing that this kind of flexibility and responsiveness is key to long-term success.

Stevens continued his role as interviewer with Jeff Immelt—then chairman and CEO of GE—during the GMM's keynote luncheon. Immelt, who oversaw the transformation of GE from a traditional manufacturing and financial company into a digital industrial leader, also noted the need for flexibility and a willingness to acknowledge—and then quickly correct—errors. He said that focus is key to success, recalling how he reshaped GE's portfolio to be “narrower and deeper.” He suggested that success can more easily be achieved by taking on one challenge at a time and doing fewer things with greater depth, rather than attempting too many things at once.

Finding Global Opportunities

Ian Bremmer, founder and president of Eurasia Group, wrapped up the meeting's final day by explaining how global politics are, more than ever, affecting businesses. A major global issue, he argued, involves the shift from a unilateral world, led by the United States, to a multilateral world led by regional powers such as China

and Russia. The rise of populism, which Bremmer sees in the United Kingdom's vote to leave the European Union and the 2016 US presidential election, is a related phenomenon.

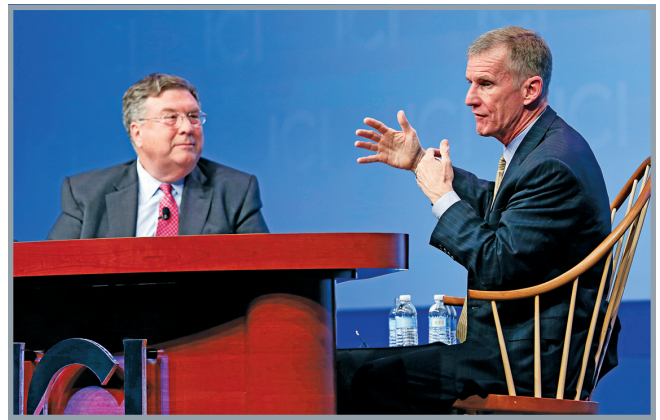
A panel focusing on global asset management also discussed the potential effects of Brexit, as well as the long-term investing potential in emerging markets.

Echoing one of the major themes of the conference, David Semaya, executive chair of Nikko Asset Management, wrapped up the session by saying that, to survive in a volatile global marketplace, fund firms must "innovate, innovate, innovate." 🍋

For more highlights from the meeting, visit gmm.ici.org.



ICI Chairman William F. "Ted" Truscott, CEO of Columbia Threadneedle Investments, shares his thoughts on the US retirement system with GMM attendees, noting the central role of tax deferral in retirement savings and calling for measures to build on the strengths of the system.



Retired US Army General Stanley McChrystal (right), cofounder and partner at the McChrystal Group, talks at GMM's Policy Forum with ICI President and CEO Paul Schott Stevens about leadership, crisis management, and national security concerns.



At GMM's keynote luncheon, GE Chairman and CEO Jeff Immelt speaks about the transformation of the company during his tenure. Immelt also shared his strategies for success, which included maintaining a strong local footprint and creating "oneness" within the company.



Shundrawn A. Thomas of Northern Trust Asset Management (left) moderates a discussion on innovation in the fund industry at GMM's leadership session. The panel also featured (from left) Thomas A. Jones of Columbia Threadneedle Investments, Heather Lord of the Capital Group, and Sean Tuffy of Brown Brothers Harriman (not pictured).

ICI EDUCATION FOUNDATION

The ICI Education Foundation (ICIEF) develops, delivers, and promotes financial education initiatives on behalf of the investment company industry. Since its founding in 1989, ICIEF has granted funding for teacher training in personal finance, as well as funding for adult and youth investment-education programs online, on public television, and in workplaces, public libraries, and job-training programs. ICIEF also participates in nationwide coalitions, conferences, and government events devoted to financial education.

Promoting and Supporting Financial Education

As part of its mission to promote investor education, ICIEF participated in a number of events this year to increase awareness of financial literacy initiatives and resources. As a member of the Alliance for Investor Education, ICIEF sponsored its first “Investor Town Hall” event, which gave attendees the opportunity to learn about the risks and rewards of investing, hear from experts from investor-focused organizations, and access resources to help them make wise financial decisions.

ICIEF also participated in the Jump\$tart Coalition’s annual Hill Day, which brings together members of the financial literacy community with members of Congress and their staffs, as well as the public. Hill Day gives organizations the opportunity to share how they are working to promote the common goal of financial literacy.

Reaching the Next Generation of Fund Investors

ICIEF has sponsored Junior Achievement of Greater Washington’s Finance Park program since 2009. The program provides experiential learning for middle school students on personal finance topics, including budgeting and investing.

In late 2016, ICIEF debuted an educational exhibit and accompanying scavenger hunt that provide an engaging and interactive way for students to learn investing concepts. ICIEF’s “Investing Road Trip” is in use in both DC-area Finance Parks: in Fairfax County, Virginia, and Prince George’s County, Maryland. Students learn that investing requires planning and may involve risks, but is the best way to

achieve long-term financial goals, such as paying for college, buying a home, and saving for retirement.

ICI staff also have taken up the mantle of investor education by volunteering with students at both Finance Park locations last winter. Twenty-three staff volunteers led students through financial literacy training and offered guidance on financial decisionmaking.

No matter their role, ICI staff members are always focused on advancing the interests of funds and their shareholders. The opportunity to volunteer at Finance Park—reaching out to the next generation of investors and future fund shareholders—is a fitting extension of this work. 🙌



ICI Assistant General Counsel Shannon Salinas guides students from Nicholas Orem Middle School through the daylong budget simulation at Finance Park in Prince George’s County, Maryland.

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 Institute employs a staff of approximately 180 (see Appendix C, page 42). 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 40).

ICI's Board of Governors is composed of 54 members, representing ICI member companies and independent directors of investment companies. Governors are elected annually to staggered three-year terms. The board is geographically diverse and includes representatives from large and small fund families, as well as fund groups sponsored by independent asset managers, broker-dealers, banks, and insurance companies. This broad-based representation helps to ensure that the Institute's policy deliberations consider all segments of the fund industry and all investment company shareholders.

Five committees assist the Board of Governors with various aspects of the Institute's affairs. These include

an Executive Committee—responsible for evaluating policy alternatives and various business matters and making recommendations to the Board of Governors—as well as Audit, Compensation, Investment, and Nominating committees. Other than the Institute's president, who is a member of the Executive Committee, all members of these committees are governors. The board also has appointed the Chairman's Council to administer the Institute's political programs, including the political action committee, ICI PAC (see page 32). The council includes nine governors, the treasurer of ICI PAC, and the Institute's president (ex officio).

To provide strategic direction to ICI's international program, the ICI Global Policy Council takes the lead in setting the program's priorities and coordinating initiatives worldwide, subject to the Executive Committee's review and approval (see Appendix F, page 45).

ICI addresses the needs of investment company independent directors through the Independent Directors Council (IDC). IDC provides educational programs, keeps directors informed of industry and regulatory developments, assists in the development and communication of policy positions on key issues for fund boards, and promotes greater understanding of the role of fund directors. IDC's Governing Council, made up of four committees, helps set IDC's priorities in these areas (see Appendix E, page 44).

Twenty-four standing committees, bringing together more than 2,200 industry professionals, guide the Institute's policy work. ICI standing committees perform a number of important roles, including assisting with formulation of policy positions, and gathering and disseminating information on industry practices (see Appendix D, page 43). In addition, 32 industry advisory committees, task forces, forums, and working groups with more than 2,800 participants tackle a range of regulatory, operations, and business issues. In all its activities, ICI strictly observes federal and state antitrust laws, in accordance with a long-standing and well-established compliance policy and program.

Finances

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

Core activities are related to public policy and include regulatory, legislative, operational, economic research, and public communication initiatives in support of investment companies and their shareholders, directors, and advisers. Reflecting the Institute's strategic focus on issues affecting investment companies, the Board of Governors has chosen to fund core activities with dues rather than seeking alternative sources of revenues, such as sales of publications, and strives

CONTINUED ON NEXT PAGE

CONTINUED FROM PREVIOUS PAGE

to keep the level of dues relatively flat when compared to industry assets under management (see Figure 1). The significant majority of ICI’s total revenues, 92 percent, comes from dues, investment income, royalties, and miscellaneous program sources. Similarly, by design, 93 percent of the Institute’s total resources are devoted to core activities (see Figure 2).

Core expenses support the wide range of initiatives described in this report. Self-funded activities (e.g., conferences, special surveys) are supported by separate fees paid by companies and individuals who participate in these activities. The financial goal for

self-funded activities is that fees should cover all direct out-of-pocket costs and provide a margin to cover associated staff costs, to ensure that these activities are not subsidized by member dues. 🌱

FIGURE 1
Member Dues Relative to Assets Under Management Have Declined
BASIS POINTS

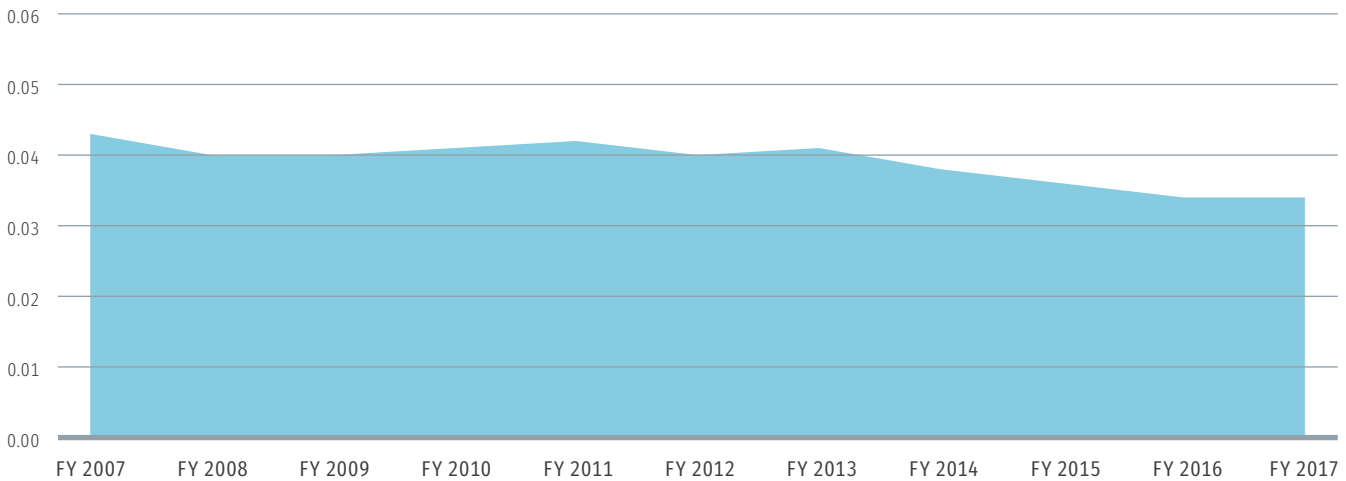
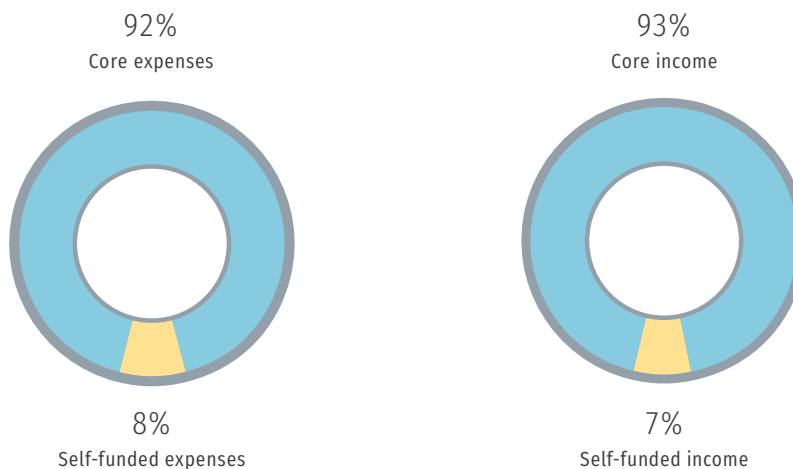


FIGURE 2
Member Dues Support Significant Majority of Core Activities at ICI



FINANCIAL STATEMENTS

Statement of Financial Position

AS OF SEPTEMBER 30, 2017

Assets

| | |
|---|---------------------|
| Cash and cash equivalents | \$1,061,193 |
| Investments, at market value | 63,354,320 |
| Accounts receivable | 1,163,417 |
| Prepaid expenses | 2,515,902 |
| Other Assets | 1,587,133 |
| Furniture, equipment and leasehold improvements, net (less accumulated depreciation of \$12,872,438) | <u>3,833,356</u> |
| Total assets | <u>\$73,515,321</u> |

Liabilities and Net Assets

LIABILITIES

| | |
|--|-------------------|
| Payroll and related charges accrued and withheld | 5,257,434 |
| Accrued pension liability | 4,906,490 |
| Accrued postretirement liability | 12,166,297 |
| Accounts payable and accrued expenses | 3,483,196 |
| Deferred revenue | 999,294 |
| Rent credit | 2,651,353 |
| Deferred rent | <u>5,131,574</u> |
| Total liabilities | <u>34,595,638</u> |

NET ASSETS

| | |
|----------------------------------|---------------------|
| Undesignated net assets | 37,919,683 |
| Board designated net assets | <u>1,000,000</u> |
| Total net assets | <u>38,919,683</u> |
| Total liabilities and net assets | <u>\$73,515,321</u> |

These financial statements are preliminary unaudited statements as of September 30, 2017. Audited financial statements for the fiscal year ended September 30, 2017, will be available after February 1, 2018. To receive copies of the audited statements, please contact Mark Delcoco at mdelcoco@ici.org.

Statement of Activities and Changes in Net Assets

FOR THE YEAR ENDED SEPTEMBER 30, 2017

Core Income

| | |
|-------------------|-------------------|
| Membership dues | \$63,725,221 |
| Investment income | 947,478 |
| Royalty income | 828,654 |
| Program income | <u>1,436,436</u> |
| Total core income | <u>66,937,789</u> |

Core Expenses

| | |
|----------------------------------|-------------------|
| Administrative expenses | 49,968,580 |
| Program expenses | 6,110,728 |
| ICI Global expenses | 5,844,430 |
| Depreciation and lobby proxy tax | <u>2,935,125</u> |
| Total core expenses | <u>64,858,863</u> |

Change in net assets—core

2,078,926

Self-Funded Income

| | |
|--------------------------|------------------|
| Conferences | 5,958,831 |
| Other self-funded income | <u>227,006</u> |
| Total self-funded income | <u>6,185,837</u> |

Self-Funded Expenses

| | |
|----------------------------|----------------|
| Conferences | 4,700,385 |
| Other self-funded expenses | <u>100,727</u> |
| Total self-funded expenses | 4,801,112 |

Change in net assets—self-funded

1,384,725

Change in net assets from operations

3,463,651

Antitrust study related expenses

(984,683)

Loss on currency conversion

(61,576)

Actuarial pension/postretirement plan gain

6,430,213

Change in net assets

8,847,605

Net assets, beginning of year

30,072,078

Net assets, end of year

\$38,919,683

ICI BOARD OF GOVERNORS

AS OF SEPTEMBER 30, 2017

William F. Truscott^{2, 3, 4, 6, 7}

ICI Chairman
Chief Executive Officer
Columbia Threadneedle Investments

F. William McNabb III^{1, 2, 7}

ICI Vice Chairman
Chairman and CEO
Vanguard

Andrew Arnott

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

Ashok N. Bakhru

Independent Director
Goldman Sachs Funds

Edward C. Bernard^{2, 6, 7}

Vice Chairman
T. Rowe Price Group, Inc.

Dorothy A. Berry¹

Independent Director
Professionally Managed Portfolios and
PNC Funds

David G. Booth²

Chairman
Dimensional Fund Advisors LP

Leonard P. Brennan

Chief Executive Officer
Russell Investments

Marie A. Chandoha²

President and CEO
Charles Schwab Investment Management, Inc.

Robert Conti³

President
Neuberger Berman Management LLC

James E. Davey

President
The Hartford Mutual Funds

Thomas R. Donahue³

Chief Financial Officer and Treasurer
Federated Investors, Inc.

Kenneth C. Eich¹

Chief Operating Officer
Davis Selected Advisers, L.P.

Douglas Eu

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

Nora M. Everett

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

Thomas E. Faust Jr.^{2, 4}

Chairman and CEO
Eaton Vance Corp.

Martin L. Flanagan²

President and CEO
Invesco Ltd.

Paul K. Freeman²

Independent Director
Deutsche Funds

George C. W. Gatch^{2, 3, 6}

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

William J. Hackett

Chief Executive Officer
Matthews International Capital
Management, LLC

Brent R. Harris^{4, 6}

Chairman
PIMCO Funds

Diana P. Herrmann¹

President and CEO
Aquila Investment Management LLC

Melody Hobson^{1, 2, 6}

President
Ariel Investments, LLC

Yie-Hsin Hung

Chief Executive Officer
New York Life Investment Management LLC

James A. Jessee

President
MFS Fund Distributors, Inc.

Gregory E. Johnson²

Chairman and CEO
Franklin Resources, Inc.

Lisa M. Jones^{1, 6}

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

Lawrence H. Kaplan^{1, 6}

Partner, General Counsel
Lord Abbett & Co. LLC

Alain Karaoglan

Chief Operating Officer
Voya Financial

Robert M. Keith

Head of Global Client Group
AB

Marie L. Knowles

Independent Director
Fidelity Fixed Income and Asset Allocation Funds

Susan C. Livingston⁶

Partner
Brown Brothers Harriman & Co.

Shawn Lytle

Head of Macquarie Investment Management,
Americas
Macquarie Investment Management

Susan B. McGee

President and General Counsel
U.S. Global Investors, Inc.

James A. McNamara^{1, 2}

President and CEO
Goldman Sachs Mutual Funds

Thomas M. Mistele²

Executive Vice President, Secretary and
Senior Counsel
Dodge & Cox

Charlie S. Morrison²

President, Asset Management
Fidelity Investments

Mark D. Nerud

President and CEO
Jackson National Asset Management LLC

Barbara Novick²

Vice Chairman
BlackRock, Inc.

Steven J. Paggioli

Independent Director
AMG Funds and Professionally
Managed Portfolios

Stuart S. Parker

President
PGIM Investments

Robert L. Reynolds¹

President and CEO
Putnam Investments

Fiscal Year 2017 Executive Committee



From left to right: Mellody Hobson, Gregory E. Johnson, Charlie S. Morrison, Martin L. Flanagan, Jonathan F. Zeschin, Edward C. Bernard, F. William McNabb III, Paul Schott Stevens, William F. Truscott, Marie A. Chandoha, Thomas E. Faust Jr., James A. McNamara, Thomas M. Mistele, Paul K. Freeman, Bradley J. Vogt, David G. Booth, George C. W. Gatch, Barbara Novick.

James E. Ross

Senior Managing Director and Global
Head of ETFs
State Street Global Advisors

Daniel Simkowitz

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

Erik R. Sirri

Independent Director
Natixis Funds and Loomis Sayles Funds

Marijn P. Smit

President and CEO
Transamerica Asset Management, Inc.

Laura T. Starks³

Independent Director
TIAA-CREF Funds

Arthur Steinmetz

Chairman, CEO, and President
OppenheimerFunds, Inc.

Joseph A. Sullivan¹

Chairman and CEO
Legg Mason, Inc.

Jonathan S. Thomas

President and CEO
American Century Investments

Shundrawn A. Thomas

Executive Vice President and Head of Funds and
Managed Accounts, Asset Management
Northern Trust Asset Management

Garrett Thornburg^{1, 6}

Chairman
Thornburg Investment Management, Inc.

Bradley J. Vogt^{1, 2, 4}

Chairman
Capital Research Company, Inc.

Jonathan F. Zeschin^{2, 5}

Independent Director
Matthews Asia Funds

¹ Governor on sabbatical

² Executive Committee member

³ Audit Committee member

⁴ Investment Committee member

⁵ Chairman of the Independent Directors Council

⁶ Chairman's Council member

⁷ ICI Education Foundation Board member

ICI STAFF LEADERSHIP AND MANAGEMENT

AS OF SEPTEMBER 30, 2017

EXECUTIVE OFFICE

Paul Schott Stevens^{1,2,5}
President and CEO

Peter H. Gallary³
Chief Operating Officer

GOVERNMENT AFFAIRS

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

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

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

Kelly S. Hitchcock
Director, Financial Services

Allen C. Huffman
Director, Retirement Security and
Tax Policy

George F. Shevlin IV
Political Affairs Officer

LAW

Dorothy M. Donohue
Deputy General Counsel,
Securities Regulation

Sarah A. Bessin
Associate General Counsel

Jennifer S. Choi
Associate General Counsel

Kenneth C. Fang
Assistant General Counsel

Linda M. French
Assistant General Counsel

George G. Gilbert
Counsel

Rachel H. Graham
Associate General Counsel

Jane G. Heinrichs
Associate General Counsel

Tamara K. Salmon
Associate General Counsel

Frances M. Stadler
Associate General Counsel and
Corporate Secretary

J. Matthew Thornton
Assistant General Counsel

David M. Abbey
Deputy General Counsel,
Retirement Policy

Elena B. Chism
Associate General Counsel

Shannon N. Salinas
Assistant General Counsel

Keith D. Lawson⁴
Deputy General Counsel, Tax Law

Karen L. Gibian
Associate General Counsel

Katherine A. Sunderland
Counsel

OPERATIONS

Martin A. Burns
Chief Industry Operations Officer

Linda J. Brenner
Senior Director, Account Management

Ahmed M. Elghazaly
Director, Securities Operations

Joanne M. Kane
Director, Transfer Agency and
Operations

Jeffrey A. Naylor
Director, Operations and Distribution

John F. Randall
Director, Operations and Distribution

Peter G. Salmon
Senior Director, Operations and
Technology

Gregory M. Smith
Senior Director, Fund Accounting
and Compliance

PUBLIC COMMUNICATIONS

Mike McNamee
Chief Public Communications Officer

Matthew J. Beck
Senior Director, Media Relations

Rachel W. McTague
Director, Media Relations

Michael D. Morosi Jr.
Director, Media Relations

Stephanie M. Ortbals-Tibbs
Director, Media Relations

Todd Bernhardt
Senior Director, Policy Writing
and Editorial

Miriam E. Bridges
Director, Editorial

Christina M. Kilroy
Manager, Digital Communications,
and Vice President, ICI Education
Foundation

Janet M. Zavistovich
Senior Director, Communications
Design

Jodi M. Weakland
Director, Design

RESEARCH

Brian K. Reid
Chief Economist

Sarah A. Holden
Senior Director, Retirement
and Investor Research

Peter J. Brady
Senior Economist

Jason S. Seligman
Senior Economist

Sean S. Collins
Senior Director, Industry and
Financial Analysis

Rochelle L. Antoniewicz
Senior Economist

Morris H. Mitler
Economist

Judith A. Steenstra
Senior Director, Statistical Research

Sheila M. McDonald
Director, Statistical Research

ADMINISTRATION

Christopher E. Boyland
Senior Director and Information
Technology Officer

Vincent D. Banfi
Director, Systems Support
and Operations

Ramesh Bhargava
Director, Information Technology

Paul R. Camarata
Director, Electronic Data Collection

Mark A. Delcoco
Controller/Treasurer

Patricia L. Conley
Director, Accounting

Laurie A. Cipriano
Senior Director, Conferences

Mary D. Kramer
Chief Human Resources Officer

Suzanne N. Rand
Senior Director, Human Resources

Anne S. Vandegrift
Director, Benefits

Sheila F. Moore
Director, Office Services

Michelle M. Kretsch
Senior Director, Membership Services

Brent E. Newton
Director, Subscription Programs
and Membership

ICI GLOBAL

Daniel F. Waters
Managing Director, ICI Global

Qiumei Yang
CEO, Asia Pacific

Bona Lee
Head, Regulatory Policy and
Legal Affairs, Asia Pacific

Patrice Bergé-Vincent
Managing Director, Europe

Susan M. Olson
Chief Counsel

Anna A. Driggs
Associate Chief Counsel,
Retirement Policy

Eva M. Mykolenko
Associate Chief Counsel,
Securities Regulation

Giles S. Swan
Director, Global Funds Policy

INDEPENDENT DIRECTORS COUNCIL

Amy B. R. Lancellotta
Managing Director

Annette M. Capretta
Deputy Managing Director

Lisa C. Hamman
Senior Associate Counsel

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 PAC Board, Assistant Treasurer to ICI PAC, Political Compliance Counsel

⁵ ICI Education Foundation Board

ICI STANDING COMMITTEES AND CHAIRS

AS OF SEPTEMBER 30, 2017

ACCOUNTING/TREASURERS

Toai Chin
Director of Fund Accounting Policy
Vanguard

CHIEF COMPLIANCE OFFICER

Nancy M. Morris
Chief Compliance Officer
Wellington Management Company, LLP

CHIEF RISK OFFICER

Joseph A. Carrier
Chief Risk Officer
Legg Mason, Inc.

CLOSED-END INVESTMENT COMPANY

William Renahan
Senior Counsel
Virtus Investment Partners

ETF (EXCHANGE-TRADED FUNDS)

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

ICI GLOBAL EXCHANGE-TRADED FUNDS

ICI GLOBAL INFORMATION SECURITY OFFICER

Marco Pineda
EMEA Chief Information Security Officer
JPMorgan (Suisse) SA

ICI GLOBAL PUBLIC COMMUNICATIONS

ICI GLOBAL REGULATED FUNDS

ICI GLOBAL RETIREMENT SAVINGS

Michael Doshier
Head of Retirement and College Savings
Franklin Templeton Investments

ICI GLOBAL TAX

ICI GLOBAL TRADING AND MARKETS

INTERNAL AUDIT

Kathleen Ives
Senior Vice President and Director of Internal Audit
OppenheimerFunds

INVESTMENT ADVISERS

OPERATIONS

Peter G. Callahan
Senior Vice President and Head of Global Transfer
Agent Operations
AB Global

PENSION

Jason Bortz
Senior Counsel and Vice President
Capital Research and Management Company

PUBLIC COMMUNICATIONS

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

RESEARCH

Paul D. Schaeffer
Director
IndexIQ ETF Trust

SALES AND MARKETING

James A. Jessee
President
MFS Fund Distributors, Inc.

SEC RULES

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

SMALL FUNDS

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

TAX

Jonathan G. Davis
Vice President and Assistant Treasurer of Tax
Oversight
Fidelity Investments

TECHNOLOGY

Joe Boerio
Senior Vice President and Chief Technology Officer
Franklin Templeton Investments

UNIT INVESTMENT TRUST

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

IDC GOVERNING COUNCIL

AS OF SEPTEMBER 30, 2017

Jonathan F. Zeschin*
IDC Chair
Independent Director
Matthews Asia Funds

Julie Allecta
Independent Director
Salient Funds

Ashok N. Bakhru*
Independent Director
Goldman Sachs Funds

Kathleen T. Barr
Independent Director
William Blair Funds

Dorothy A. Berry*
Independent Director
Professionally Managed Portfolios and
PNC Funds

Donald C. Burke
Independent Director
Duff & Phelps Funds

Gale K. Caruso
Independent Director
Matthews Asia Funds and Pacific Life Funds

David H. Chow
Independent Director
MainStay Funds and Market Vectors ETF Trust

William R. Ebsworth
Independent Director
Wells Fargo Funds

Paul K. Freeman*
Independent Director
Deutsche Funds

Susan C. Gause
Independent Director
Brighthouse Funds and HSBC Funds

Anne M. Goggin
Independent Director
Pax World Funds

George J. Gorman
Independent Director
Eaton Vance Funds

Keith F. Hartstein
Independent Director
Prudential Retail Funds

Cynthia Hostetler
Independent Director
Invesco Funds

Leonade D. Jones
Independent Director
American Funds

John P. Kavanaugh
Independent Director
MFS Funds

Marie L. Knowles*
Independent Director
Fidelity Fixed Income and Asset Allocation Funds

Thomas P. Lemke
Independent Director
JP Morgan Exchange-Traded Fund Trust and
SEI Funds

Joseph Mauriello
Independent Director
Fidelity Equity and High Income Funds

Joanne Pace
Independent Director
OppenheimerFunds

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

Sheryl K. Pressler
Independent Director
Voya Funds

Erik R. Sirri*
Independent Director
Natixis Funds and Loomis Sayles Funds

Laura T. Starks*
Independent Director
TIAA-CREF Funds

Ronald E. Toupin Jr.
Independent Director
Guggenheim Funds

Dawn M. Vroegop
Independent Director
Brighthouse Funds and Driehaus Funds

* On ICI Board of Governors

ICI GLOBAL POLICY COUNCIL

AS OF SEPTEMBER 30, 2017

ATLANTIC

James M. Norris

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

David Abner

Head of Europe
WisdomTree Europe Ltd.

Clive Brown

Chief Executive Officer, International
RBC Global Asset Management

Arnaud Cosserat

Chief Executive Officer
Comgest S.A.

Stephen Fisher

Managing Director
BlackRock Investment Management (UK) Limited

Campbell Fleming

Global Head of Distribution
Aberdeen Asset Management PLC

Dennis Gepp

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

Massimo Greco

Managing Director, Head of European Fund Business
J.P. Morgan Asset Management (UK) Limited

Robert Higginbotham

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

Kathleen Hughes

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

Chris Jackson

Deputy CEO, NGAM International
Natixis Global Asset Management, L.P.

Ida L. Levine

Director of European Public Affairs and
Senior Legal Counsel
Capital International, Ltd.

John Panagakis

Executive Vice President, Head of
International Advisory Services
Nuveen

Jed Plafker

Executive Managing Director
Franklin Templeton Investments

Andrew R. Schlossberg

Head of EMEA, Invesco
Invesco Perpetual

Michelle Scrimgeour

CEO, EMEA
Columbia Threadneedle Investments

PACIFIC

Michael Falcon

ICI Global Pacific Policy Council Chairman
CEO, Asia Pacific
J.P. Morgan Asset Management

Pedro Bastos

CEO, Hong Kong, and Regional Head, Asia Pacific
HSBC Asset Management (Hong Kong) Ltd.

Mark Browning

Head of Asia Pacific
Franklin Templeton Investments Singapore

Ben Bruck

Global Head
Macquarie Investment Management Ltd.

Chen Ding

Chief Executive Officer
CSOP Asset Management Limited

Jessica Jones

Managing Director, Head of Asia ex-Japan Third
Party Distribution
Goldman Sachs (Asia) LLC

Ajai Kaul

CEO, Asia ex-Japan
AllianceBernstein Singapore Ltd.

Colin Kelton

Managing Director, Australia
Vanguard Investments Australia Ltd.

Julian Liu

President and CEO
Yuanta Securities Investment Trust

Andrew Lo

Head of Invesco Asia Pacific
Invesco Hong Kong Limited

Angus N. G. Macdonald

Executive Director
Baillie Gifford Asia (Hong Kong) Limited

Yasumasa Nishi

President and CEO
Asset Management One Co., Ltd.

Winnie Pun

APAC Head of Public Policy
BlackRock Asset Management North Asia Limited

JungHo Rhee

Chief Executive Officer
Mirae Asset Global Investments (HK) Limited

David Semaya

Executive Chairman
Nikko Asset Management Co., Ltd.

James Sun

Chief Executive Officer
Harvest Global Investments Limited

Kunio Watanabe

President and CEO
Nomura Asset Management Co., Ltd.

Xiaoling Zhang

Chief Executive Officer
China Asset Management (Hong Kong) Limited

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 is available on the Institute's website at www.ici.org.

INDUSTRY AND FINANCIAL ANALYSIS

- » What Happens When Rates Rise? A Forecast of Bond Mutual Fund Flows Under a 2013 Taper Tantrum Interest Rate Scenario, *ICI Research Report*, December 2016
- » The Closed-End Fund Market, 2016, *ICI Research Perspective*, April 2017
- » Trends in the Expenses and Fees of Funds, 2016, *ICI Research Perspective*, May 2017
- » *Understanding the Regulation of Exchange-Traded Funds Under the Securities Exchange Act of 1934*, August 2017

INVESTOR RESEARCH

- » Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2016, *ICI Research Perspective*, October 2016
- » Characteristics of Mutual Fund Investors, 2016, *ICI Research Perspective*, October 2016
- » Defined Contribution Plan Participants' Activities, First Half 2016, *ICI Research Report*, October 2016
- » Defined Contribution Plan Participants' Activities, First Three Quarters of 2016, *ICI Research Report*, February 2017
- » American Views on Defined Contribution Plan Saving, 2016, *ICI Research Report*, February 2017
- » Profile of Mutual Fund Shareholders, 2016, *ICI Research Report*, February 2017
- » Defined Contribution Plan Participants' Activities, 2016, *ICI Research Report*, June 2017
- » The IRA Investor Profile: Roth IRA Investors' Activity, 2007–2015, *ICI Research Report*, June 2017
- » The IRA Investor Profile: Traditional IRA Investors' Activity, 2007–2015, *ICI Research Report*, June 2017
- » Defined Contribution Plan Participants' Activities, First Quarter 2017, *ICI Research Report*, August 2017
- » 401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2015, *ICI Research Perspective*, August 2017

RETIREMENT RESEARCH

- » *Using Panel Tax Data to Examine the Transition to Retirement*, November 2016
- » *The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans, 2014*, December 2016
- » A Look at Private-Sector Retirement Plan Income After ERISA, 2015, *ICI Research Perspective*, December 2016
- » The Role of IRAs in US Households' Saving for Retirement, 2016, *ICI Research Perspective*, January 2017
- » The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2016, *ICI Research Perspective*, June 2017
- » Who Participates in Retirement Plans, *ICI Research Perspective*, July 2017
- » Ten Important Facts About IRAs, July 2017
- » Ten Important Facts About Roth IRAs, July 2017
- » Ten Important Facts About 401(k) Plans, August 2017

OPERATIONS

- » *Operational Process Flows and Considerations Related to Dealer/Custodian Resignations in Response to the Fiduciary Rule*, October 2016
- » *Evaluating Swing Pricing: Operational Considerations*, November 2016
- » *Medallion Signature Guarantees*, January 2017
- » *Market Access for Regulated Fund Managers in the United States and European Union*, March 2017
- » *Compliance Cost Survey Report to Participants*, May 2017
- » *Grandfathered Account Monitoring*, May 2017
- » *Evaluating Swing Pricing: Operational Considerations Addendum*, June 2017
- » *Legal Entity Account Matrix*, August 2017

INVESTMENT COMPANY FACT BOOK

ICI's annual data and analysis resource, *2017 Investment Company Fact Book: A Review of Trends and Activities in the Investment Company Industry*, provides current information and historical trends for registered investment companies, reporting on retirement assets, characteristics of mutual fund owners, use of index funds, and other trends. It is available in both PDF and HTML versions at www.icifactbook.org. The HTML version provides downloadable data for all charts and tables.

ICI VIEWPOINTS

The Institute's blog, *ICI Viewpoints*, features analysis and commentary from Institute experts in economics, law, fund operations, and government affairs on the key issues facing funds, their shareholders, directors, and investment advisers. *ICI Viewpoints* is available on the Institute's website at www.ici.org/viewpoints.

STATISTICAL RELEASES

The ICI Research Department released more than 300 statistical reports in 2017. The most recent ICI statistics and an archive of statistical releases are available at www.ici.org/stats. To subscribe to ICI's statistical releases, visit www.ici.org/subscribe.

- » Trends in Mutual Fund Investing
- » Estimated Long-Term Mutual Fund Flows
- » Estimated Exchange-Traded Fund (ETF) Net Issuance
- » Combined Estimated Long-Term Mutual Fund Flows and ETF Net Issuance
- » Money Market Fund Assets
- » Monthly Taxable Money Market Fund Portfolio Data
- » Retirement Market Data
- » Mutual Fund Distributions
- » Institutional Mutual Fund Shareholder Data
- » Closed-End Fund Data
- » Exchange-Traded Fund Data
- » Unit Investment Trust Data
- » Worldwide Regulated Open-End Fund Data

ICI, IDC, AND ICI GLOBAL EVENTS AND WEBINARS

ICI offers extensive opportunities for learning and networking by organizing conferences, seminars, and other events around the world to enable members and other stakeholders to gather, discuss the latest challenges and opportunities, and share ideas and information. In addition to the opportunities highlighted below, ICI's global division also holds regional chapter meetings—Atlantic and Pacific chapters—where senior business leaders from member firms offer feedback on high-priority issues and global initiatives. The Independent Directors Council also provides many opportunities for directors to come together for education and meaningful dialogue with each other—just this year, IDC had more than 20 chapter meetings and conference calls. For more information, visit www.ici.org/events.

EVENTS

| | | |
|-----------------------|--|----------------|
| October 17, 2016 | Cybersecurity Facts and Fundamentals ¹ | Singapore |
| October 25–27, 2016 | Fund Directors Conference ² | Chicago |
| November 3, 2016 | Closed-End Fund Conference | New York |
| November 10, 2016 | ICI Cybersecurity Forum | Washington, DC |
| November 17, 2016 | The SEC's New Fund Reporting and Liquidity Rules: What Do They Mean for the Fund Industry? | Boston |
| December 1, 2016 | Global Capital Markets Conference | London |
| December 6, 2016 | Securities Law Developments Conference ³ | Arlington, VA |
| December 13, 2016 | Global Retirement Issues: Launch Event for the OECD's <i>Pensions Outlook 2016</i> | Washington, DC |
| March 12–15, 2017 | Mutual Funds and Investment Management Conference ⁴ | Palm Desert |
| March 23, 2017 | Global Capital Markets Conference ⁵ | London |
| May 3–5, 2017 | General Membership Meeting | Washington, DC |
| May 3–5, 2017 | Operations and Technology Conference | Washington, DC |
| May 4, 2017 | Fund Directors Workshop ² | Washington, DC |
| May 4–5, 2017 | Mutual Fund Compliance Programs Conference | Washington, DC |
| June 13, 2017 | Global Regulatory Developments Roundtable | Berlin |
| June 14, 2017 | ICI Global Cybersecurity Forum | London |
| June 20, 2017 | Brexit and Asset Management Roundtable ⁶ | London |
| September 12–13, 2017 | Foundations for Fund Directors ² | Boston |
| September 20, 2017 | Cybersecurity Forum ⁷ | Dublin |
| September 24–27, 2017 | Tax and Accounting Conference | San Antonio |
| September 29, 2017 | Academic and Practitioner Symposium on Mutual Funds and ETFs ⁸ | Arlington, VA |

¹ Cosponsored by ICI Global and the Investment Management Association of Singapore

² Sponsored by IDC

³ Sponsored by the ICI Education Foundation

⁴ Cosponsored by ICI and the Federal Bar Association

⁵ Cosponsored by ICI Global and Chatham House

⁶ Cosponsored by ICI Global and the Centre for the Study of Financial Innovation

⁷ Cosponsored by ICI Global and the Irish Funds Industry Association

⁸ Cosponsored by ICI and the Richard A. Mayo Center for Asset Management, Darden School of Business, University of Virginia

ICI MUTUAL INSURANCE COMPANY

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

APPENDIX H, CONTINUED FROM PREVIOUS PAGE

WEBINARS

- » Board Oversight of Fair Valuation: Current Practices and Themes
- » Brexit: Possible Implications for Funds and Their Investors
- » Diving In—Understanding the SEC’s New Liquidity Rule
- » Emerging Financial Technologies: An Overview for Fund Directors
- » Evolving Collateral Management Landscape—Challenges and Considerations
- » Fair Valuation (Part 2): A Deeper Dive
- » Fund Industry Litigation, SEC Enforcement Activity, and Director Indemnification and Insurance
- » Preparing for Broker-Dealer of Record and Custodian Resignations—What You Need to Know
- » Medallion Signature Guarantee Considerations and Alternatives
- » Navigating the MiFID II Investment Research Maze—What Global Managers Need to Know
- » Regulatory, Operations, and Research Updates for Small Funds Members
- » Swing Pricing Primer—Considerations and Challenges for Mutual Funds
- » Understanding and Preparing for MiFID II/MiFIR
- » Understanding Trade Reporting Under MiFID II/MiFIR

ICI’s webinars are available at www.ici.org/webinars.

FINANCIAL MARKETS

Variation Margin Compliance Dates: Following the global financial crisis, regulators adopted rules that would generally require counterparties, including regulated funds, to exchange variation margin beginning on March 1, 2017, for swaps that are not cleared through a clearinghouse. Regulated funds encountered significant hurdles preparing for this date because of factors outside their control. As a result, funds faced the possibility of losing access to a significant portion of the derivatives markets.

In January and February, ICI and ICI Global urged regulators to delay the compliance date, explaining that despite their concerted efforts, many regulated funds would not have in place the documentation necessary to exchange margin as required by the rules, which would significantly limit their ability to hedge risk or obtain exposure to certain asset classes. Regulators granted forbearance, enabling regulated funds and their shareholders to avoid these harmful consequences.

Improving Single-Stock Circuit Breakers: On August 24, 2015, the US equity markets experienced extraordinary volatility after a sell-off in Asian equities spread to other markets. Severe price moves in hundreds of securities triggered more than 1,300 trading halts and exposed flaws in the mechanism used to pause the trading of individual securities. In November 2016, the Securities and Exchange Commission (SEC) published a proposal to address some of these market structure failings by consolidating the liquidity for a security's reopening auction at the primary listing exchange. Concurrently, three primary listing exchanges filed rule changes to harmonize procedures to resume trading following a trading pause.

In December 2016, ICI urged the SEC to approve the proposal, arguing that it would improve the transparency of the reopening process, enable reopening auctions to establish more accurate prices, and make it less likely that trading in a security will be halted again shortly after trading in it resumes. ICI further explained that the proposals would increase market confidence and reduce opportunities for confusion during volatile markets, and encouraged the SEC to consider additional changes to address flaws in current market structure. The SEC approved the proposal in January 2017 and intends to implement it by November 30.

Liquidity of the Secondary Bond Markets: In August 2016, the International Organization of Securities Commissions (IOSCO) published a consultation report on the liquidity of the secondary corporate bond markets. The report found meaningful changes to the provision of liquidity in the corporate bond markets in the wake of the financial crisis and mixed evidence of changes in liquidity overall.

In October 2016, ICI Global submitted a letter commending IOSCO for conducting an analysis and provided additional data on funds' participation in the US corporate bond markets. The letter also urged regulators to obtain accurate, comprehensive, and usable data about the corporate bond markets, which IOSCO later stated would be its next step in this area.

FINRA Desk Commentary Safe Harbor: In response to concerns raised by ICI and its members, the Financial Industry Regulatory Authority (FINRA) proposed a safe harbor in its rules on research reports for desk commentary (written broker-dealer communications that provide an institutional client with information about market conditions for a security, issuer, sector, or asset class). FINRA said that a communication meeting the conditions of the proposed safe harbor would not need to comply with most provisions of its rules on research reports.

In June, ICI submitted a comment letter explaining that desk commentary provides buy-side traders with valuable market information that can benefit fund shareholders by improving execution quality. FINRA decided not to

proceed with the safe harbor because its engagement with the financial services industry (including with the buy-side) over the issue had created a better understanding of the types of communications that might be considered research, thus enabling broker-dealers to more effectively police their desk commentary practices, and reducing the need for the safe harbor.

NMS Plan Governance and Transparency: The SEC relies on self-regulatory organizations (SROs) to govern various equity market structure matters through national market system (NMS) plans. These plans address a wide range of issues, including the public data feeds that provide last-sale and best bid and offer information for stocks. The SEC permits SROs to monopolize the decisionmaking of NMS plans, which results in a governance structure that does not police potential conflicts of interest adequately.

In October 2016, ICI urged the SEC to replace the faulty governance model of NMS plans and require all such plans to include a range of market participants—including representatives of regulated funds—as voting members. ICI also urged the SEC to require complete transparency into any revenue generated by NMS plans, especially plans that govern market data.

Derivatives Trading Obligation Under MiFIR: The Markets in Financial Instruments Regulation (MiFIR) requires the European Securities and Markets Authority (ESMA) to determine whether certain standardized derivatives contracts must be executed on an organized trading venue.

In November 2016 and July 2017, ICI submitted letters urging EU regulators to work with international regulators to ensure that the implementation of a trading obligation does not disrupt cross-border trading of derivatives. The potential for disruption arises when a trading obligation applies to a class of derivatives in the European Union and a third country, because cross-border transactions in those derivatives will have to be conducted on a trading venue that satisfies the regulatory requirements applicable to both counterparties. If no such venue exists, the counterparties cannot transact lawfully. ICI also advocated for ESMA to introduce the trading obligation on only the most liquid classes of derivatives, at least initially, to avoid disrupting liquidity.

FINANCIAL REGULATORY REFORM

Stays in Qualified Financial Contracts: In 2016, US prudential regulators issued several sets of proposed rules that would apply when a major bank fails. The rules would require some of those banks' agreements—including with regulated funds—to contain provisions limiting the ability of counterparties to immediately exit the contract and exercise certain default rights if the bank enters a resolution or bankruptcy proceeding.

ICI strongly advocated against restrictions that would unnecessarily limit rights contractually agreed upon by banks and their counterparties, and recommended that the proposed rules be scaled back significantly. Although the final rules, adopted in fall 2017, are largely similar to the proposal, the agencies included several key changes that ICI suggested. ICI is continuing to work with members to assess the potential impact of these rules.

Volcker Rule Reforms: In August, the Office of the Comptroller of the Currency (OCC) requested public comment on ways to improve the regulations implementing the Volcker Rule. Though any revisions would have to be agreed upon by all five agencies tasked with implementing the Volcker Rule, the OCC indicated that the information it collects could help inform any such rulemaking effort.

ICI submitted a comment letter in September recommending that the agencies exclude all regulated funds from the definition of "banking entity." This exclusion would ensure that no regulated fund could become subject to the trading and investment restrictions in the Volcker Rule, consistent with congressional intent.

Treasury Request for Information on Reducing Regulatory Burdens: As part of the Trump administration's focus on reducing regulatory burdens, the Treasury Department in June issued a request for information seeking the public's views and recommendations on how the regulations of its various offices could be eliminated, modified, or streamlined to reduce regulatory burdens.

In a July letter, ICI offered three recommendations for avoiding unnecessary or ineffective regulation of regulated funds: (1) exclude regulated funds from Treasury rules requiring certain financial companies to maintain detailed, standardized records regarding their investments in qualified financial contracts (e.g., swaps); (2) avoid imposing overlapping and duplicative anti-money laundering requirements on mutual fund complexes; and (3) adopt a single earnings calculation for use in administering both college savings accounts (under Internal Revenue Code Section 529) and savings accounts for persons with disabilities (under IRC Section 529A).

Continued Listing Standards for ETFs: In the first quarter of 2017, the SEC approved new exchange rules that establish continued listing standards for all ETFs that mirror initial listing standards. Although unaffiliated third parties typically establish the methodologies and maintain the indexes upon which certain ETFs are based, under the new rules—originally scheduled to become effective on October 1, 2017—ETFs will be expected to ensure that the index complies with continued listing standards on an ongoing basis.

After ICI members experienced substantial challenges in their ability to have in place systems and procedures to ensure compliance within the short implementation time frame, ICI successfully advocated to delay the effective date until January 1, 2018.

FUND REGULATION

State Legislative Activity

- » Following the adoption of a new Revised Uniform Unclaimed Property Act by the Uniform Law Commission in July 2016, several state legislatures considered adopting provisions from the act. *ICI monitored these activities closely and engaged where necessary to protect mutual fund investors from premature escheatment of their accounts.*
- » A Texas bill introduced early this year attempted to regulate “activist investors.” As defined in the bill, the term would have included mutual funds. Among other things, the bill would have required such activist investors to publicly disclose very detailed information on the fund and its shareholders. *In correspondence and conversations, ICI alerted the bill's sponsor to how it would adversely affect mutual fund companies. The bill sponsor elected to not pursue its enactment.*
- » States have begun to adopt regulatory provisions under their securities acts to regulate the cyber-preparedness of investment advisers. *ICI has been working to ensure they respect the federal preemption for federally registered investment advisers laid out in the National Securities Markets Improvement Act of 1996.*

Supporting FINRA Rules to Protect Senior Investors: In 2015, FINRA requested comment on a proposal to help protect senior investors from financial abuse and exploitation by authorizing broker-dealers to impose a temporary hold on disbursing proceeds from an account when fraud or exploitation of a senior citizen was suspected. The hold was intended to provide the broker-dealer and relevant state officials with time to investigate whether the account owner was, in fact, being financially exploited or abused.

In a November 2016 letter, ICI supported FINRA's initiative and its intent, but urged that it revise the proposal to be consistent with the North American Securities Administrators Association framework, which states

had been using to revise their rules or laws in this area. FINRA heeded this recommendation. Because FINRA's rule governs only the activities of its members (i.e., broker-dealers), ICI also is pursuing no-action relief from the SEC that would enable mutual fund transfer agents to protect their shareholders from fraud and abuse. As ICI noted in its request for such relief, protection of a mutual fund shareholder from fraud and abuse should not depend on whether the investor purchased their fund shares through a broker-dealer or a mutual fund company.

Proposed Universal Proxy Requirements: The SEC proposed amendments to proxy rules that would mandate the use of universal proxy cards in contested elections of directors.

In recognition of the many differences between funds and operating companies, ICI and the Independent Directors Council filed letters with the SEC strongly supporting the proposal's exclusion of funds. The letters particularly highlighted differences in fund governance structures that would cause funds to experience greater disruptions from split-ticket voting.

Proposed Amendments to FINRA Rule 2210: This rule generally prohibits communications that predict or project performance. In February, FINRA requested comment on proposed amendments that would allow investment planning illustrations that include the projected performance of an asset allocation or other investment strategy, subject to specified conditions.

ICI's March comment letter supported FINRA's proposal, and recommended enhancements that would make the amendments more useful to investors and firms.

Municipal Securities Disclosure: In March, the SEC proposed amendments to its rules that would require secondary market disclosure of certain financial obligations that municipal issuers often use as alternatives to public offerings of municipal securities.

ICI submitted a letter in May strongly supporting the SEC's efforts. Because certain financial obligations are not subject to the same level of disclosure as public offerings of municipal securities, investors may not have adequate information. Improving transparency and disclosure not only provides investors with more information about the creditworthiness of municipal securities, but also strengthens investor confidence in the municipal securities market.

INTERNATIONAL

Basel Committee Step-In Risk Guidelines: Since 2015, the Basel Committee on Banking Supervision (BCBS) has been working on how to address significant “step-in risk”—i.e., the risk that a bank may provide financial support to an off-balance-sheet entity even though the bank is not legally obligated to do so. After two public consultations, the BCBS in October 2017 adopted final guidelines for banks.

Responding to an initial consultation last year, ICI Global expressed serious concerns about the possible treatment of regulated funds, and explained why regulated funds sponsored by banks or bank affiliates are unlikely to present significant step-in risk. In a May 2017 comment letter on the second consultation, ICI Global observed that the BCBS appeared to be moving in a better direction. ICI Global urged, however, that the BCBS do more to distinguish between bank relationships with unconsolidated entities that pose significant step-in risk and bank relationships with regulated funds.

Global Investment Performance Standards (GIPS): Over the past two years, broadly distributed pooled funds (including regulated funds) and their disclosure and performance reporting practices have become a focal point for the CFA Institute. In March, the CFA Institute issued a Guidance Statement for these funds. In May, it issued a consultation paper titled “GIPS 20/20,” which

contemplates a restructuring of GIPS, and suggests pooled fund-specific performance reporting standards.

ICI has submitted comment letters in response to these initiatives. ICI's response to the "GIPS 20/20" paper was submitted in July, and strongly urged that regulated funds be excluded from the scope of this project. It argued that the consultation paper made no attempt to analyze pooled funds' current reporting requirements; that no justification exists for imposing additional requirements on firms that manage pooled funds already subject to legal or regulatory performance reporting requirements; and that highly regulated performance reporting already is an integral part of regulated funds' ongoing responsibilities. In October 2017, ICI followed up on the Guidance Statement, strongly urging the CFA Institute to reconsider the need for, and its fundamental approach to, issuing pooled fund-specific guidance and standards. ICI argued that if it insists on moving forward with this initiative, then it should delay effectiveness and complete its safe harbor work.

International Internal Audit Support: Non-US initiatives—including the UK Senior Managers Regime, MiFID II, Brexit, and the EU General Data Protection Regulation (GDPR)—increasingly are affecting ICI members' US business operations. Members of ICI's Internal Audit Committee expressed interest in forming an international group for internal auditors, to help them understand and reconcile non-US regulatory initiatives affecting ICI members' global business.

In response, the Institute created an International Internal Audit Advisory Committee. This group is based in London, and will complement and work in conjunction with the US committee. The UK committee has already had two in-person meetings and is looking forward to providing members a forum to address issues arising in their global operations.

Public Country-by-Country Reporting: Proposals in Europe for public disclosure of the OECD's country-by-country reports would require the disclosure of sensitive confidential business information, harming fund managers.

Thanks to advocacy from ICI Global, the European Parliament included a safety clause allowing firms to omit certain sensitive information. ICI Global will continue to advocate for such measures when dialogues begin.

OPERATIONS

Commodity Pool Financial Reporting: Since 2013, investment advisers to SEC-registered funds that are commodity pools have been required to file financial statements with the National Futures Association (NFA). The Commodity Futures Trading Commission (CFTC) adopted rules in 2013 that generally permit registered funds to satisfy their reporting obligations by filing the same statements with NFA and the SEC.

In the past year, ICI obtained relief for funds from two CFTC reporting requirements that (1) enabled liquidating funds to forgo the requirement to have their liquidating statements audited by an independent auditor, and (2) exempted commodity funds that invest in commodity contracts through a controlled foreign corporation (CFC) from separately identifying amounts and positions attributable to the CFC in consolidated financial statements.

RETIREMENT

PBGC Proposal on Missing Participant Program: The Pension Benefit Guaranty Corporation (PBGC) issued a proposal to expand its existing missing participant program, which holds retirement benefits for missing participants in defined benefit (DB) plans and helps participants find and receive benefits. The proposal would make the program available for terminated defined contribution (DC) plans and would create a new database to enable participants to search for information about their retirement benefits.

ICI filed a letter supporting the proposal, citing the positive effect it would have, and urged PBGC to broaden the scope of the program, extending it to missing participants in active DC plans.

Proposed Changes to Form 5500: The Department of Labor (DOL), Internal Revenue Service, and PBGC released proposed changes to Form 5500—the annual reporting form for employee benefit plans—that would require responses to new compliance questions, more-detailed reporting of "indirect compensation" paid to service providers, and a greater level of granularity for reporting of plan investments, among other measures.

ICI filed a letter in December 2016 that supported the agencies' goals—such as increased transparency of plan investments and increased availability of information for policymakers and researchers—but encouraged them to withdraw and repropose the changes, consistent with the purpose of Form 5500. ICI expressed concern, for example, that the proposed changes are not always consistent with their goals and would impose a significant burden on plan sponsors and their service providers. ICI also urged the agencies to carefully weigh the benefits of collecting this information against the costs, which ultimately will be borne by plan participants.

DOL "On the Road to Retirement" Surveys: The Office of Management and Budget (OMB) is reviewing a long-term research study that the DOL proposed—"On the Road to Retirement" Surveys—which is intended to gather information on how people make planning and financial decisions before and during retirement, and how those retirement planning strategies and decisions evolve.

In May, ICI filed a letter with the OMB that suggested ways to increase the survey's usefulness for researchers and policymakers, and reiterated several unresolved concerns that were previously relayed to the DOL.

TAXES

Tax Reclaims: US funds are seeking to recover several billion dollars of tax withheld through illegal restrictions on the free movement of capital (a violation of European law) or through insurmountable documentation requirements (a violation of countries' tax treaties with the United States).

ICI Global continues to actively support members' efforts to recover these taxes in France, Germany, the Netherlands, Poland, Spain, and Sweden (on free-movement grounds), and in Switzerland (on treaty grounds). Efforts have included meeting with government officials, preparing supporting materials, testifying in court, and coordinating with members' counsel. Most recently, Switzerland confirmed that information collected by a third party (e.g., a proxy solicitation firm) is acceptable, and agreed to discuss pooled information provided by intermediaries.

Tax Reform: The Trump administration and Republicans in Congress have made tax reform a key legislative priority.

ICI has engaged actively on tax reform issues affecting funds and their investors—for example, by explaining to policymakers the benefits of tax incentives for savings and investment, of clear and administrable rules for derivatives taxation, of the tax exemption for municipal bond interest, and of measures that would make the United States more competitive in the global economy.

India Tax Matters: Two Indian initiatives—treating redemptions of non-Indian fund shares as taxable "indirect transfers" of Indian securities, and removing a statutory capital gains exemption for certain stock acquired after 2004—could have imposed substantial, inappropriate taxes on fund investors.

ICI Global crafted letters for a coalition of 10 national and regional associations, resulting in favorable guidance on both issues.

ICI BY THE NUMBERS

FISCAL YEAR 2017





1401 H Street, NW, Suite 1200
Washington, DC 20005
202-326-5800
www.ici.org

Copyright © 2017 by the Investment Company Institute. All rights reserved.

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



ici.org



[@ICI](https://twitter.com/ICI)



[ICIVideo](https://www.youtube.com/ICI)



[Investment Company Institute](https://www.linkedin.com/company/investment-company-institute)