MEMO# 31576

January 24, 2019

ICI Files Supplemental Comment Letter on SEC's Request for Comment on Processing Fee Framework

[31576]

January 24, 2019 TO: ICI Members
Investment Company Directors
Operations Committee
Processing Fees Working Group
SEC Rules Committee
Small Funds Committee
Transfer Agent Advisory Committee SUBJECTS: Disclosure
Distribution
Fees and Expenses
Fund Governance
Intermediary Oversight
Operations
Transfer Agency RE: ICI Files Supplemental Comment Letter on SEC's Request for Comment on Processing Fee Framework

Earlier this year, the ICI filed a comprehensive comment letter responding to the SEC's request for comment on the framework for certain processing fees that intermediaries charge funds for delivering fund regulatory materials to investors that are beneficial owners of shares held in street name through the intermediary.[1] Most recently, the ICI filed a supplemental comment letter, explaining further the results of an ICI member survey on processing fee cost information, which were included in our October letter. It compares the ICI survey results with the economic analysis of Compass Lexecon included in Broadridge Financial Solutions Inc.'s October comment letter to the SEC. The supplemental letter is briefly summarized below and available on our website.[2]

The letter points out that the cost information in both the ICI and Compass Lexecon submissions confirms that the NYSE fee schedule results in funds and their shareholders paying significantly higher processing fees for delivery of fund materials than funds pay when they select their delivery vendor and negotiate the related processing fees. Both submissions demonstrate that funds and their shareholders could be paying far less in processing fees than those assessed under the current NYSE fee schedule.

The letter acknowledges that, at first glance, the results of ICI's survey results and Compass Lexecon's analysis seem at odds with one another. ICI's survey found that beneficial accounts paid more in processing fees to receive a paper report in the mail or an emailed report than direct accounts, while Compass Lexecon found that total unit costs were lower for beneficial accounts than direct accounts.

As the letter explains, Compass Lexecon's analysis bundles all costs (paper, printing, postage, and processing fees). This approach allows for no direct comparison of the processing fees assessed for intermediary-held or beneficial accounts versus direct accounts and offers no way for the Commission to evaluate whether the NYSE-permitted processing fees are reasonable in relation to the services provided to funds and their shareholders.[3] Compass Lexecon's analysis shows that a higher suppression rate for beneficial accounts may lead to lower overall costs, but it provides no insight into whether NYSE-permitted processing fees reflect "fair and reasonable" reimbursement for services.[4] It points out that both ICI's survey data and Compass Lexecon's analysis unequivocally demonstrate that reforming the NYSE fee schedule can meaningfully lower the cost of delivering mutual fund shareholder materials.

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endnotes

[1] *See* ICI Memorandum No. 31466, dated November 1, 2018, available at https://www.ici.org/my_ici/memorandum/memo31466.

[2] *See* Letter to Brent J. Fields, Secretary, US Securities and Exchange Commission, from Shelly Antoniewicz and Joanne Kane, Investment Company Institute, dated January 17, 2019, available at https://www.ici.org/pdf/18_ici_nysefees_ltr.pdf.

[3] In intermediary-held or beneficial accounts, fund shareholders invest in the fund through intermediaries; whereas, in direct accounts, fund shareholders purchase fund shares directly from the fund.

[4] Suppressed accounts are those accounts that do not receive mailed paper regulatory documents. This includes, for example, when the account holder has opted for electronic delivery, or in cases where multiple account holders share the same address and delivery of multiple copies is not required (*i.e.*, householding).