

MEMO# 31746

May 6, 2019

IDC Files Comment Letter on SEC's Fund of Funds Arrangements Proposal

[31746]

May 6, 2019 TO: ICI Members
Investment Company Directors SUBJECTS: Closed-End Funds
Exchange-Traded Funds (ETFs)
Fund Governance
Portfolio Oversight
Variable Insurance Products RE: IDC Files Comment Letter on SEC's Fund of Funds Arrangements Proposal

IDC filed the attached comment letter on the SEC's fund of funds arrangements proposal.^[1] IDC's letter commended the Commission for seeking to streamline the applicable regulatory framework for funds of funds, which is currently made up of statutory provisions, SEC rules, and exemptive orders. IDC also expressed appreciation and support for the proposed recalibration of directors' responsibilities that would allow directors to serve in an oversight role and not be called upon to make specific determinations regarding the arrangements.

IDC stated that while it is generally supportive of the proposal, it opposes one of the key conditions in the proposed rule—a redemption restriction. This restriction would prohibit an acquiring fund that acquires more than 3 percent of the outstanding voting securities of an acquired fund from redeeming, submitting for redemption, or tendering for repurchase, more than 3 percent of an acquired fund's total outstanding shares in any 30-day period.

IDC stated that it believes that the proposed new condition would significantly disrupt current fund of funds arrangements and that fund shareholders would suffer adverse consequences from it. For example, the restriction would limit the ability of an acquiring fund's adviser to manage the fund's portfolio of investments in the fund's best interests. The adviser would not be able to nimbly reduce exposure to the acquired fund as it deems appropriate, including to rebalance the fund's allocations or when the acquired fund is no longer a good investment for the acquiring fund (for whatever reason, such as poor performance), while other investors in the acquired fund could redeem shares without restriction.

IDC urged the Commission to reconsider this condition and adopt an approach that is more consistent with the current regulatory framework, which includes participation agreements between acquiring and acquired funds. As for the board requirements under existing

exemptive orders, IDC stated that it agrees with the Commission's proposal to no longer require boards to make specific determinations in connection with these arrangements. Those requirements bring boards into the management process and are not necessary for boards to provide appropriate and diligent oversight. Instead, the investment adviser should make certain determinations regarding the arrangements and provide representations and reports to the board, for the board's oversight of the arrangements.

ICI filed a more detailed comment letter on the proposal.[\[2\]](#)

Annette Capretta
Deputy Managing Director

[Attachment](#)

endnotes

[\[1\]](#) See [Memorandum No. 31540](#) for a summary of the proposal.

[\[2\]](#) See [Memorandum No. 31741](#) for a summary of ICI's letter.

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