

MEMO# 31415

September 27, 2018

IDC Files Comment Letter on SEC's ETF Rule Proposal

[31415]

September 27, 2018 TO: Investment Company Directors SUBJECTS: Disclosure
Exchange-Traded Funds (ETFs)
Fund Governance RE: IDC Files Comment Letter on SEC's ETF Rule Proposal

IDC filed the attached comment letter today on the SEC's proposed rule for exchange-traded funds (ETFs). The proposed rule would permit ETFs that satisfy certain conditions to operate without the expense and delay of obtaining an exemptive order. IDC commended the SEC for proposing a rule that would bring greater consistency and efficiency to the ETF regulatory framework, level the playing field for ETFs that have been operating under inconsistent exemptive orders, and facilitate greater competition and innovation among ETFs. IDC's letter expressed support for the new rule and focused comments on the fund governance aspects of the proposal and proposed disclosure requirements.

With respect to fund governance, IDC noted that the proposed rule would not impose any new responsibilities on fund boards and expressed strong agreement with this approach. IDC also noted that the SEC's discussion of custom baskets appropriately describes the oversight role performed by fund boards in this context.

With respect to the proposed disclosure requirements, IDC stated its support for the proposed narrative disclosures that would help investors better understand that there are costs, in addition to those reflected in a prospectus fee table, that the investor may incur in buying or selling shares. IDC questioned, however, requiring ETFs to disclose in their prospectuses certain trading information and trading costs, including bid-ask spread information, which would be stale and potentially misleading to investors, among other concerns. IDC suggested that narrative disclosure with a hypothetical illustration of how bid-ask spreads affect an investment would be more useful to investors.

Annette Capretta
Deputy Managing Director

[Attachment](#)

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