

**MEMO# 32123**

December 23, 2019

# ICI Submits Report to the SEC on the Fund Proxy System

[32123]

December 23, 2019 TO: ICI Members

Investment Company Directors SUBJECTS: Compliance

Disclosure

Fund Governance

Intermediary Oversight

Operations

Transfer Agency RE: ICI Submits Report to the SEC on the Fund Proxy System

In June, ICI submitted a comment letter to the SEC on the fund proxy system and the unique challenges that funds *as issuers* face in seeking shareholder approvals.[\[1\]](#) We recommended that the SEC:

- Reevaluate the 1940 Act's shareholder approval requirements, particularly for those 1940 Act items requiring a "majority vote" ("1940 Act Majority Items")[\[2\]](#) where safeguards other than shareholder voting would protect investors' interests at a lower cost. For instance, funds should be permitted to:
  - Change fundamental policies that are not material to a fund's investment strategies or risks, subject to board approval and advance shareholder notice; and
  - Hire sub-advisers, subject to the types of conditions in the SEC's "manager of managers" exemptive relief.
- Use its exemptive authority to create a new third way—to complement the existing two statutory ways—for a fund to approve remaining 1940 Act Majority Items.[\[3\]](#)
- Revise proxy disclosure requirements to permit greater use of layering and linking in proxy statements, which would make materials more readable and reduce printing and mailing costs for multi-fund proxy statements in particular.

Today we submitted to the SEC the attached follow-up report, which summarizes the results from ICI's Fall 2019 member survey on funds' proxy campaigns over the past seven years and offers additional support for ICI's prior recommendations (the "Report"). The Report provides more granular information about funds' 1940 Act Majority proposals; the costs of these proxy campaigns; and the anticipated effects of ICI's Supermajority Recommendation. Most notably, the Report shows that:

- Funds are experiencing significant costs and challenges when seeking shareholder

approvals.

- The high costs and challenges of the proxy process are disproportionately affecting decisions related to fund policies, governance, and operations.
- ICI's Supermajority Recommendation would meaningfully reduce fund shareholders' costs.
- *Voting* shareholders overwhelmingly support funds' proxy proposals, underscoring that the fund proxy system itself—not the nature of the proposals—drives these costs and challenges for funds.

Matthew Thornton  
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## [Attachment](#)

### **endnotes**

[1] The letter is available at: [www.sec.gov/comments/4-725/4725-5658296-185774.pdf](http://www.sec.gov/comments/4-725/4725-5658296-185774.pdf).

[2] These include changes to fundamental policies, adoption of investment advisory and principal underwriting agreements, adoption of certain distribution arrangements (Rule 12b-1 plans), and mergers of affiliated funds.

[3] Compared to the “majority vote” requirements of Section 2(a)(42) of the 1940 Act, ICI's recommendation couples a lower quorum requirement (more than 33 1/3 percent) with a higher affirmative vote requirement (at least 75 percent) (the “Supermajority Recommendation”).