

MEMO# 32400

April 20, 2020

IDC Files Comment Letter on SEC's Proposed Rule on Funds' Use of Derivatives

[32400]

April 20, 2020 TO: ICI Members

Investment Company Directors SUBJECTS: Fund Governance RE: IDC Files Comment Letter on SEC's Proposed Rule on Funds' Use of Derivatives

IDC has submitted a comment letter[\[1\]](#) on the SEC's re-proposed derivatives rule.[\[2\]](#) The re-proposal addresses many of the concerns raised by IDC and other commenters to the SEC's 2015 proposal, and IDC expressed strong support for the re-proposal.

IDC's letter stated that while proposed changes to board responsibilities contained in the re-proposal are appreciated, IDC continues to have reservations about the proposed reporting relationship of the derivatives risk manager to the board. The letter suggested the following modifications to the re-proposal to better reflect an appropriate oversight role for fund boards:

- The adviser should be permitted to administer the derivatives risk management program subject to board oversight, and boards should not be subject to prescriptive regulatory requirements that, in our view, would effectively require review of the adviser's personnel.
- The rule should permit greater flexibility regarding the level of detail in board reports and allow them to be tailored to the circumstances of the fund, including its use of derivatives.
- Because of the broad oversight role that fund boards are required to exercise, any adopting release should refrain from dictating particular protocols that a board must follow in its oversight of the use of derivatives.

ICI also submitted a comment letter that supported the Commission's re-proposed rule and recommended additional clarifications to improve its effectiveness.[\[3\]](#)

Annette Capretta
Deputy Managing Director
Independent Directors Council

endnotes

[1] IDC's comment letter is available at https://www.idc.org/pdf/20_ltr_idcderivatives.pdf.

[2] See [Memorandum No. 32083](#) for a summary of the re-proposal.

[3] ICI's comment letter is available at https://www.ici.org/pdf/20_ltr_derivatives.pdf.

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