

**MEMO# 30177**

August 29, 2016

# **Draft Letter to Various Exchanges Concerning Closed-End Fund Annual Shareholder Meetings and Accompanying Survey - Member Feedback and Survey Results Due By September 14**

[30177]

August 26, 2016

TO: CLOSED-END INVESTMENT COMPANY COMMITTEE No. 16-16  
ETF ADVISORY COMMITTEE No. 17-16  
ETF (EXCHANGE-TRADED FUNDS) COMMITTEE No. 18-16  
SEC RULES COMMITTEE No. 38-16 RE: DRAFT LETTER TO VARIOUS EXCHANGES  
CONCERNING CLOSED-END FUND ANNUAL SHAREHOLDER MEETINGS AND ACCOMPANYING  
SURVEY - MEMBER FEEDBACK AND SURVEY RESULTS DUE BY SEPTEMBER 14

Attached for your review is a draft letter from the Institute to various stock exchanges requesting that those exchanges exempt closed-end funds from the requirement that listed companies hold annual meetings. We recommend the exemption for several reasons as noted below, including to eliminate the unnecessary burdens and expenses on closed-end funds for largely routine meetings. We also attach a survey for closed-end fund sponsors that seeks empirical information to support the draft letter.

In lieu of requiring annual meetings, the draft letter suggests three alternative proposals that could address potential concerns about eliminating shareholder access to closed-end funds:

1. Require closed-end funds to hold meetings every five years, instead of annually;
2. Require closed-end funds to adopt provisions in their governing documents or as a matter of policy that would allow a shareholder or group of shareholders that owns 25 percent or more of the outstanding voting securities of the closed-end fund and that has held those shares for at least three years to call a meeting of shareholders; or
3. Require closed-end funds to adopt provisions in their governing documents or as a matter of policy that would compel an annual meeting whenever the closed-end fund

receives a properly submitted shareholder proposal during a designated period each year.

Please provide any comments on the attached draft and responses to the survey to me ([kenneth.fang@ici.org](mailto:kenneth.fang@ici.org) or (202) 371-5430) by no later than Wednesday, September 14, 2016.

### **Brief Summary of the Draft Letter**

Exchange-listing rules require closed-end funds to hold annual meetings each year. Neither the Investment Company Act of 1940 (“1940 Act”) nor state law otherwise require these meetings. The draft letter contends that the annual meeting requirements impose unnecessary burdens and expenses on funds because:

- Closed-end funds already are subject to the 1940 Act, which requires independent directors to comprise at least 40 percent of a closed-end fund’s board and, in many cases, a majority. Unlike for operating companies, the 1940 Act also dictates several specific instances in which a majority of independent directors must approve a significant action that a closed-end fund takes.
- Congress considered requiring registered funds, including closed-end funds, to hold annual meetings but ultimately declined to enact that approach. State law also does not require registered funds to hold annual meetings.
- The 1940 Act already requires registered funds, including closed-end funds, to obtain shareholder approval to approve the most important changes to fund governance and policies.
- Annual proxy statements are not necessary to communicate important information to closed-end fund shareholders.
- Exchange-listed closed-end funds are the only registered investment companies that are required to hold annual meetings.

The draft letter would show the burdens and expenses that the annual meeting requirements impose on closed-end funds based on the survey results we receive. The draft letter then concludes with the three alternative proposals noted above.

Kenneth C. Fang  
Assistant General Counsel

[Attachment no. 1](#)

[Attachment no. 2](#)