ICI VIEWPOINTS

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A Thoughtful Approach to Regulating Derivatives and Protecting Investors

We commend the Securities and Exchange Commission for taking a measured, thoughtful approach to modernizing the legal framework that governs the use of derivatives by mutual funds and other investment companies. They've sought input on a concept release, and we've in turn offered several recommendations that we think will improve the current framework while preserving the benefits of derivatives for fund managers and maintaining the investor protections embedded in our securities laws.

It's important to get these rules right. Derivatives—which include instruments such as options, futures, forwards, and swaps—have become increasingly common, useful, and for some funds, integral portfolio management tools. They provide fund managers with an expanded set of options for implementing investment strategies and managing risks. If one choice will be more efficient or effective than another, then the portfolio manager can take advantage of it—to the benefit of investors. For example, a U.S.-based international fund might find it more efficient to use swaps to gain exposure to non-U.S. equities, rather than getting the same amount of exposure by buying the equities themselves.

Still, these instruments can involve risks that are not present in the traditional "cash" markets. As Eileen Rominger, Director of the SEC's Division of Investment Management, recently said, "Derivatives are not 'bad,' but they are potent and at times full of surprises."

In that same speech, Director Rominger also pointed out that many of the issues raised by the concept release are legal, technical, and detailed. As the SEC and its staff tackle these issues, we will work with them to ensure that the rules both protect fund investors and enable funds to use derivatives responsibly to improve the efficiency of portfolio management.

- Read ICI's letter.
- Read the SEC's concept release.
- Learn more about how the securities laws offer protections for fund shareholders in the 2011 Investment Company Fact Book.