The Asset Management Industry
SERVING INDIVIDUAL INVESTORS
INVESTMENT COMPANY INSTITUTE

ICI VIEWPOINTS

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Investor Protection Priorities for the New Year

The following ICI Viewpoints *is adapted from a presentation that ICI General Counsel David Blass gave to the Investor Advisory Committee of the US Securities and Exchange Commission on December 8, 2016. Visit this page to read the entire presentation.*

If I were to poll ICI members about next year's priorities, I am sure we would receive consistent feedback: give us an opportunity to implement all the rules that have been imposed on us. New rules from the Securities and Exchange Commission (SEC) covering data reporting, swing pricing, and liquidity risk management will require huge expenditures and years of work to implement fully. And they were adopted in the aftermath of two rounds of money market fund reform, as well as many other rules applicable to the fund industry adopted by other regulatory agencies.

In just the past fiscal year—the 12 months ending in September—ICI submitted 111 comment letters globally, totaling more than 1,600 pages. That is almost one letter every other working day, filed with an alphabet soup of agencies, councils, and boards in the United States and around the globe. In short, we need a breather to take time to carefully implement all the regulatory change from the past few years.

We can accomplish such a pause on the regulatory front while still pursuing measures to advance the interests of fund shareholders. With that in mind, there are four priorities I would like to discuss.

Shortening the securities settlement period from T+3 to T+2. We were pleased earlier this week to provide strong, unqualified support to the SEC for its initiative to shorten the settlement period for securities transactions from trade date plus three days (T+3) to trade date plus two days (T+2). Though the transition will be quite costly to many industry participants, this shortened settlement period will improve the efficiency of the US securities markets, align US markets with other global markets, and promote financial stability in the United States.

ICI's Chief Industry Operations Officer Marty Burns and his counterpart at the Securities Industry and Financial Markets Association (SIFMA) cochair a group that has been working closely on this initiative with the Depository Trust & Clearing Corporation (DTCC) and other stakeholders throughout the financial services industry. Together, they have developed an industry timeline for implementing the shortened settlement period, with a target date of September 5, 2017. We remain deeply committed to carrying out that plan.

Enhanced governance of NMS plan operating committees. We also recently commented on the SEC's review of the Regulation National Market System (NMS) under the Regulatory Flexibility Act. Our letter suggests a straightforward mechanism intended to improve transparency and governance of the equities markets. Though this is a complicated topic, we have a simple suggestion: substantially enhance the governance model of NMS plans by adding representatives of registered funds to the operating committees of NMS plans. Adding these SEC-registered investment advisers—professional investors who serve the interests of retail investors—would add fairness and accountability to the market governance process.

Reform of shareholder report delivery and disclosure. We were encouraged when the SEC proposed Rule 30e-3, which would greatly enhance the use of the Internet to deliver shareholder reports and could save investors more than $1 billion over several years—and were terribly disappointed when the Commission missed an opportunity to adopt the rule. We continue to urge the SEC to adopt the proposed rule.

The SEC must also—distinct from its decision about Rule 30e-3—direct the Financial Industry Regulatory Authority (FINRA) to reform the rules about brokers' charges for shareholder report delivery. The leading service provider for delivery to broker-held accounts operates essentially as a for-profit market utility. Yet there is no oversight of this company. We believe that FINRA—as the primary self-regulatory organization for the broker-dealers that hire this company—must step up and provide effective oversight to protect investors.

ICI also stands ready to work cooperatively with the SEC to promote new shareholder report disclosure. In crafting any new rules for shareholder reports, the SEC has an opportunity to unleash the creativity and ingenuity that the fund industry can provide. We have an opportunity here to provide investors with more effective disclosure while saving them money. We must not miss that opportunity.

Harmonized standard for financial advisers when providing personalized investment advice. ICI's members already operate as fiduciaries. The regulated fund industry has a long, rich history of fulfilling fiduciary principles in support of fund investors. We remain concerned, though, about the recent, very cumbersome "conflicts of interest" rulemaking from the Department of Labor (DOL). The proposal is deeply flawed.

The SEC has an opportunity to provide investors with a uniform standard of conduct that is not limited to retirement accounts. ICI and its members strongly support the principle that underlies the DOL's proposal—that all financial advisers should be held to act in the best interests of their clients. We urge the DOL and the SEC to work in concert to issue a harmonized conduct standard for financial advisers that promotes the best interests of *all* investors, not just those saving for retirement.

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