

SPEECH

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Welcoming Remarks, 2019 ICI Securities Law Developments Conference

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As prepared for delivery.

Hello and good morning! I'm so happy you could join us here at ICI's 2019 Securities Law Developments Conference. A very warm welcome to you all.

I'd like to quickly thank our panelists and guest speakers—and ICI's Law and Conferences teams—for kindly lending us their time, effort, and expertise. As well as our sponsors—Dechert, Ropes & Gray, and the ICI Education Foundation—for their generous support.

How about a hand for everyone who had a role in putting this all together for us?

You know, I've worked in our industry for quite some time now, and I've seen a whole lot.

Wave after wave of technological breakthroughs creating new ways for funds to serve their shareholders.

Transformative industry developments reshaping business models and reshuffling relationships.

Rulemakings, guidance, directives, legislation, and more—increasingly interwoven across a global, uncertain, ever-evolving regulatory landscape.

Every time I've felt like, "Now, I've seen everything"—like we might just be able to catch

our breaths for a moment—a bold idea breaks new ground, a novel trend begins to take hold, or an unanticipated policy initiative appears on the horizon.

Work in an environment like this for long enough, and you begin to learn a thing or two. And yes, that includes abandoning all hope of trying to predict what's next!

But here's one that's more important: our industry has never moved faster, never been more complex. So if you're going to have any success navigating it, you've got to know where to focus your efforts.

You've got to know how to separate the critical elements of an issue from the trivial—how to find the signal in the noise.

Every year, we at ICI hold this conference because it boosts the signal for our members.

Because it helps our members block out the noise and distractions, and zero in on what matters most for the shareholders they serve.

And I'm very much looking forward to building on that record today.

But before we get started, I'd just like to speak briefly about two policy areas generating a good bit of attention these days—proxy voting and fund disclosure—and do a little signal-boosting of my own.

If you've been following the SEC's renewed focus on the proxy voting system, you know that it's energized a wide range of market participants.

You've seen the spirited commentary about whether the system ought to be reformed—and how best to go about reforming it.

We at ICI strongly support the Commission's focus here, especially its consideration of the unique challenges funds face as issuers of their own shares.

We support this work, so we surveyed a large cross-section of our membership about their recent proxy campaigns, and the findings confirm what we've been hearing informally for a long time: The fund proxy voting system is costly and inefficient, and it's long overdue for an update.

There are a lot of moving parts. But the bottom line is, funds face extreme difficulty communicating with their shareholders to encourage them to vote.

To start, there are a lot of shareholders—more than a 100 million—and the vast majority are retail investors. Actually reaching them is difficult and costly, because they largely invest through intermediaries and their shares are held in omnibus accounts. This means that their identities often are not apparent, rather the intermediary's omnibus account is the name on the fund's records.

And then, funds are severely limited in their ability to contact shareholders directly, because of:

- SEC rules that limit how funds can contact these shareholders;
- the high fees imposed by the New York Stock Exchange to obtain shareholder lists;
- and

- the lists' lack of certain critical information, like email addresses.

Complicating matters further, the shareholders who can be reached often don't read the long and dense proxy materials sent to them.

Even when funds follow up with more mailings or work the phones, they're often ignored or met with suspicion. And who can be surprised by that?

In these days of scams and robocalls, who wants to receive calls at home from a random person, never mind a representative for your mutual fund asking you to do something?

Our survey shows that fund proxy campaigns regularly take two months or longer—and frequently cost more than \$1 million—largely because of the enormous amount of time and money eaten up by this follow-up canvassing. Proxy campaigns can demand the time of many people across a fund complex. And still, it's quite a reach to get to quorum.

So it's a dated and expensive system—no question. But the good news is, it's not beyond repair. And the SEC could go a long way toward fixing it with a few constructive reforms.

Reforms like:

- Identifying areas where board approval, robust disclosure, advance notice, or another proven approach would protect shareholders as effectively and at a lower cost.
- Creating a more practical way for funds to reach a "majority vote" on actions that do need shareholder approval.
- Requiring intermediaries to provide funds more complete lists of their shareholders at a reasonable cost, so that funds can deliver proxy materials to their shareholders directly or through a third party of their choosing.
- Allowing funds to shorten their proxy materials and link to information online, so that shareholders can more easily read and understand them.

Together, these reforms would make the fund proxy system more efficient and effective. Less burdensome and less expensive. We look forward to discussing them further as work in this area continues.

On fund disclosure, we're only recently beyond tough debates over whether funds should be able to notify shareholders about reports by mail and deliver these shareholder reports online.

We fought hard for the SEC's Rule 30e-3 authorizing that common-sense reform—at the Commission, on Capitol Hill, and in court.

And we're pleased that many millions of fund shareholders will soon see the benefits. Nearly all—97 percent—of members asked in a recent survey intend to rely on Rule 30e-3, a real win for funds and their shareholders.

So far, fund shareholders have embraced this new delivery model, with very few indicating that they want to continue to receive paper reports.

But make no mistake. We are seeing massive change in how people prefer to receive information—fund shareholders included. And allowing online delivery is only the first step in catching up.

So we're encouraged the SEC appreciates this.

We're encouraged that the Commission's Division of Investment Management is working to improve the experience of retail investors and help them make more informed investment decisions.

We're pleased that—as part of this investor experience initiative—the staff is exploring options for modernizing and enhancing fund disclosure.

Just as we've done for the SEC's fund proxy voting work, we've asked our members for their on-the-ground perspective to help inform the staff's disclosure reform efforts.

What we found is, a large portion of the industry would welcome sending a single streamlined annual disclosure document, replacing a fund's summary prospectus and annual and semi-annual shareholder reports.

I have to say, the savings and benefits for investors could be tremendous.

More than 60 percent of survey respondents estimated annual potential savings of at least 25 percent, primarily from lower printing and postage costs and lower processing fees. More than a third estimated they would save 40 percent or more.

Plus, we tested a prototype for streamlined disclosure—a summary shareholder report—with more than 1,200 fund shareholders. Not only did they find it informative and appealing, they showed a good grasp of its content as well.

So this more comprehensive reform—a single annual disclosure document—would seem to hold a lot of promise for fund investors.

Now, we're under no illusion that modernizing the industry's disclosure regime in such a way would be easy. Clearly, it would be a major undertaking to develop this single document, and doing so would pose a number of challenges for both the SEC and the industry.

So, given the work already done on a prototype for a summary shareholder report, an alternative but a highly meaningful reform could be an annual streamlined shareholder report, to replace the semiannual and annual shareholder reports. This was respondents' second most preferred option in our survey.

More than half, or 55 percent, of respondents estimated annual potential savings of at least 25 percent, with almost one-third, or 27 percent, estimating 40 percent or more in savings. This approach—a single annual shareholder report—feels reachable.

It's exciting to see a summary shareholder report on the Commission's near-term agenda and plans for more work to modernize fund disclosure on their longer-term agenda.

Whatever the challenges, we can be confident that modernizing and enhancing disclosure for our investors is the right direction. As is true for nearly everyone, fund shareholders no longer have the patience for long, unwieldy documents laden with technical jargon and detail, if they ever did.

Instead, most have eyes for only the most essential information, in language and styles they can understand, and in a format they prefer. So, to the SEC we say, "Let's do everything we can to give that to them."

Thank you for your time this morning.

Before we kick things off, I'd like to let you know about the good work of one of our conference sponsors—the ICI Education Foundation.

Through a partnership with the Toigo Foundation—a leading nonprofit dedicated to promoting greater diversity and inclusion in financial services—the ICI Education Foundation recently awarded grants to a pair of Toigo fellows and business school students. Both students will use their grants to further their education and professional development in economics and finance at Columbia and Harvard.

The ICI Education Foundation also extended complimentary conference registrations to several minority business and law students who are considering careers in asset management.

It's our hope that, if we can raise awareness of asset management as an attractive career destination among young people of diverse backgrounds, we can help broaden and strengthen the pipeline of talent for funds and their shareholders.

Please join me in welcoming these students to the conference.

And with that, it's my pleasure to welcome our keynote speaker. Ladies and gentlemen, please join me in one more round of applause for the director of the SEC's Division of Investment Management, who has been exceptionally busy and dedicated to leading the division and its ambitious agenda, Dalia Blass!