

SPEECH

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Welcoming Remarks: A Focus on Fundamentals

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ICI Capital Markets Conference

David W. Blass
General Counsel
Investment Company Institute

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As prepared for delivery.

Good morning, everyone.

I am David Blass, ICI's general counsel. I am pleased to welcome you to our annual Capital Markets Conference—thank you very much for joining us here today, especially if you made your way from snow-covered Boston. Many thanks to our sponsors as well—you can see their names and logos on the screen behind me.

I also would like to thank our speakers and panelists. Our lineup of leading thinkers on the capital markets is simply outstanding. We are very fortunate to benefit from their insights in our discussions today.

The market structure issues we face are more complex than ever before. The same likely will be true next year, the year after that, and for the foreseeable future. And while it is easy to get caught up in the latest developments or breaking news, or the minutiae of market structure, we need to take care not to neglect the broader view. We should ask—are the developments in the markets satisfying our fundamental principles, especially fairness to investors? Are they benefitting the markets as a whole, not just a particular business model? More specifically, are market developments promoting investor interests, or conflicting with them?

I'll be listening for these themes throughout our program today. I encourage you to do so as well.

To kick things off, I would like to share a few thoughts on what we at ICI believe makes our capital markets work for investors. I also would like to touch on a few things we can do together to ensure that our capital markets are working as best they can—and that they remain the ideal model across the world.

First, a little background. I've been at ICI for about six months. My experience with the financial markets, however, spans more than 15 years. It includes time in senior positions at the SEC—most recently as chief counsel of the Division of Trading and Markets, and earlier in the Division of Investment Management and the General Counsel's Office. I also practiced in the asset management practices at large law firms.

During my career, I've come to admire a great many aspects of the regulated fund industry—its remarkable history of dialogue among regulators and industry professionals, its ability to adapt as markets have grown more complex, and its resiliency amid economic downturns, just to name a few.

I also should point out how well the industry has aged—this year marks the 75th anniversary of the modern fund industry. The industry's founding documents, the Investment Company Act and the Investment Advisers Act, both from 1940, were the product of close collaboration between the fund industry and the federal government, with the industry recommending many key elements. ICI was established six weeks after President Franklin Roosevelt signed those acts into law, and the Institute turns 75 in 2015 as well. We will be finding occasion to celebrate these twin milestones throughout the year.

What I admire most about ICI and the regulated fund industry, I'd have to say, are the fundamental principles on which we have operated for these 75 years. Chief among those is fairness to investors. Our markets, too, are built on these principles. Beyond that basic fairness, I'm talking about robust price discovery ... competition that fosters innovation and efficiencies for the benefit of investors ... a high level of transparency ... sensible regulation with diligent oversight and enforcement ... and broad and diverse participation, especially the participation of long-term investors. All these are critical to the markets and to ICI members, which represent long-term investors' interests.

These principles must infuse and inform any reforms we might consider in response to market developments. In the equity markets, for example, we at ICI see several areas in need of reform to ensure we are satisfying our fundamental principles. The hot issue right now, of course, is the use of liquidity rebates and access fees, and how that can play into economic conflicts in order routing, order execution, and attracting order flow.

ICI has been advocating for reform on this front for many years, long before it was cool to do so. Indeed, we have called for the SEC to reduce or eliminate access fees and liquidity rebates. We believe that the routing by firms of a substantial percentage of their customers' orders to trading venues that provide the highest trading rebates could result in inferior executions and create conflicts of interest.

The benefits of liquidity rebates to investors are doubtful—investors do not receive these rebates directly, and arguably do not receive the benefits of rebates indirectly.

How liquidity rebates and access fees affect investors and the markets clearly warrants further examination. That's why we have recommended that the SEC establish a program to generate and publish data in this area.

Now, these issues won't likely be resolved in the near term, particularly given the economics at stake for some market participants. With that in mind, ICI has taken the lead in ensuring that, at the very least, we work toward greater transparency in market participants' order-routing and execution practices.

In [a letter we wrote with SIFMA and the Managed Funds Association](#), we submitted to the SEC a template for the minimum disclosure of information on order routing and execution quality that broker-dealers would have to provide to their institutional investor clients, including funds and their managers. The template information would be standardized—it would provide clients with data for further analysis and comparison, and it would help them begin a dialogue with their broker-dealers about order-routing practices and managing conflicts of interest. We encourage the SEC to use this template, and to make transparency in order-routing and execution practices a priority going forward.

Of course, equity markets aren't the only focus of our work—or of this conference. Fixed income is another important asset class for investors, one we'll cover thoroughly in a panel later today.

Fixed-income market structure is of special interest to me. My office at the SEC was heavily involved in drafting the commission's 2012 report on the municipal securities markets, including the policy recommendations.

The SEC has since kept this area in its sights. Just last June, SEC Chair White remarked that the fixed-income markets remain highly decentralized—and have not seen technological advances to the degree that the equity markets have. We share Chair White's sentiment that advances in the fixed-income markets should benefit long-term investors—in other words, that they should promote the fundamental principles I outlined earlier.

Regulators' recent attention to developments in the fixed-income markets is good news, certainly, but there is still work ahead. Going forward, we encourage the SEC and FINRA, as well as the MSRB, to work together to ensure that investor interests are at the forefront of advances in the fixed-income markets. ICI stands ready to assist regulators, policymakers, and market participants in their work toward this end.

Another important focus of our work is derivatives regulation reform, easily the most complex topic we'll cover today. In a panel this afternoon, we'll hear about changes in derivatives trading, and coordination among international derivatives regulators.

We'll also hear about Commissioner J. Christopher Giancarlo's recent white paper on reconsideration of the CFTC's swap trading rules. The paper provides a thoughtful analysis of the key issues and keen insights into the unique dynamics of the swaps market. We look forward to conversations with the commissioner, the CFTC, and market participants about whether the U.S. swap trading rules are promoting the goals set out in the Dodd-Frank Act.

On all the issues I've just run through—and many more—the time for action is now. Regulators and market participants alike must tackle them head on—to ensure that our markets are operating to their full potential ... to ensure that they continue to encourage the confidence of long-term investors.

You see, ensuring that the markets work for all is not just an ICI goal. Nor is it a goal for just the buy-side at large. It is a goal that we believe must be shared among the buy-side, the sell-side, and regulators alike. Together, we can promote investor interests through

efficiency, competition, and capital formation. The very existence of our markets as we know them today—and the confidence of millions of investors—depends on our ability to do so.

Now, to get things going, we have a conversation on regulatory developments with two very good friends of mine, Steve Luparello, director of the SEC's Division of Trading and Markets, and Bob Colby, FINRA's chief legal officer.

Thank you both for being with us today, and to everyone, please enjoy the conference.

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