

## COMMENT LETTER

March 8, 2005

# ICI Comments on Efforts to Improve U.S. Self-Regulatory System

March 8, 2005 Mr. Jonathan G. Katz Secretary Securities and Exchange Commission 450 Fifth Street, N.W. Washington, DC 20549-0609 Re: Self-Regulatory Organizations (File Nos. S7-39-04 and S7-40-04) Dear Mr. Katz: The Investment Company Institute<sup>1</sup> supports the Securities and Exchange Commission's examination of the operation and structure of self-regulatory organizations ("SROs").<sup>2</sup> The Commission's initiatives, which are intended to strengthen SRO governance processes and regulatory programs and to increase transparency of SRO operations, will advance the interests of investors by improving the self-regulatory system. The Institute's comments on the SRO Rule Proposals and SRO Concept Release reflect the views of our members as investors. An efficient SRO structure is critical to our members, who, on behalf of millions of individual shareholders, are significant investors in securities. As the Commission notes, SROs are charged with an important public trust to carry out their self-regulatory responsibilities effectively and fairly while, among other things, protecting investors. An examination of the role and operation of SROs is particularly timely, given recent changes to the structure of the U.S. securities markets and in the ownership structure of SROs.<sup>3</sup> The Institute believes that several of the rule proposals may serve to enhance the interests of

1 The Investment Company Institute is the national association of the American investment company industry. More information about the Institute is available at the end of this letter. 2 Securities Exchange Act Release No. 50699 (November 18, 2004), 69 FR 71126 (December 8, 2004) ("SRO Rule Proposals") and Securities Exchange Act Release No. 50700 (November 18, 2004), 69 FR 71256 (December 8, 2004) ("SRO Concept Release"). 3 As the Commission notes, increased dispersion of order flow across multiple markets has produced questions of comparable regulation by SROs and the effectiveness of cross-market supervision; increased competition among markets for listings and trading volume has applied pressure on SRO regulatory efforts and sources of funding; and the advent of for-profit, shareholder-owned SROs has introduced potential new conflicts of interest and issues of regulatory incentives.

Mr. Jonathan G. Katz March 8, 2005 Page 2 of 3

investors by allowing SROs to manage more effectively the potential conflicts of interest in the self-regulatory system and by increasing transparency of the governance structure of SROs and of their regulatory programs and processes. These proposals include: requiring each exchange and association to separate its regulatory function from its market operations and other commercial interests, whether through functional or organizational separation; requiring an exchange or association to establish ownership and voting limitations on the interest of its broker-dealer members; requiring additional safeguards when an SRO lists and trades its own, or an affiliate's, securities; and amending the procedures for the registration of exchanges and associations and the filing of amendments and supplements to the registration application. Similarly, we

support suggestions in the concept release that would simplify regulation by, among other things, eliminating duplicative requirements on listed issuers and promoting the uniformity of SRO rules. At the same time, we recommend that in implementing these proposals, the Commission be cautious to avoid establishing rules that are unnecessarily burdensome. Such an outcome could prevent SROs from fulfilling their regulatory and administrative responsibilities, to the detriment of investors. \* \* \* \* \* The Institute appreciates the opportunity to comment on the SRO Rule Proposals and SRO Concept Release. Any questions regarding our comments may be directed to the undersigned at 202-371-5408. Sincerely, /s/ Ari Burstein Associate Counsel cc: The Honorable William H. Donaldson, Chairman The Honorable Paul S. Atkins, Commissioner The Honorable Roel C. Campos, Commissioner The Honorable Cynthia A. Glassman, Commissioner The Honorable Harvey J. Goldschmid, Commissioner Annette L. Nazareth, Director Robert L. D. Colby, Deputy Director Division of Market Regulation Paul F. Roye, Director Division of Investment Management Securities and Exchange Commission Mr. Jonathan G. Katz March 8, 2005

Page 3 of 3 About the Investment Company Institute The Investment Company Institute's membership includes 8,546 open-end investment companies ("mutual funds"), 644 closed-end investment companies, 144 exchange-traded funds and 5 sponsors of unit investment trusts. Its mutual fund members manage assets of about \$7.890 trillion. These assets account for more than 95% of assets of all U.S. mutual funds. Individual owners represented by ICI member firms number 87.7 million as of mid 2004, representing 51.2 million households. Many of the Institute's investment adviser members render investment advice to both investment companies and other clients. In addition, the Institute's membership includes 210 associate members, which render investment management services exclusively to non-investment company clients. These Institute members and associate members manage a substantial portion of the total assets managed by registered investment advisers.