

COMMENT LETTER

May 18, 2012

Institute Letter on IOSCO Consultation on Fund Valuation Principles (pdf)

May 18, 2012 Via Electronic Mail (CIS-Valuations@iosco.org) Mr. Mohamed Ben Salem General Secretariat International Organization of Securities Commissions (IOSCO) Calle Oquendo 12 28006 Madrid Spain Re: Public Comment on Principles for the Valuation of Collective Investment Schemes Dear Mr. Ben Salem: The Investment Company Institute¹ (the "Institute") welcomes the IOSCO Technical Committee's consultation report, Principles for the Valuation of Collective Investment Schemes (the Report").² In the Report, IOSCO identifies principles that reflect a common approach for the valuation of collective investment schemes ("CIS")³ and serve as a guide for regulators and industry. IOSCO also recognizes that the implementation of the principles may vary globally, depending on local conditions or circumstances. We agree that valuation can be complex due to the range and variety of CIS investments. We also agree that robust systems and policies and procedures are essential to address the appropriate valuation of CIS assets. Proper valuation of a CIS's portfolio securities is critical to ensuring that CIS share prices are fair to purchasing, redeeming and existing shareholders. The Institute appreciates the efforts of IOSCO to analyze and develop these principles. We support the principles set forth in the Report. We do recommend, however, including a discussion of the importance of business continuity planning and disaster recovery.

¹ The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. Members of ICI manage total assets of \$13.1 trillion and serve over 90 million shareholders.

² The Report is available at <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD370.pdf>. ³ CIS refers to those collective investment funds that are open-ended and provide regular redemptions to shareholders at net asset value (the then current value of their portfolio securities and other assets, less liabilities) ("NAV") and does not include a CIS that is not subject to direct regulation. Report at page 9 and note 8. In this letter, we use the word CIS to refer to those investment companies registered under the Investment Company Act of 1940 and the Securities Act of 1933 meeting the Report's definition of CIS. Mr. Mohamed Ben-Salem May 18, 2012 Page 2 of 3

With regard to local circumstances and conditions, we note that U.S. law impacts the implementation of these principles for U.S. registered investment companies, including CIS. In the United States, the Investment Company Act of 1940 (the "Act"), related rules and regulatory guidance provide the legal framework for valuation by U.S. registered investment companies. As reflected in the principles, a hallmark of CIS is that they must assign a value to each of their portfolio

holdings every business day. This mandate is among the core principles of the Act, and the implementation and oversight of valuation policies and procedures are key compliance obligations. The valuation framework under the Act has been in place since the statute's enactment in 1940. The fundamental approach for the valuation of CIS portfolio securities is set forth in Section 2(a)(41) of the Act, which defines the "value" of fund assets in terms of a simple dichotomy: securities "for which market quotations are readily available" are to be valued at "market value;" and all other securities are to be valued at "fair value as determined in good faith by the board of directors." 4 The statutory framework recognizes that market prices generally are to be used, and, in their absence, fair valuation must be conducted. In addition, Form N-1A, the registration form for open-end investment companies (or CIS), specifies disclosure regarding the purchase, redemption and pricing of CIS shares, including a description of the valuation procedures that a fund uses in determining the net asset value and public offering price of its shares.⁵ Integral to the compliance policies and procedures of a CIS and its manager, including policies related to valuation, is business continuity planning and disaster recovery. We therefore believe that the discussions accompanying Principles 1 and 9 should be revised to include a reference to the importance of business continuity planning and disaster recovery as there may be a variety of circumstances that could adversely impact CIS operations or the operations of third parties providing valuation services.⁶ For example, services may be disrupted or operations may need to be temporarily located to an alternative site.⁷ CIS must be appropriately prepared to respond to such contingencies so as to mitigate issues that may be posed for the valuation of CIS assets. 4 See generally 1940 Act, Section 2(a)(41) (definition of value) and Rule 2a-4 (definition of "current net asset value" for use in computing periodically the current price of a redeemable security). For additional detail regarding valuation under the 1940 Act, see SEC Valuation and Liquidity Guidance for Registered Investment Companies, Compendium, Investment Company Institute, available at http://www.ici.org/pdf/pub_11_valuation_volume1.pdf (volume I) and http://www.ici.org/pdf/pub_11_valuation_volume2.pdf (volume II). 5 See Form N-1A, Item 23 available at <http://www.sec.gov/about/forms/formn-1a.pdf>. 6 Additional resources regarding business continuity planning are available at http://www.ici.org/policy/regulation/operations/continuity/bcp_resources. 7 See Compliance Alert (June 2007) available at <http://www.sec.gov/about/offices/ocie/complialert.htm> (describing lessons learned from Hurricane Katrina and effective provisions in business disaster recovery plans). We also are aware that there were operational challenges following the tsunami in Japan in 2011 (e.g., disrupted transportation and staffing, power outages).

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We appreciate the opportunity to express our views and invite you to contact me (202-326- 5813 or solson@ici.org) if you have any questions about our comments. Sincerely, /s/ Susan M. Olson

Susan M. Olson Senior Counsel – International Affairs