

## BOARD UPDATE

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# Board Update January 2020

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## IDC News

### **IDC's 2019 *Annual Review* Has Arrived!**

IDC's [2019 Annual Review](#) captures the multiple ways that IDC helped to build and support the independent fund director community over the last year and looks to IDC's continued commitment as the industry embarks on the 80th anniversary year of the Investment Company Act. Letters to members from Governing Council Chair Dawn Vroegop and from new Managing Director Thomas Kim discuss the importance to the fund industry of independent directors' work on behalf of shareholders and the priorities ahead for IDC. It also features an interview with outgoing managing director Amy Lancellotta, in which she reflects upon her long tenure at IDC and ICI.

### **Time to Register: Foundations in Los Angeles**

It's time to register for IDC's popular Foundations for Fund Directors® orientation program, returning to Los Angeles on March 2-3!

This [unique program](#) helps newer fund directors acquire the knowledge and skills needed to become engaged boardroom contributors—and helps all directors refresh the essential know-how that they will use throughout their career on fund boards.

To build your knowledge, strengthen your grasp of your complex responsibilities, and thrive in your oversight role, [register today](#).

## **Two Webinars Scheduled for February and March**

IDC will be hosting two new can't-miss webinars in February and March.

Fair Valuation Trends and Practices, set for February 18, will describe the findings of Deloitte's annual Fair Valuation Pricing Survey and directors' oversight practices.

Fund Board Oversight of Securities Lending, set for March 10, will provide an overview of securities lending practices and discuss the board's role and responsibilities in overseeing this function.

## **Five Industry Segment Calls in January and February**

Get a jump on the first set of industry segment calls of the new year. In January, IDC will host calls for governance committee chairs (January 30) and board leaders (January 31). And in February, IDC gathers together audit committee chairs (February 4), exchange-traded fund (ETF) directors (February 5), and directors of small fund complexes (February 6). These calls provide directors with a unique opportunity to discuss industry developments and practices relevant to their specific role on fund boards in an informal venue that facilitates exchange with peers.

Invitations to register have been sent for all segment calls, so register today! If you're a member of one of these groups and did not receive your invitation, please contact [Lisa Hamman](#).

## **Regulatory News**

### **SEC Reproposes Rule on Funds' Use of Derivatives**

The Securities and Exchange Commission (SEC) [proposed a set of rules](#) late last year that would provide an updated approach to the regulation of derivatives and similar instruments used by mutual funds, ETFs, closed-end funds, and business development companies. The [proposal](#) is designed to promote funds' ability to continue to use derivatives in various ways that serve investors, while responding to concerns under the Investment Company Act of 1940 and promoting a modern and comprehensive framework for regulating funds' use of derivatives and other specified transactions.

The proposal replaces a 2015 rulemaking proposal aimed at accomplishing similar goals. Rather than restricting a fund's use of derivatives based on the aggregate gross notional exposure of the fund's derivatives as proposed in 2015, however, the new proposal would set leverage restrictions based on a measure of the fund's market risk under a value-at-risk or "VaR" test. In addition, the proposal would eliminate current requirements for funds to segregate liquid assets to "cover" derivatives and other transactions.

The proposed rule generally would require a fund using derivatives to adopt a written derivatives risk management program. The fund's board would be required to approve the

fund's designation of a derivatives risk manager (DRM), who would be responsible for administering the derivatives risk management program and have a direct reporting line to the board. The DRM would have to report to the board on the program's implementation and effectiveness and the results of the fund's stress testing.

## **SEC Proposes Amendments to Auditor Independence Rule**

The SEC recently issued for public comment [proposed amendments](#) to its auditor independence rule. The [proposed changes](#) seek to modernize the requirements so that relationships and services that do not pose threats to an auditor's objectivity and impartiality do not trigger non-substantive rule breaches or potentially time-consuming audit committee review of non-substantive matters.

## **OCIE Announces 2020 Examination Priorities**

For the eighth year in a row, the SEC's Office of Compliance Inspections and Examinations (OCIE) has published its examination priorities for the coming year. OCIE's priorities for 2020 are grouped into eight areas, six of them relevant to ICI members: retail investors, including seniors and individuals saving for retirement; information security; fintech and innovation, including digital assets and electronic investment advice; registered investment advisers and investment companies; anti-money laundering programs; and transfer agents.

OCIE states that as retail assets continue to flow into investment companies, it will prioritize the examination of mutual funds and ETFs, the activities of their advisers, and the oversight practices of their boards of directors. Examinations will assess industry practices and regulatory compliance in various areas, including a focus on: (1) advisers that use third-party administrators to sponsor the mutual funds they advise or are affiliated with; (2) mutual funds or ETFs that have not previously been examined; and (3) advisers to private funds that also manage a registered investment company with a similar investment strategy.

## **ICI News and Research**

### **ICI's Paul Schott Stevens to Retire at the End of 2020**

Investment Company Institute (ICI) [President and CEO Paul Schott Stevens will retire](#) at the end of 2020 after leading the global regulated fund industry trade group for more than 16 years. ICI's Board of Governors will oversee a search in the coming year to identify the Institute's next chief executive.

Stevens has served as president and CEO of the Investment Company Institute since June 2004. He previously served as ICI's general counsel from 1993 to 1997. Stevens has steered ICI during some of the most challenging years in its history, through the financial crisis and beyond.

### **ICI Submits Report to the SEC on the Fund Proxy System**

The SEC could save millions of dollars for registered fund shareholders, while ensuring investor protections, by reforming the proxy system that funds must use to gain shareholder approval, according to a new ICI report. In a [submission](#) filed with the SEC, ICI [highlights the findings](#) of a survey analyzing funds' proxy campaigns over the past seven years and the importance of making the system more effective and cost-efficient for funds and their investors. Building upon its [previous letter to the SEC](#), ICI emphasized the

challenges funds face in soliciting proxy votes to meet quorum and shareholder approval requirements and the extremely expensive proxy campaigns involved.

To help make the fund proxy system more efficient and cost-effective, the SEC could make a number of reforms, including allowing an alternative for funds to achieve a “majority vote” for specified items. ICI’s “supermajority recommendation” couples a lower quorum threshold (more than 33⅓ percent) with a higher affirmative vote (at least 75 percent) to approve certain items.

## **The Latest ICI Research**

Americans continued to save for retirement through defined contribution (DC) plans over the first half of this year, according to [ICI’s “Defined Contribution Plan Participants’ Activities, First Half 2019.”](#) According to [the study](#), released in December, plan participants remain committed to saving and investing: only 1.3 percent of DC plan participants stopped contributing to their plans in the first half of 2019.

An [ICI survey released in December](#) finds that more than two-thirds of US households with traditional individual retirement accounts (IRAs) indicated that they have a strategy for managing their income and assets in retirement. According to the study, [“The Role of IRAs in US Households’ Saving for Retirement, 2019,”](#) these households’ planning strategies include reviewing asset allocation, determining retirement expenses, developing a retirement income plan, setting aside emergency funds, and determining when to take Social Security benefits.

## **Upcoming Events**

### **IDC**

Orientation Program: Foundations for Fund Directors® In-Person Session

Los Angeles March 2–3 In-Person Session

Washington, DC September 16–17

Conferences [2020 Fund Directors Workshop](#)

Washington, DC May 7

Chapter Meetings [Texas and Arizona](#) (via conference call) February 19 [Philadelphia](#) March 4 [Palm Beach Gardens, Florida](#) March 11 [Denver](#) March 26 Chicago April 30 San Francisco June 2 Los Angeles June 3 Ohio June 9 North Carolina June 10 Webinars Fair Valuation Trends and Practices February 18 Fund Board Oversight of Securities Lending March 10 Industry Segment Calls Governance Committee Chairs January 30 Board Leaders January 31 Audit Committee Chairs February 4 Directors of ETFs February 5 Directors of Small Fund Complexes February 6 Board Leaders June 11 Audit Committee Chairs June 15 Directors of ETFs June 16 Governance Committee Chairs June 17 Directors of Small Fund Complexes June 18

### **ICI**

Mutual Funds and Investment Management Conference

Palm Desert March 22–25 [2020 General Membership Meeting](#)

Washington, DC May 6–8

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