



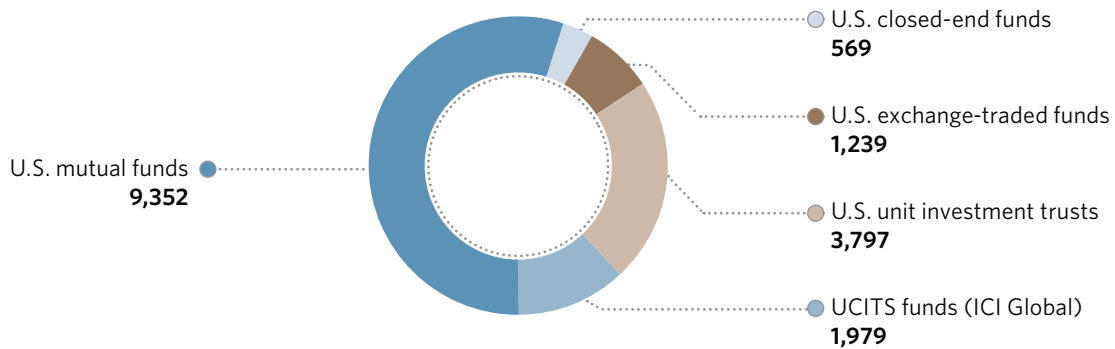
2015

ANNUAL REPORT TO MEMBERS

ICI Represents...

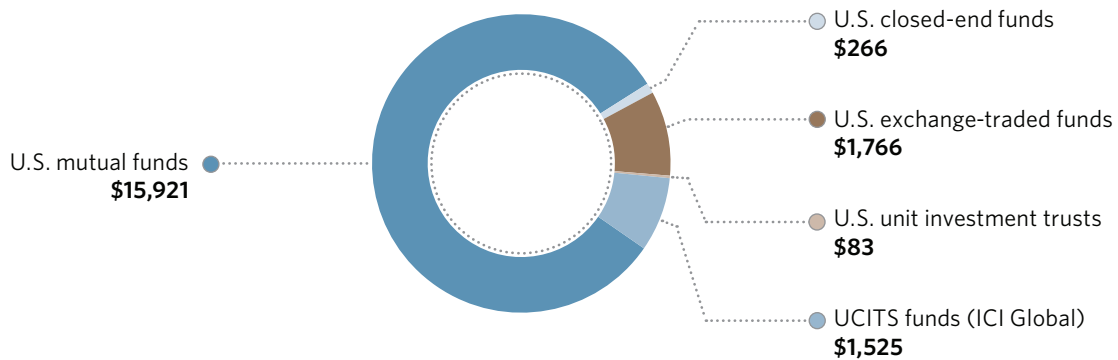
Nearly 17,000 funds

NUMBER OF INVESTMENT COMPANIES BY TYPE*



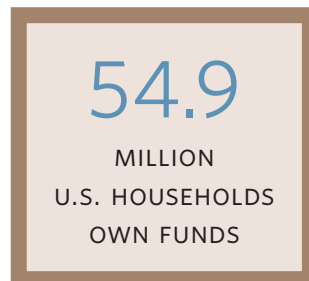
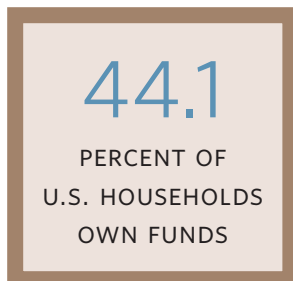
With more than \$19.6 trillion in assets

INVESTMENT COMPANY ASSETS, BILLIONS OF DOLLARS*



Serving more than 90 million shareholders

U.S. OWNERSHIP OF FUNDS OFFERED BY INVESTMENT COMPANIES, JUNE 2015



*Data for mutual funds, closed-end funds, and exchange-traded funds are as of June 2015. Data for unit investment trusts are as of December 2014. Data for UCITS funds are as of June 2015.

Source: Investment Company Institute

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A Conversation with the Chairman

F. William McNabb III
Chairman
Investment Company Institute
Chairman and CEO
Vanguard

In the debate over financial stability, we have seen a major shift among regulators—in the United States and globally—away from designation of regulated funds or their managers as systemically important financial institutions, or SIFIs. Why is this happening?

Today, the debate is much more focused on *activities* that could pose systemic risk, rather than an overly simplistic approach of designating large mutual funds or asset managers as SIFIs.

ICI and its members deserve credit for the progress we've made thus far. Through the power of its research, well-thought-out policy suggestions, and participation in congressional and regulatory hearings, ICI has provided thoughtful perspective to leaders in the United States and internationally on what the consequences of systemic designations would be for the average investor. And now, in Congress, members on both sides of the aisle are saying, "Hey, this [designation] doesn't sound right."

We've been encouraged by the direction of the discussions, but we need to remain vigilant. While the dialogue has indeed shifted to issues that really matter for investors, we still have much work to do.

The fund industry has invested heavily in better products and services to meet the needs of America's retirement savers. What are the challenges we face, as an industry and as a nation, in improving retirement security?

Some of tomorrow's challenges have been unfolding over the course of generations. Social Security, for example, has been an important part of our retirement system for many decades, and it will be an important part of our future. But it was created in a very different time, with very different demographic factors. Policymakers must work to ensure that Social Security remains financially sound, as a progressive, government-run base for the retirement system for generations to come.

Another longer-term dynamic at play in the retirement system has been the evolution from a defined benefit orientation to a defined contribution orientation. This has been a great, positive change in many ways, especially for a mobile workforce. The DC system works extremely well, particularly for employees in large and mid-sized companies.

So you could obviously say: "What's wrong with this picture?" And what's wrong is that not every employee has access to that kind of a program, particularly at smaller companies. That

From the shock of any crisis. There is no necessity of reviewing. It is enough to point out that the investment trusts have themselves of their activities. This attitude on the part of the investment trusts that business men have at last come to recognize that it is this

poses a different set of challenges. The complexity of DC plans under current regulation makes it very difficult for small plans to operate in a cost-effective way that employers can afford. That's something that policymakers need to focus on. We have an opportunity to broaden the availability of high-quality, affordable, simple-to-run retirement plans to a much broader population of retirement investors.

Unfortunately, the new proposed fiduciary standard from the Department of Labor could make matters worse, not better. That's been the big disappointment. Few people would argue with the concept that people giving advice to retirement investors should act in those investors' best interest. But the technical aspects of the DOL's proposals could reduce the availability of low-cost, high-quality services and programs—especially among smaller companies, and for individual retirement account [IRA] investors. That's moving in the opposite direction of where we need to go.

We are seeing proposals that could affect taxes on saving and investment, especially retirement saving. From the perspective of investors, what are the key principles policymakers should keep in mind?

First and foremost, I'd urge policymakers to be extremely wary of doing anything that looks like a disincentive for people to save for the future. People are living longer and they'll need far greater resources in retirement.

One of the core tenets in behavioral finance is that people are generally not very good at looking out long periods into

the future. They benefit from incentives or nudges. And the best changes that have occurred in the 401(k) system in the 30 years that I've been involved have all been around applying behavioral-finance principles to the system. The fund industry has really led the charge on this—look at automatic enrollment, automatic savings increases, and defaults into target date funds, for example.

We must think about ways to incent people to behave appropriately so that their long-term interests are well served. The tax code has obviously been the primary way of doing that. It would be very shortsighted and counterproductive for Congress to limit incentives for people to save.

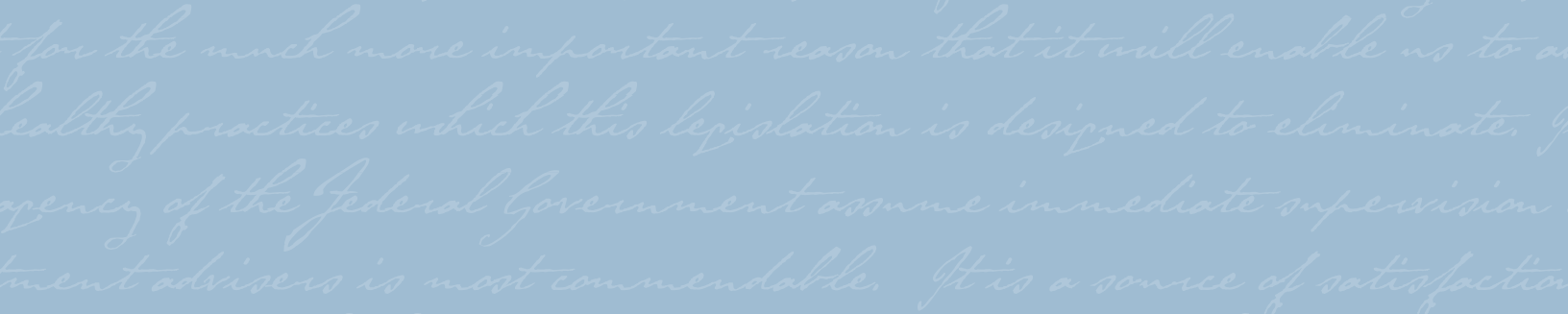
You've witnessed the founding of ICI Global and rapid growth in the Institute's international work, and you've said that ICI Global was created at exactly the right time. Why is that?

There are several key factors. First, the globalization of investing has accelerated within the United States. The industry has promoted diversification as a very important element of investing success for individuals, and this has helped to gradually chip away at home-country bias. Now just about everybody in the industry recommends that investors have global portfolios, and not just U.S. portfolios.

Second, there has been a globalization of our industry. Investment firms are exporting capabilities from here to other parts of the world, and it's transforming the way that the industry operates.

“The information that ICI produces and the spirit in which we all come together give us great influence among lawmakers and regulators, which ultimately benefits the end investor.”

— Bill McNabb



Third—and most important—global and regional regulation have been spreading at a much faster pace than anybody would've anticipated. We're encountering different ideas from different regimes. The need for harmonization of rules around the world is a massive challenge. That's where having a global perspective is really helpful.

ICI Global has made tremendous progress in just a few short years. For example, we've engaged with international policymakers to help them better understand the vital role that funds play in developing capital markets, and how certain policy initiatives—such as the potential designation of funds as global SIFIs—could hinder that role and hurt economic growth. We've successfully advocated against inappropriate tax policies that would be costly and burdensome for funds and their investors, such as the Indian minimum alternate tax and European financial transaction tax.

We've also helped advocate for asset management in the Asia-Pacific region, engaging with regulators and providing policy expertise on several important cross-border fund passport initiatives. And we've raised awareness around the world about issues surrounding the design of pension systems while promoting the role that funds can play in helping savers build retirement resources.

So for all of those reasons, having a truly global capability at ICI was a great decision. I applaud Greg Johnson [chairman and CEO of Franklin Resources Inc.], who was chairman of ICI at the time, and Paul Stevens for making it happen.

What do you think are the biggest risks facing the fund industry?

One of the terrible ironies of the recent debates around whether large funds and large firms can pose a systemic risk is that it diverted attention away from what we believe are more important issues.

Cyberthreats are a key example. And cybersecurity is one of the best examples of ICI members working together to face a common threat. ICI's Chief Information Security Officer Advisory Committee facilitates information sharing and

education around best practices. There's great cooperation among ICI members. Every day our members are faced with threats to their firms and their clients, and no one wants to see any firm hurt by a cyber issue.

In a similar sense, market structure issues can impact everybody in the business—and, therefore, tens of millions of investors. It's an area that requires greater focus. The fixed-income markets operate remarkably differently than the equity markets, and are being altered by a combination of new technologies, new regulations, and monetary policy. If you look at Treasury securities as an example, there's been a great increase in electronic traders involved in that market. So, given the extraordinary growth of the fixed-income market and the many changes it has seen, we must pay close attention to what tweaks—if any—need to be made.

On the equity side, we have made important improvements to the structure of the markets over the past few years in response to events such as the “flash crash” in May 2010. Since then, however, small disruptions have still occurred, including the one in August of this year. These disruptions can cause investors to lose confidence in the integrity of markets—a very bad outcome.

We must continue to make improvements to the regulations that govern market operations—such as Reg NMS, the rule from the Securities and Exchange Commission [SEC] that provides the framework for our increasingly fragmented equity market. There's been a lot of good that has come from changes in our equity market rules, but as we have learned, there are operational nuances that can still surprise us. We must continue to make sure the rules are designed for the best interests of long-term investors.

ICI has worked diligently on bond and equity market structure matters. We've worked with the SEC on items like an order-routing template, and with the European Union on its MiFID [Markets in Financial Instruments Directive] proposal. We've substantially expanded our exchange-traded fund research and advocacy efforts. And we will continue to keep these issues at the top of our agenda.

A CONVOCATION OF CHAIRMEN



Past chairmen of the Institute gather with the current president and CEO of ICI at the 75th Anniversary Leadership Dinner, held at Mount Vernon in May 2015. From left, James S. Riepe, John F. Cogan Jr., F. William McNabb III, Paul Schott Stevens, Edward C. Bernard, John J. Brennan, Gregory E. Johnson, and Paul G. Haaga Jr.

There's been a lot of emphasis recently on "short-termism" in business and the financial markets. How should funds approach this question?

We can never forget that U.S.-based funds own some 30 percent of all U.S. equity, and we hold that equity on behalf of our shareholders. So, we are responsible for making sure that the underlying companies represented by the portfolio holdings are well governed and well run for the benefit of their shareholders. I believe that this issue will be more prominent in the coming years.

In 2015, we're marking the 75th anniversary of the Investment Company and Investment Adviser acts, and the 75th anniversary of ICI. As you reflect on the history of the modern fund industry and the Institute, what do you think ICI has done to help fund investors better achieve their goals?

I won't attempt to scratch the surface of what ICI has done to help investors over the past 75 years. It's a long list! But I will mention two broad themes that I believe distinguish ICI from any other organization of its kind in the world.

The first is the fabulous work by ICI's Research and Law teams. There is a "purity of thought process" in their work that results in data-driven and fact-based policy analysis and

recommendations. ICI is known for that. We're known for our data, our analytics, and the clarity of our thinking. And that is a major asset in policy debates, where the thinking isn't always so clear.

The second item is ICI's incredible convening power. ICI fosters an ethos—a sense of higher purpose among its members. These are firms that are *fiercely* competitive in the marketplace. Yet we come together to talk about really important issues that ultimately make the markets and investing process better for the end investor.

We may bring different opinions and different points of view, but that diversity of thought is really valuable. ICI allows debate and discussions to occur in a safe environment, in a way that's very constructive.

I believe that the information that ICI produces and the spirit in which we all come together give us great influence among lawmakers and regulators, which ultimately benefits the end investor. The mutual fund industry is built on trust. Investors are turning over their hard-earned money to us, and we are investing it on their behalf. And none of that happens if people don't trust the system to work appropriately. Advancing sound policies that help investors is how ICI helps build that trust. ●



Reflections on 75 Years— and Aspirations for the Future

Paul Schott Stevens
President and CEO
Investment Company Institute

Each year, ICI reports on our activities and accomplishments over the past year in the *Annual Report to Members*. In my introductory letter, I reflect on the type of year it's been, the challenges we've confronted, and the future we face.

This year, however, provides an opportunity to reflect not just on one year but on 75—as we celebrate the 75th anniversary of the Institute and of the legislation that gave rise to the modern fund industry. And there is indeed much to celebrate: assets under management in U.S. regulated funds have grown from \$1.1 billion in 1940 to nearly \$18 trillion today—an increase of 1.6 million percent—and U.S. funds now serve almost 45 percent of American households.

In thinking about this anniversary year, I realize that—as so often in life—past is but prologue. If the fund industry and ICI together have amassed a record of success over this period, that success has depended in part on working closely with regulators and policymakers to achieve the goals we share: sound, investor-centered regulation and a strong fiduciary culture that together help earn and keep the confidence of millions of investors. The great Yogi Berra, whose passing we marked this year, once said, “It’s tough to make predictions, especially about the future.” I can predict with confidence, however, that any future success we enjoy will rest on these same principles.

I have often observed that investors have a choice among many products that can help them meet their most

important financial goals. The fact that so many choose our funds carries with it a profound obligation: to work tirelessly to earn and maintain the trust we have been given. No matter the anniversary we celebrate nor the level of success we enjoy, this commitment must remain uppermost in our minds, each and every day. We could not have come so far had we not taken this path—and it is the only sure path forward.

But before we peer into the future, let’s look back at the road we’ve taken this far.

THE BEGINNINGS OF THE MODERN FUND INDUSTRY— AND OF ICI

Financial historians tell us that fund investing had its origin in Holland in the late 1700s, as a way for small investors to diversify their portfolios. Funds continued to develop throughout the 1800s and into the 1900s, but were vulnerable to the boom-and-bust cycles that characterized the markets of their day.

During the 1920s, the risk of a bust didn’t seem to matter to American investors, who poured money into the rising markets—and into investment trusts—at an unprecedented rate. The period from 1927 to 1929 saw the formation of nearly 600 new funds, doubling the industry total. The 1920s also saw the appearance of the first open-end fund, which enabled investors to buy and sell shares at the fund’s daily net asset value.

1940

Congress unanimously passes the Investment Company Act and Investment Advisers Act. President Franklin D. Roosevelt signs the acts on August 23.



1940s

1944

The NAIC begins collecting industry statistics, showing 68 mutual funds with \$882 million in assets under management.

1951

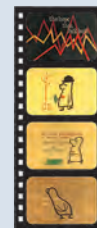
The first mutual fund focusing on non-U.S. investments is made available to U.S. investors.



1954

NAIC initiates a nationwide public information campaign about the benefits of funds to the economy and to individual investors.

A LOOK BACK
75 ICI 1940-2015



1950s



1940

At the behest of the SEC, the fund industry forms a committee that would become the National Association of Investment Companies (NAIC). Its first meeting is on October 1 in New York.



1951

The total number of mutual funds surpasses 100 and the number of shareholder accounts exceeds 1 million for the first time.

1954

The value of household net purchases of fund shares exceeds that of corporate stock for the first time.

The bust came at the end of the 1920s, revealing deep problems in the U.S. financial system. It led to a series of landmark reforms, including creation of the Securities and Exchange Commission (SEC). In a study mandated by Congress, the new agency documented a variety of abuses that had characterized U.S. investment trusts during the go-go years of the '20s. Clearly recognizing the need to address these problems, representatives of competing fund organizations came together in a multiyear effort with the SEC to reach consensus on comprehensive legislation that would restore public confidence in funds and fund investing. This effort was a historic success—out of it emerged the Investment Company Act and the Investment Advisers Act, both passed unanimously by Congress and signed into law by President Franklin D. Roosevelt on August 23, 1940.

A mere six weeks later, heeding the SEC's call for a trade group to interact with the Commission as it moved to implement the new legislation, fund industry competitors launched the National Committee of Investment Companies, which first met on October 1, 1940. The committee soon took on permanent form as the National Association of Investment Companies (NAIC), and in 1961—responding to and reflecting the nature of its expanding membership—NAIC became the Investment Company Institute.

THE TRUST OF ORDINARY INVESTORS

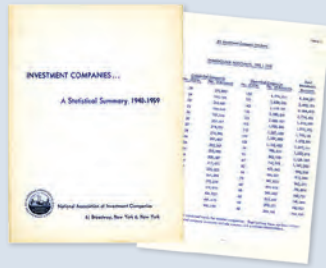
The public, the press, and the Roosevelt Administration all lauded the collaborative spirit behind the '40 Acts. And rightly so. But none of them could have foreseen the remarkable success of this new legislative framework, as implemented by the SEC and the industry, in the years to come. Nor could they have envisioned the spectacular growth that would ensue for fund investing in the United States—and the role that the Institute would play.

Our predecessors at the dawn of the modern industry did understand that the *trust* of fund investors was, and would continue to be, the key element of any success the industry would experience. Each and every dollar of the nearly \$18 trillion entrusted to us today is a tangible expression of that trust—of shareholders' confidence in funds as a means to achieve their most important financial goals.

Our predecessors also understood how powerful the proposition of fund investing is for *ordinary investors*—opening up for them investment opportunities that otherwise probably would be unavailable. It should not be surprising that all but 5 percent of the assets in U.S. stock and bond funds are in the hands of households, and that about half of those assets are in retirement accounts. These holdings represent the thrift and long-term financial aspirations of more than 90 million Americans.

1958

NAIC publishes its first compilation of data, *Investment Companies, A Statistical Summary, 1940-1957*—the forerunner of today’s annual *Investment Company Fact Book*.



1961

NAIC welcomes fund advisers and underwriters as members and changes its name to the Investment Company Institute.



<<

1950s

1960s

1959

NAIC holds its first General Membership Meeting, or GMM, bringing fund leaders together to discuss industry issues.



1962

ICI supports the creation of “Keogh” accounts, which enable self-employed individuals and their employees to save in tax-deferred accounts.

1965

Working with the School of Business Administration at New York University, ICI creates an educational forum that will eventually become the annual Mutual Funds and Investment Management Conference.

Our statutory framework and evolving regulatory requirements underpin our industry’s success—but many other factors throughout the years have contributed to it as well, including the following.

The economics of fund investing. Academics in recent years have identified “disruptive innovation” as a force that helps make economies flexible and vigorous. It’s clear to me that regulated funds—which offer everyday investors the benefits of diversification, liquidity, transparency, and professional management at a fraction of the cost of direct investing—have served as disruptive innovators for financial systems around the globe, but particularly in the United States.

Before the rise of funds, Americans held a large portion of their wealth in bank accounts. Households largely saved through the banking system, which could put their savings to work in the economy only through loans. Mutual funds helped to disrupt that inflexible structure, transforming a nation of savers into a nation of investors. And as they transformed Americans’ finances, funds transformed capital markets—providing new flows of capital for investment and driving economic growth, here and abroad. Funds have truly democratized the markets: the share of households that own stocks directly has fallen

since 1989, but the share of households participating in the stock market has risen from one-third to one-half, thanks to the growth of fund investing.

And the fund market itself has been subject to disruption, to the benefit of investors. America’s fund industry has never been static: of the 10 largest complexes in 1990, only about half are still in the top tier today. Fierce competition within the sector has fueled explosive growth in the number of choices offered to investors, driving down the cost of investing even as services and access to the market improved. Over the past quarter century, average expense ratios for equity mutual funds have fallen by roughly 30 percent, while expenses for bond funds have fallen by about 35 percent.

Given all that funds have to offer, I think it’s safe to say that shareholders are receiving these investment opportunities and services at an astounding bargain. Indeed, fees charged by U.S. funds are among the lowest in the world.

Comprehensive oversight by fund boards, especially by independent directors. Requirements for strong oversight of funds—with special emphasis placed on the role of independent directors—are central to the ‘40 Act and to the fund industry.

1970

Congress passes amendments to the '40 Act focusing on fund sales charges and management fees. ICI efforts help ensure the amendments are principles-based, not prescriptive.

1974

Congress passes the Employee Retirement Income Security Act (ERISA), which among other things creates the individual retirement account, or IRA.



1980

ICI first provides statistical data, on money market funds, to the Federal Reserve. Over the years, the Institute becomes an authoritative source of fund data for the Fed, the SEC, other federal agencies, Congress, and academics.

1970s

1980s



1970

ICI, now roughly 30 employees strong, moves from New York City to Washington, DC.



1971

The first money market funds are created, offering investors an alternative to traditional passbook savings accounts.



1978

Congress adds Section 401(k) to the tax code, allowing workers to contribute wages or salary on a pretax basis to a retirement plan. The IRS formally issues rules for 401(k) plans in 1981.

1981

ERISA is expanded to permit all workers to contribute to an IRA.



This oversight became the focus of congressional attention in 1970, when 30 years of strong industry growth led to renewed attention by policymakers and regulators to focus attention on sales charges and management fees. Initial proposals by the SEC to amend the '40 Act threatened to introduce a rate-setting regime that actually would have diminished the role of directors. But an industry coalition led by ICI worked closely with Congress and regulators to reach a compromise reaffirming directors' oversight role as shareholder advocates.

When the fund industry was hit in 2003 by revelations regarding late trading and market timing, ICI responded forcefully, calling for tough law enforcement as well as for strong measures to prevent further trading abuses. This led to a number of reforms further strengthening the role of boards and directors, including a compliance rule adopted by the SEC in December 2003 that reflected concepts advanced by the Institute itself almost 10 years earlier.

The reforms included requirements for funds to implement written compliance policies; to review these policies annually; and to designate a chief compliance officer, or CCO, who would report directly to the fund's board. And in 2004, ICI—which already had created a committee in the mid-1990s

focusing on director education, outreach, and policy needs—expanded its efforts to support the independent director community with the founding of the Independent Directors Council. Over the years, these and other innovations have helped fund boards provide ongoing, effective oversight of fund management on behalf of shareholders.

The rise of defined contribution (DC) retirement plans.

Pension legislation and regulation over the years—from the Employee Retirement Income Security Act of 1974 (ERISA) to the Pension Protection Act of 2006—have proved as significant for the growth of fund investing in their own way as has the '40 Act.

The unique qualities of mutual funds—diversification, flexibility, professional management, cost effectiveness, comprehensive disclosure, strict pricing discipline, limited use of leverage, and strong governance built on a firm foundation of fiduciary duty to shareholders—have made them remarkably well suited to serve retirement savers. And as the DC plan market has grown, fund sponsors have expanded their offerings to employers and to savers—performing recordkeeping for DC plans, for example, and providing a range of critical services.

1987

ICI welcomes closed-end funds as members.

1987

ICI's Board of Governors creates ICI Mutual Insurance Company to provide insurance uniquely fitted to the needs of member companies and their directors.



1990

Mutual fund assets top \$1 trillion.

1993

The first exchange-traded fund (ETF) shares are issued.

1980s

1990s

1987

ICI first issues the biennial *Mutual Fund Transfer Agents: Trends and Billing Practices* study, which continues to this day.



1989

The Institute forms the ICI Education Foundation to help develop and promote financial literacy programs on behalf of the fund industry.



1993

ICI, now roughly 100 employees strong, moves to its current location on H Street, just blocks away from the White House.



As of June 30 of this year, some \$7.5 trillion in employer-based DC retirement plan and individual retirement account (IRA) assets were invested in mutual funds—representing roughly 52 percent of all DC plan and IRA assets. And fund sponsors have continued to press forward with powerful ideas—such as automatic enrollment, automatic escalation, and target date investing—to enhance the effectiveness of DC plans.

A history of innovation to meet investor needs. Funds have a long history of adapting to changing market conditions and investor needs—creating new types of funds, expanding investment strategies, and customizing their offerings to meet personal investment objectives. Hundreds of fund complexes currently offer thousands of funds that seek to meet the investment objectives and risk tolerances of millions of shareholders—providing a wealth of choices and strategies in a highly competitive landscape.

A sampling of innovations over the years includes, among many others, the following:

» The early 1950s saw the introduction of the first U.S.-based mutual fund investing in foreign securities—an approach that has become popular with investors as a means of diversification. It's no exaggeration to say that mutual funds have since opened up the world to American investors.

- » During the 1970s—in the midst of a bear market, double-digit inflation, and federal laws that limited interest earned on bank deposits—the industry created money market funds. It's hard to imagine now, but money market funds were a revolutionary product, offering the average investor a current rate of return on cash that, up to then, only institutional investors could expect. The funds also offered such features as check writing and daily sweeps, revolutionizing cash management for households and businesses alike.
- » The first index fund also was created during the 1970s, providing investors with the opportunity to attain broad market diversification at low cost. These funds continue to flourish today—in 2014, almost one-third of the households that owned mutual funds owned an equity index fund.
- » The 1970s also saw the creation of the tax-exempt bond fund, when Congress—as part of the Tax Reform Act of 1976—made it possible for mutual funds to flow through the tax-exempt character of municipal bond interest to fund shareholders. Dozens of such funds had been created by the end of the decade, and that growth has continued. Today, these funds are a critically important source of financing for communities around the nation: by the end of September of this year, there were 572 municipal bond funds and

1995

ICI forms a committee and launches a major educational program for fund directors, to help enhance their ability to serve shareholders.

1996

ICI releases the first in an ongoing series of Directors Practices Studies, helping to create a benchmark for fund board practices and policies that continues to this day.



1997

Congress passes the Taxpayer Relief Act, which establishes the Roth IRA.

1999

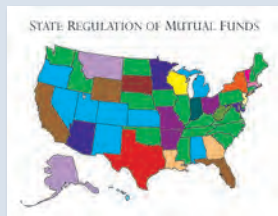
ICI's Operations team works closely with members to prepare for and avoid any problems that could be caused by "Y2K"—the changeover to the new millennium.

1990s



1996

The Institute helps secure legislation preempting inconsistent and often conflicting state regulation of mutual funds, ensuring shareholders benefit from consistent rules and lower costs.



1996

Congress passes the Small Business Job Protection Act, creating the SIMPLE IRA.

1998

The SEC approves the most significant disclosure reforms in the history of U.S. mutual funds, encompassing "plain English," fund profiles, and improved risk disclosure.



154 tax-exempt money market funds, managing assets of \$576 billion and \$244 billion, respectively.

- » Exchange-traded funds (ETFs) made their debut during the early 1990s, offering investors a number of potential benefits, including tax efficiency and the ability to trade fund shares throughout the day. Though most ETFs follow an index approach, over the years sponsors of the funds have continued to innovate, adding ETFs that follow "smart beta" and active strategies. Today, more than 1,500 U.S. ETFs manage almost \$2 trillion in assets.
- » The 1990s also saw the introduction of target date funds, sometimes called lifecycle funds. Target date funds took the basic concept of balanced funds—the ability to invest in both stocks and bonds—but added an asset-allocation mix that automatically adjusts over time to emphasize income over growth. Under regulations implementing the Pension Protection Act of 2006, sponsors of DC plans have been able to include target date funds as a qualified default investment alternative, or QDIA, for plan participants who are automatically enrolled. This, as well as the "one-stop shopping" nature of such funds, has fueled their soaring popularity in recent years.

RESPONDING TO MEMBER AND SHAREHOLDER NEEDS

The word *association* has its roots in a Latin term *associare*, which means to unite or ally, as in a common purpose. Since its birth as a trade association alongside the modern mutual fund, ICI has sought to unite the industry and give it a single strong voice on issues of importance to funds and their investors. In that, I believe, we have met with some success—thanks crucially to the talents, dedication, and leadership of the countless men and women who have served on our Board of Governors, on board and member committees, and on ICI's staff over these many years.

Our core missions have remained the same: advocating sound public policies, encouraging ethical business conduct, and promoting public understanding of funds and fund investing. But throughout the years, as the industry has adapted and innovated, so too has ICI.

The resources and activities of our staff have evolved dramatically. For example, though we have long been known for the deep expertise of our lawyers, the range and complexity of the issues they confront has grown apace. In Congress, members on both sides of the aisle recognize and respect the effectiveness and integrity of

2003

Revelations surface regarding late trading and market timing by some in the fund industry; ICI and members respond forcefully, supporting SEC compliance reform efforts that reflect Institute input.



2006

Congress passes the Pension Protection Act, which enables employers to enroll employees automatically in 401(k) plans while offering appropriate default investments.



2010

With ICI's support and input, the SEC adopts amendments to Rule 2a-7 that impose new standards for the liquidity, maturity, and credit quality of money market fund holdings.

2000s

2010s

2004

ICI creates the Independent Directors Council to support independent directors in their efforts to represent the interests of fund shareholders.



2009

Responding to turmoil caused by the global financial crisis, ICI's Money Market Working Group submits a report to the ICI Board of Governors, which strongly endorses its recommendations to make money market funds more resilient.



2010

Congress passes the Dodd-Frank Wall Street Reform and Consumer Protection Act. ICI works closely with lawmakers to ensure that the sweeping legislation does not adversely affect funds or their shareholders.

our Government Affairs team—even today, when partisan divisions seem deepest. Our industry operations group has been at the forefront of efforts over many years to deliver operational efficiencies, reliability, and cost savings to fund investors, and continues to adapt today, counting cybersecurity as a major priority.

Though we have been engaged throughout most of our history in collecting, analyzing, and reporting data, over the past 20 years we have built a research department renowned for its unexcelled knowledge of our investors, our industry, and the retirement market. We have devoted much attention to expanding the capabilities of our public communications staff, enabling ICI to inform a widening array of audiences about the features and benefits of funds, leveraging our wealth of economic and legal analysis and the myriad media channels available today. Member needs have spurred a steady increase in the number and venues of ICI's conferences and the variety of subjects to which they are devoted. Of course, supporting all this increased activity are the skilled and dedicated members of the accounting, human resources, information technology, membership, and office services staff, who are critical to our daily operations.

And with the issues before us becoming ever more difficult and consequential, we have continued to learn how best to work across many professional disciplines as a single, strong, unified team. During my 11-year tenure at the helm of ICI, this has been my constant objective—and it has been crucial to our recent accomplishments.

The Institute has responded to a changing industry in other ways as well. In 1970, we moved to Washington, DC, to be closer to policymakers who oversee the industry. In 1987, we responded to problems in the insurance marketplace by creating ICI Mutual Insurance Company, which today is a financially strong, dedicated provider of critically important coverage to funds, their directors, and advisers. And as I mentioned earlier, because strong governance has been indispensable to the industry's success from the outset, the Independent Directors Council was formed in 2004 to ensure a strong voice for the fund director community and to serve as a dedicated resource to meet directors' continuing education and other needs.

As fund investing has matured, fund portfolios, business strategies, and regulatory concerns have become increasingly global. In response, in 2011 ICI became a truly international organization, launching ICI Global to better represent the

2010

In *Jones v. Harris*, the U.S. Supreme Court unanimously upholds the *Gartenberg* standard, reaffirming the legal framework under which fund boards review their advisory agreements. Both ICI and IDC file briefs supporting the 1982 *Gartenberg* decision by the Second Circuit Court of Appeals.



2014

The SEC adopts new changes to the rules that govern money market funds, building upon its 2010 reforms and focusing in particular on funds used by institutional investors. ICI forms working groups to help members implement the changes by the 2016 deadline.



2010s

2011

Responding to the growing pressures and opportunities for funds operating globally, the Institute forms ICI Global—the first industry body exclusively advancing the perspective of global investment funds.



2013

U.S. and international regulators release reports suggesting that asset managers or funds could be sources of risk to the overall financial system. ICI begins an extensive education campaign outlining the difference between regulated funds and the financial institutions that do pose systemic risk.

2015

The global fund industry manages more than \$38 trillion in assets as of June 2015. More than half of those assets are in the Americas, while 35 percent are in Europe, and 12 percent are in Africa and the Asia-Pacific region.

worldwide fund industry and to help focus international advocacy and research efforts on behalf of an enlarged membership. Clearly, given the rapid acceleration of global regulation and investing during the past several years, ICI Global was the right response at the right time. Now operating from offices in London, Hong Kong, and Washington, it serves as a prominent expression of the Institute's commitment to productive, ongoing dialogue on issues that are critically important to global fund sponsors and their investors.

A PROUD LEGACY AND A BRIGHT FUTURE

As a lawyer in private practice, as corporate counsel, and in two positions with ICI, I have been involved with the fund industry for most of my professional career. I also have had the honor of working with many whose experience long predates my own, including leaders of our board and staff. As I recount the achievements of the industry and the Institute over the past 75 years, I am deeply mindful that we all stand on the shoulders of countless others. We have their proud legacy in trust. We must pass it along—certainly undiminished, hopefully enhanced—to those who will meet the challenges and realize the promises of the next 75 years.

What might those be? It's relatively easy to detect some of the important trends ahead: seismic demographic shifts, ever-lengthening life expectancies, revolutionary technologies, and the continuing globalization of capital markets. Other key influences are more difficult to predict, and will emerge only with time.

What is certain is that these trends, in new ways, will shape the needs and expectations of the investors we serve, the markets in which we invest, and the business models and investment products that we offer. They also will inform the perspective of regulators and government policymakers globally.

What also is certain, I believe, is that in the years to come, funds and fund investing will continue to play a central role in the financial system—and that ICI will continue to serve its own indispensable role in that system, working diligently with our members to earn and keep the trust of our shareholders, upon which all our success depends. ●



Advocating for Investor-Centered Fund Regulation

ICI General Counsel David W. Blass talks about the regulatory environment for funds and their managers.

You have been at ICI more than a year now—after more than a decade working at the SEC. What have you learned about the industry since joining ICI?

For 75 years, industry leaders and regulators, particularly the SEC, have participated in an open, productive dialogue, with a shared goal of serving the interests of investors. One thing I've grown to appreciate more since joining ICI is exactly what the industry brings to the dialogue.

The industry has the ability to get “under the hood” on regulatory issues. It has access to a deep cache of information on the experiences of funds and fund managers, which is necessary to understand all that goes into implementing regulations in a highly competitive business environment. ICI draws from this information when bringing the industry perspective to the regulatory side—on rulemaking proposals, for instance.

I've also grown to appreciate the global side of the business. Though I had some global regulatory experience at the SEC, the sheer size of the task of engaging with governments and regulators on issues important to our members—both here and around the globe—has really impressed me.

Well, we know one area where ICI has been getting “under the hood”—the debate over whether regulated funds or their managers could threaten financial stability.

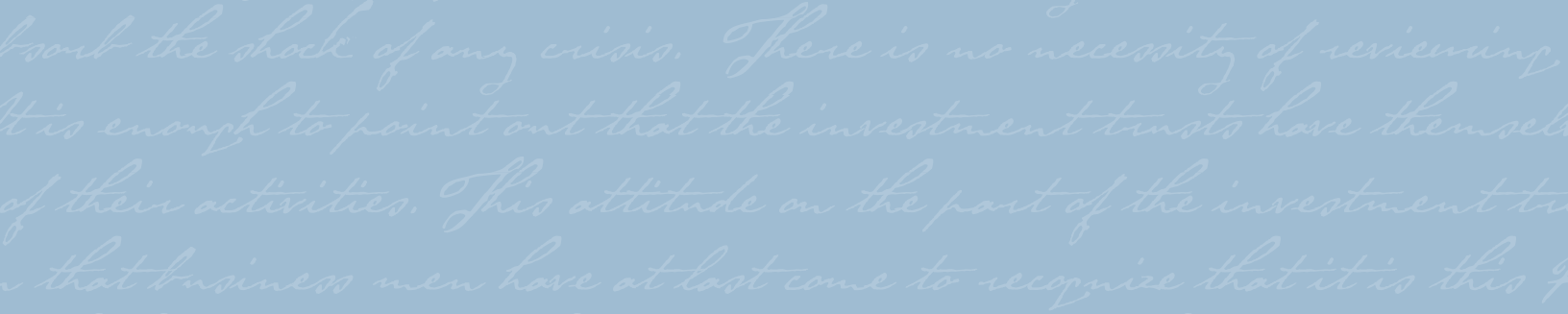
That's right. Financial stability has been perhaps ICI's highest priority since I joined—and it's one that our members and my colleagues have worked on

tirelessly since well before that. This year, we had all hands on deck—Law, Research, Operations, Public Communications, Government Affairs, everyone. Our efforts centered on explaining to policymakers why regulated funds and their managers do not warrant designation as “systemically important financial institutions”—or SIFIs, as they've come to be known.

Our comment letters to the U.S. Financial Stability Oversight Council [FSOC] and the global Financial Stability Board [FSB] provided analysis that refutes their hypothetical notions about funds and systemic risk. This analysis shows how bank-style regulation is inappropriate for regulated funds and their managers and would severely harm investors. We believe that a sector-wide review of activities and products would be a far more meaningful approach to identifying and addressing any potential risks in asset management.

“A review of activities and products”—the FSOC and the FSB seem to be shifting their focus in that direction. What do you make of this shift, and why do you think it has happened?

The shift toward activities and products is indeed welcome. I tend to attribute it to a long-overdue acknowledgement of evidence—and the power of common sense. The FSOC and the FSB seem to be looking hard at the evidence showing that our industry has exhibited remarkable stability during times of market stress—and that SIFI designation ultimately would serve to increase systemic risk, rather than mitigate it.



I'd also say that the SEC's asserting itself as the industry's primary regulator—along with support for a review of activities and products from the International Organization of Securities Commissions [IOSCO]—has played a role as well.

Still, neither the FSOC nor the FSB has taken designation off the table, and we don't know where their sector-wide reviews will lead, so we will remain fully engaged on these issues.

Late last year, SEC Chair Mary Jo White outlined an ambitious rulemaking agenda for the asset management industry. What should ICI members know about it?

The agenda contemplates a wide range of initiatives designed to enhance the SEC's oversight of potential risks in the asset management industry and its ability to mitigate any such risks—and Chair White is demonstrating strong leadership in pursuing it. Two proposals already have come out of the agenda—the first on portfolio reporting, and the second on liquidity risk management. We expect the SEC to propose rules for funds' use of derivatives before 2015 ends, and rules for stress testing and transition planning in 2016.

Collectively, these are appropriate areas of focus. ICI members should review their practices in these areas, in anticipation of the SEC adopting final rules over the next year. The Institute will continue to provide input to the SEC as it moves forward with the agenda.

What's your assessment of the portfolio reporting proposal?

The proposal would expand the information that regulated funds must report to the SEC while increasing how often they must report it—that's both needed and appropriate.

We're pleased that the proposal protects the confidentiality of portfolio holdings by limiting public disclosure to four times a year, with a 60-day lag. Releasing that information more frequently or quickly could leave funds and shareholders exposed to predatory trading practices—and tremendous harm. We're also pleased that the proposal allows funds to deliver shareholder reports online, instead of through the mail. E-delivery will save shareholders millions of dollars—not to mention save millions of trees—and they'll still be able to receive paper copies if they wish.

One area where I'd suggest caution is data security.

With what ultimately will be a vast, unique repository of valuable information, the SEC must enlist an independent third party to verify its data security infrastructure and practices—both before it begins collecting data, and regularly thereafter.

What is ICI's view of the liquidity risk management proposal?

Liquidity risk management is a fundamental component of overall portfolio management. As we and our members have expressed to the SEC staff, fund managers already employ an extensive set of tools to manage the liquidity needs of the funds they serve.

As an overarching principle, ICI is recommending that the SEC take great care to ensure that the liquidity risk management programs it is proposing can be customized to the needs of each fund. Our industry is so diverse, with so many investment strategies and portfolio compositions, that a one-size-fits-all approach would not work.

What are ICI's regulatory priorities in the year ahead?

It seems we're in a period of major regulatory change for asset management, and our talented team will continue to have their hands full. The issues we've discussed—financial stability and the SEC's rulemaking agenda—will stay at the forefront, but other issues are just as pressing. For example, in 2016 the SEC will enter the implementation phase for the money market fund reforms it adopted last year—and our legal experts will continue to weigh in there.

Also, we'll be focused on helping the Department of Labor make its fiduciary rulemaking work for retirement savers. Any attempt at implementing the rule—which is deeply flawed in its current form—promises to be quite challenging for all involved. In addition, through ICI Global, we will continue to monitor and engage on emerging regulatory and policy developments across the world, such as Europe's work to reform its capital markets. With global fund regulation becoming more complex and intertwined, what happens in Europe, Asia, and elsewhere will continue to have a direct impact on our members. ●

A Voice for Funds on Capitol Hill

Members of Congress from both sides of the aisle are expressing deep concern about the efforts of two regulatory bodies—the U.S. Financial Stability Oversight Council (FSOC) and the global Financial Stability Board (FSB)—to designate nonbank firms as systemically important financial institutions, or SIFIs. ICI’s Government Affairs team is working in tandem with ICI member firms’ Washington offices to communicate the industry’s view that regulated funds and asset management firms do not create overarching threats to financial stability. Given the enormous implications of this debate for American savers, ICI is encouraged that Congress, in both hearings and proposed legislation, has demonstrated its interest in this issue.

At a March hearing held by the U.S. Senate Committee on Banking, Housing, and Urban Affairs, ICI President and CEO Paul Schott Stevens testified that the FSOC’s process for designating firms as SIFIs lacks transparency and accountability—and that the FSOC’s actions must be understandable to the public, based on empirical analysis, and grounded in the historical record.



ICI President and CEO Paul Schott Stevens testifies in March 2015 before the Senate Banking, Housing, and Urban Affairs Committee on why the FSOC’s process for designating firms as systemically important lacks transparency and accountability.

Lawmakers proposed bipartisan legislation that would bring positive, substantive changes to the process. In the House, Representatives Dennis Ross (R-FL) and John Delaney (D-MD) reintroduced their Financial Stability Oversight Council Improvement Act, which proposes to:

- » Codify the process improvements that the FSOC announced in February 2015, such as notifying a firm if it comes under the second stage of review for SIFI designation or is no longer under review, and giving a firm the opportunity to meet with the FSOC before it votes whether to designate the firm.
- » Allow a firm that the FSOC has proposed to designate an opportunity to “de-risk” before it is designated, and give the firm’s primary regulator an opportunity to address the FSOC’s perceived systemic risks. Representative Ander Crenshaw (R-FL) also has included this idea in a pending appropriations bill.
- » Enable a designated firm to address the FSOC’s concerns and eventually have its designation rescinded.

These ideas also are gaining traction in the Senate, where Banking Committee Chairman Richard Shelby (R-AL) has introduced the Financial Regulatory Improvement Act of 2015, another bill that would bring commonsense reforms to the FSOC’s process.

On the global front, Stevens testified before the Senate Banking Committee in July to educate members of Congress on the fundamental flaws in the FSB’s work on systemic risk. The FSB’s work lacks the rigor and transparency required of U.S. regulators, he explained, and its proposed methodologies for identifying global SIFIs in the asset management sector are inappropriately informed by a banking mindset. He also testified that the FSB is not affording capital markets experts an adequate role in its work on asset management, and that it discounts any evidence that does not comport with the conjecture and theories on which its proposed methodologies are based. ●

RECENT MILESTONES IN THE FINANCIAL STABILITY DEBATE

DECEMBER 11, 2014. SEC Chair Mary Jo White announces an expansive agenda to enhance the Commission's oversight of risk in asset management.

DECEMBER 18, 2014. The U.S. Financial Stability Oversight Council (FSOC) issues a notice seeking public comment on whether asset management products or activities could pose risks to U.S. financial stability.

FEBRUARY 4, 2015. The FSOC changes its process for reviewing nonbank financial companies for possible designation as systemically important financial institutions (SIFIs). The changes are not codified. (See opposite page.)

MARCH 4, 2015. The Financial Stability Board (FSB) releases its second consultation outlining methodologies for determining whether to designate individual investment funds as global SIFIs. The consultation also introduces methodologies for designating asset managers.

MARCH 25, 2015. ICI files a data-driven comment letter responding to the FSOC's December notice.

MARCH 25, 2015. ICI President and CEO Paul Schott Stevens testifies before the U.S. Senate Committee on Banking, Housing, and Urban Affairs about the lack of transparency and accountability in the FSOC's SIFI designation process.

MAY 20, 2015. The SEC issues a proposal around portfolio reporting for regulated funds and advisers—the first proposal from White's December 2014 agenda.

MAY 29, 2015. ICI files a 216-page comment letter responding to the FSB's second consultation.

JUNE 17, 2015. The board of the International Organization of Securities Commissions (IOSCO) states that a full review of activities and products in asset management should take precedence over further work on methodologies for identifying global SIFIs.

JUNE 22, 2015. In a speech in Washington, DC, IOSCO Board Chair Greg Medcraft states: "I am not convinced... that there is evidence that asset managers put financial stability at risk simply because they are large" and that in this respect, "I find the industry's recent commentary compelling."

JULY 8, 2015. Stevens testifies before the U.S. Senate Banking Committee on the FSB's role in the U.S. regulatory framework.

JULY 30, 2015. The FSB announces that it will postpone work on methodologies for identifying nonbank, non-insurer global SIFIs—including regulated funds and asset managers—until it has completed ongoing work on financial stability risks that could arise from asset management activities.

SEPTEMBER 22, 2015. The SEC issues a proposal around liquidity management for regulated funds and advisers—the second proposal from White's December 2014 agenda. ●

For more information, visit www.ici.org/financial_stability.

DISPELLING MYTHS ABOUT BOND FUND LIQUIDITY

Throughout the year, ICI economists' empirical research has underpinned the Institute's rebuttals of speculative claims about the liquidity risks of bond mutual funds and exchange-traded funds (ETFs) during periods of market stress or rising interest rates. This research has buttressed ICI's responses to misleading narratives in statements by policymakers and regulators, as well as press reports echoing them—including fears about "heavy redemption risk" and investors' "herding" behavior.

ICI's data and analysis show bond funds are stable and well positioned for any market downturn.

» Decades of data show that bond fund investors' reactions to times of market stress or rising interest rates are

muted—most likely because bond fund shareholders are mostly retail investors working toward long-term goals such as retirement.

- » Fund portfolio managers employ liquidity management tools and techniques that are effective in enabling funds to meet redemption demands and maintain liquidity.
- » In both normal and stressed market conditions, most of the trading in bond ETFs occurs in the secondary market—meaning it does not necessarily affect the prices of the underlying bonds. Primary market activity of bond ETFs—creation or redemption of ETF shares—does involve transactions in the fund's underlying securities, but this activity is small as a percentage of overall trading volume in the underlying bond markets. ●

Modernizing Fund Reporting

Clear, consistent disclosure to provide useful information to investors has been a core feature of fund regulation since the passage of the 1940 Act. ICI's long-standing advocacy for effective disclosure informed its broad support in August for a Securities and Exchange Commission (SEC) proposal to require more frequent and substantive reporting by registered investment companies on their portfolio holdings.

To enhance funds' portfolio holdings reporting, the SEC has proposed Form N-PORT, which would require detailed monthly reports on portfolio holdings, as well as Form N-CEN, a more detailed replacement for Form N-SAR. Funds would file each form in an updated, structured format "to permit information reported to be more efficiently and effectively validated, retrieved, searched, and analyzed through automated means," according to the SEC.

In a comment letter, ICI said it favored the proposal as one that will greatly improve the agency's ability to review industrywide activities and products and assess their risk potential.

ICI expressed concerns, however, about the SEC's ability to maintain the security of the nonpublic monthly portfolio holdings data. The Institute recommended that the SEC have an expert third party test and verify its ability to gather and share such information securely, and commit to vigorous, ongoing protection of the portfolio holdings information.

The SEC's proposal also would allow funds to deliver shareholder reports by posting them on websites. ICI strongly endorsed this change, noting in its comment letter that it not only will result in significant cost savings to fund investors, but also is consistent with shareholder preferences and earlier SEC efforts to modernize fund disclosure. ●

SELECTED FUND REPORTING AND DISCLOSURE IMPROVEMENTS

AUGUST 1983. The SEC introduces the modern two-part disclosure format authorizing mutual funds to provide investors a simplified prospectus setting forth essential information. In addition, mutual funds may place more detailed information in a "statement of additional information" that an investor may receive on request.

JANUARY 1985. The SEC adopts Form N-SAR, requiring registered funds to report a wide variety of census information, including information relating to a fund's organization, service providers, fees and expenses, portfolio strategies and investments, and portfolio and share transactions.

FEBRUARY 1988. The SEC requires mutual fund prospectuses to include a uniform fee table showing all fees paid by the investor and the fund plus a hypothetical example, thereby enabling investors to estimate costs and easily compare costs among different funds.

APRIL 1993. The SEC simplifies the reporting of important financial information and requires mutual fund shareholder reports to include management's discussion of fund performance.

JANUARY 1998. The SEC amends Securities Act Rule 421 to require all public companies, including registered funds, to write their prospectuses clearly and concisely in "plain English."

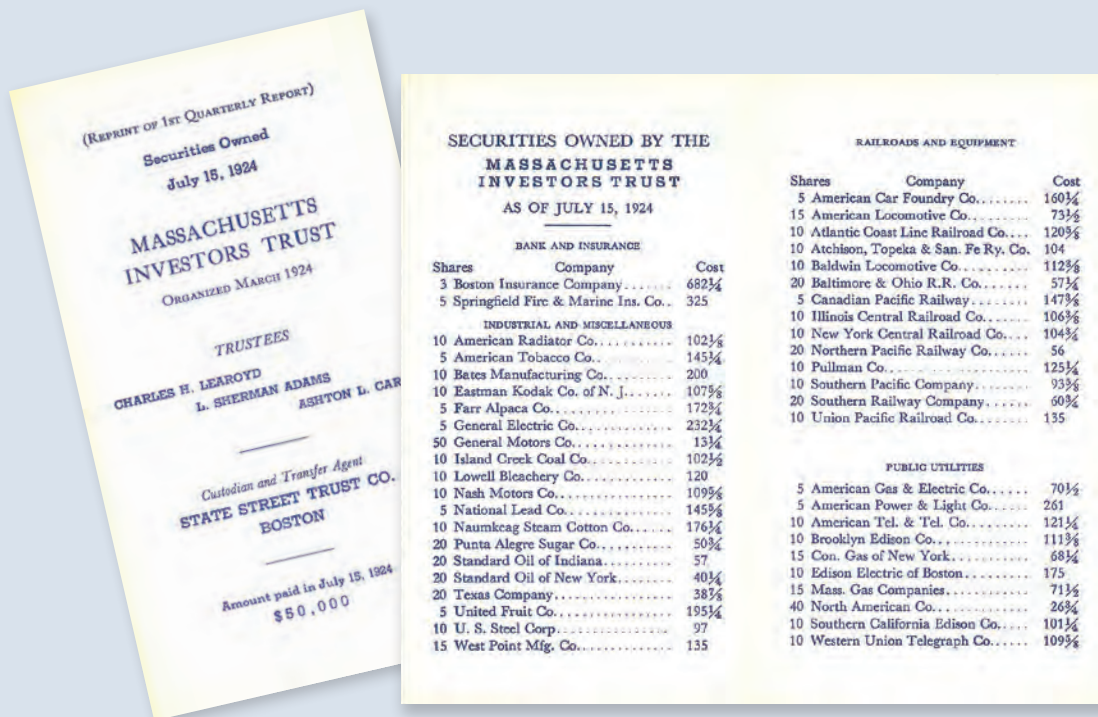
MARCH 1998. The SEC revamps Form N-1A to improve mutual fund disclosures for investors and permits mutual funds to use a short-form offering document called the "profile." It never takes hold in the industry, largely due to perceived liability risks.

FEBRUARY 2004. The SEC amends its rules to require mutual funds to disclose in shareholder reports expenses borne by shareholders during the reporting period. Funds also must file a complete schedule of portfolio holdings with the SEC each quarter, rather than twice a year.

JANUARY 2009. After nearly 15 years of fund industry support for a reader-friendly short-form prospectus, the SEC adopts the "summary prospectus," which summarizes key information to prospective purchasers and addresses shortcomings of the "profile" proposal. ICI applauds the SEC's action, saying that investors will be more likely to use and benefit from the document than the long-form prospectus. ●

THE FIRST MUTUAL FUND

The first open-end, or mutual, fund was introduced in Boston in March 1924. The Massachusetts Investors Trust introduced important innovations to the prevailing closed-end fund model by establishing a simplified capital structure, continuous offering of shares, the ability to redeem shares rather than hold them until dissolution of the fund, and a set of clear investment restrictions and policies. Shortly after its creation, the Massachusetts Investors Trust began publishing reports to its investors—a precursor of the reporting required of all regulated funds today.



PROVIDING PERSPECTIVE ON DERIVATIVES

ICI continued to provide the industry's perspective on the effects of derivatives regulation on funds and their investors in comment letters to the Commodity Futures Trading Commission (CFTC), Securities and Exchange Commission (SEC), and banking regulators as they sought to complete rules implementing the Dodd-Frank Act. Key developments included:

- » **Recovery of derivatives clearing organizations (DCOs).** In April, ICI submitted comments following a CFTC roundtable on the recovery and orderly wind-down of DCOs. The Institute opposed a proposal that would allow a recovering DCO to use the margin of non-defaulting customers of clearing members to support its recovery.
- » **Margin.** ICI submitted comments to several U.S. banking regulators and the CFTC in November 2014 urging them to

ensure that margin requirements for uncleared swaps are consistent with international standards. In May, following two rounds of comments, ICI urged the SEC to repropose its capital, margin, and segregation proposal for security-based swaps. ICI explained that the SEC's current proposal differed considerably from other regulators' proposals and international standards, which would make it impossible to achieve international harmonization of margin rules for uncleared derivatives.

- » **Swap trading.** As a follow-up to a CFTC roundtable, ICI submitted comments recommending changes to the "made available to trade" (MAT) process. Under that process, a swap becomes subject to mandatory trading on a swap execution facility or designated contract market. The letter urged the CFTC to establish more quantitative and comprehensive standards for MAT determinations. ●



Working to Preserve Retirement Security and Investment Choices

Brian Reid, ICI chief economist, and David Abbey, ICI deputy general counsel for retirement policy, discuss one of the Institute's top policy priorities—a proposal by the Department of Labor (DOL) to redefine what counts as a fiduciary relationship under the Employee Retirement Income Security Act of 1974 (ERISA).

ICI and the fund industry have long supported the principle behind the DOL's fiduciary rule proposal—that retirement service providers should be required to act in their clients' best interests when delivering personalized investment advice. Would you offer some perspective on why the proposal does not live up to that principle?

ABBEY: The DOL has proposed a fiduciary definition that is excessively broad in its coverage and ambiguous in its application, and it has proposed unworkable conditions for compliance with its Best Interest Contract exemption. This exemption would allow brokers to continue to offer commission-based services. But the exemption itself depends on conditions that are very subjective, making it essentially unusable. As a result, the rule would harm lower- and middle-income individuals and small businesses by making it more difficult for them to get financial assistance. These investors may even have to pay more for advice under a fee-based model.

REID: True—for many small investors, fee-based models are more expensive than commission-based models. In addition, the households with less than \$100,000 saved in their individual retirement accounts [IRAs]—which represents 22 million households—wouldn't be able to meet the current account minimums for many fee-based advisers. So, if the commission-based model is effectively removed from the marketplace, these investors would likely be left without advice. This would impose a significant cost on these predominantly lower-income, younger investors who have not yet accumulated significant retirement balances.

ICI has delivered a forceful response to the proposal—in five DOL and congressional hearings, comment letters, op-eds, and more. How has the Institute's research and legal analysis shaped the response?

ABBEY: Our legal analysis provided a clear basis for informing the DOL and other policymakers of the potential impact of the rule. That enabled us to offer constructive suggestions and recommendations for fixing the proposal, to lessen its effects on lower- and middle-income individuals.

REID: Both our Law and Research departments took a very evidence-based approach. We asked questions like, "how does the current market work?" and "what evidence does the DOL put forth to argue its case?" In our analysis, we found that the DOL relied on outdated academic research that does not reflect the marketplace. It hadn't looked at actual information—available in the market—on how broker-sold funds performed, or on their fees or their load structures. We used publicly available data and identified the very real gaps in the DOL's impact analysis.

How did ICI's analysis help when you took your message to regulators and legislators?

REID: Regulators and legislators want to understand how the market works. One of the strengths that ICI has always had is practical experience—not only from the legal side, but also from a data and analysis perspective. We can put those numbers in context, and put a face on investors. We can provide policymakers with concrete examples so

From the shock of any crisis. There is no necessity of reviewing. It is enough to point out that the investment trusts have themselves of their activities. This attitude on the part of the investment trusts that business men have at last come to recognize that it is this

that they can better understand the nature of the issue, as well as the potential impact of the solutions that they're proposing.

How would you change the DOL's approach to a best interest standard for retirement services providers?

ABBEY: We recommend that the DOL take a principles-based approach to the rule, rather than the prescriptive and granular approach that it's currently proposing. We believe that a principles-based approach would protect the interests of retirement savers without the excessive conditions in the current rule proposal, and the resulting litigation risk.

REID: Policymakers trying to address an issue are often removed from everyday business conditions. Consequently, when they begin to put together highly prescriptive rules—as they have done with the Best Interest Contract exemption—they miss how people actually are getting advice, how they interact with fund companies, and how they interact with brokers and financial advisers. I think this is what created the problems that we identified and brought to the DOL's attention.

Brian, you've said that the DOL's economic justification for its proposal—its regulatory impact analysis—failed to make its case for a “substantial failure of the market of retirement advice.” How did it fail?

REID: It failed in four ways. The first is that the DOL didn't do any of its own empirical analysis. Instead, it relied on a fairly thin body of academic work based on data and analysis from the 1990s and early 2000s. The market has changed quite substantially since then. Second, the DOL never demonstrated that retirement savers using brokers experienced any differences in outcomes from those using

fiduciary advisers, even though it argued that those using brokers were suffering from underperformance.

The third way is that the DOL itself misinterpreted and misapplied some of the academic literature. When we corrected for those cost-estimate errors, the “problems” that the DOL identified were eliminated, and the costs it had cited fell from \$430 billion over 10 years to \$10 billion. And these corrected costs were still far outweighed by the negative effect of the rule: this is the fourth and final failure. The DOL's analysis failed to look at the rule's impact on the retirement market—the costs that investors would face if they either lost access to advice or could access it only through a fee-based model, which typically is much more expensive than a commission-based model. The analysis focused only on administrative costs—the cost of implementing the rule.

How have people responded to our efforts?

ABBEY: We've seen how much Congress values and appreciates ICI's expertise. Because of our fact-based analysis and constructive recommendations, we have been invited to participate in numerous Capitol Hill briefings, including five major briefings for various segments of Hill staff, on both sides of the aisle. Significantly, we have testified at three congressional hearings—more than any other trade association. ICI's data on the true cost of the rule's effects have been particularly well received. Our efforts have influenced letters from members of both parties urging the DOL to address many of the concerns that have been raised. ●

For more information on the DOL's fiduciary rule proposal, as well as ICI's analysis and position, please visit www.ici.org/fiduciary.

“ One of the strengths that ICI has always had is practical experience—not only from the legal side, but also from a data and analysis perspective. We can put those numbers in context, and put a face on investors.”

— Brian Reid

Promoting Successful Retirement Systems in the United States and Around the World

Creating successful systems that help people build adequate retirement resources is a critical issue that ICI is advancing through study, analysis, and dialogue. The Institute and ICI Global, its international arm, continued fostering these activities in 2015 through three forums.

The 2015 ICI Retirement Summit held last April in Washington, DC, focused on the roles of innovation, education, financial literacy, and plan design as informed by behavioral economics. This summit enabled more than 100 participants and panelists to share their insights about how the process of saving for retirement has evolved.

Featured speaker Annamaria Lusardi of the George Washington University School of Business examined studies showing that savers' financial literacy improves their planning and outcomes, and stressed the importance of a holistic approach to financial education.

Brigitte Madrian, professor of public policy and corporate management at the Harvard Kennedy School, suggested in her keynote address that one of the biggest barriers to retirement saving is the complexity of the task. Policies that simplify planning, contributing, and investing for participants in defined contribution (DC) plans show the most dramatic changes in improving savings behavior, she explained.

Brian Reid, ICI chief economist, underscored how innovations in plan design can help savers build bigger accounts, while Sarah Holden, ICI senior director of retirement and investor research, explored what resources retirement savers need and the roles of education and advice. Peter Brady, ICI senior economist, shared ways to improve the transition into and throughout retirement.

In April, at the Global Retirement Savings Summit in Tokyo, speakers from Japan, the United Kingdom, and the United States described each country's experience with designing and reforming their DC systems, and examined the roles of behavioral economics and default funds in helping citizens build retirement assets.

Keynote speaker Naoyuki Yoshino, dean of the Asian Development Bank Institute and professor emeritus at Keio University, spoke about Japan's long-term savings challenges and his solutions for meeting them, such as developing a more robust 401(k)-style system and improving financial literacy. ICI President and CEO Paul Schott Stevens shared his thoughts on what makes DC plans attractive to countries that are examining how to help people meet retirement savings challenges.

ICI Global followed this summit with its third Global Retirement Savings Conference, cohosted in Paris with the Organisation for Economic Co-operation and Development (OECD) and the International Organisation of Pension Supervisors (IOPS). The June event featured retirement savings experts from the OECD and from Chile, Denmark, Hong Kong, the Netherlands, the United Kingdom, and the United States. More than 140 delegates from 47 countries attended, including nearly 100 national regulators, pension supervisors, and other government officials.

Speakers explored the interaction between private and public systems, highlighting the need for governments and academics to take a holistic approach when designing and evaluating retirement savings systems. For example, ICI's Brady pointed out that those examining and evaluating the overall adequacy of the U.S. retirement system need to take into account the role of Social Security, which is often overlooked.

These events build on ICI's deep expertise in the U.S. retirement system and raise global awareness about the role that funds can play in helping savers build retirement resources. ICI remains committed to engaging with policymakers and thought leaders through these instructive events. ●

Visit www.ici.org/events/highlights to find highlights of the 2015 ICI Retirement Summit, the 2015 Global Retirement Savings Summit: Japanese and International Experiences, and the 2015 Global Retirement Savings Conference.

'A GOOD WAY TO PREPARE FOR RETIREMENT'

During the 1950s, 1960s, and 1970s, one of ICI's goals was to help promote and popularize mutual fund investing. ICI produced consumer education films that aired on television and at theaters nationwide, placed numerous print ads in newspapers across the country promoting mutual funds, and conducted a direct-mail campaign highlighting the benefits of fund investing. Even before the IRA or 401(k) were launched, funds were viewed as a tool for retirement saving. In 1972, ICI launched a \$1.2 million (\$6.7 million in today's dollars) ad campaign on television, producing a number of commercials—including one that aired during Super Bowl VII in January 1973.

This television commercial promoted mutual funds as a good way to prepare for retirement.

1



PRESIDENT:
For 35 years of dedicated service, we proudly present you with a gold watch, your last check and—lots of luck...

3



it's *now*—while you're still young and still working.

2



V.O.:
He'll need lots of luck. Let's hope you won't. The day to worry about *your* retirement is not on the day you retire—

4



A good way to try to prepare for your retirement is a Mutual Fund.

Now is the time to consider Mutual Funds.

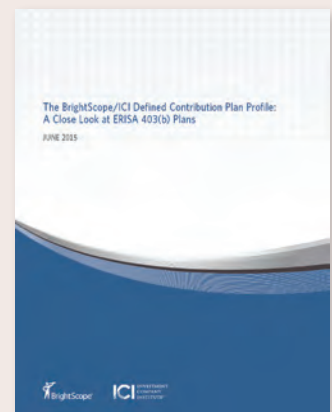
COLLABORATIVE RESEARCH SPOTLIGHTS ERISA 403(b) PLANS

When most Americans think of employer-based defined contribution (DC) plans, the 401(k) plan probably comes to mind. And though 401(k) plans accounted for \$4.7 trillion, or 69 percent, of assets in DC plans in mid-2015, other, less well-known plans also play a vital role in Americans' ability to accumulate substantial retirement savings. A new study released in June by BrightScope and ICI spotlights one such plan—the 403(b), which is offered to employees of public and private educational institutions and other nonprofit employers.

The report, *The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at ERISA 403(b) Plans*, is the second in a collaborative research series from BrightScope—a data, analytical, and software company—and ICI, and is the first to focus exclusively on 403(b) plans. To gauge how 403(b) plans are serving participants as they save for retirement, the study focuses on a subset of the 403(b) plan market: plans governed by the Employee Retirement Income Security Act of 1974 (ERISA) that filed audited Form 5500 reports for 2012. The analysis examines many dimensions

of 403(b) plan design, including the number and type of investment options, the presence and design of employer contributions, and features of automatic enrollment.

Sarah Holden, senior director of retirement and investor research at ICI, notes that the study found that 78 percent of ERISA 403(b) plans have employer contributions, including one-third of plans with matching employer contributions. ERISA 403(b) plans also are likely to offer participants significant choice in their investment options—offering, on average, 23 core investment options (comparable to the 25 investment options, on average, in 401(k) plans in the BrightScope database). ●



Analyzing Regulatory Proposals in the Financial Markets



Transparency and liquidity of exchanges and other trading venues are a major focus for funds, which operate uniquely both as issuers and as investors in the financial markets. ICI has undertaken several initiatives to support regulators' efforts to improve the function of these vital marketplaces.

In 2014, as part an effort to increase the transparency of the equity markets, Securities and Exchange Commission (SEC) Chair Mary Jo White asked SEC staff to prepare a recommendation for a rule that would enhance order routing disclosures. To assist the SEC with its rulemaking initiative—expected by the end of 2015—and to enhance the level of transparency, ICI, the Managed Funds Association, and the Securities Industry and Financial Markets Association jointly developed and submitted to the SEC a template for the minimum disclosure of order routing and execution quality information that institutional investors could request from their broker-dealers. The template was produced by the Transparency Initiative Industry Working Group, organized by the Institute to enhance the level of transparency around equity market structure in general and execution quality in particular.

On the international front, ICI Global provided input to the European Securities and Markets Authority (ESMA) on its final technical advice for implementing revisions to the European Union's Markets in Financial Instruments Directive (MiFID II). These efforts are increasingly important as Europe implements significant changes to regulation of the financial markets (see page 29).

To examine these and other regulatory developments, ICI and ICI Global each held conferences on regulatory developments, compliance issues, and market structure changes affecting funds. Speakers and panelists were able to engage ICI and ICI Global members on a number of buy-side priorities, including implementation of the Dodd-Frank Act, improvements in municipal bond market transparency, managers' role in global growth, and MiFID II.

The SEC recently sought information about the listing and trading of ETFs on national securities exchanges, specifically focusing on the potential impact of the funds on underlying bond markets. Drawing on extensive research and legal resources, ICI published findings showing that ETF activity contributes only a small amount to price changes in the bond markets (see page 26).

In comment letters to the Commodity Futures Trading Commission (CFTC) and the SEC, ICI continued to work toward derivatives regulation that does not adversely affect funds and their investors. ICI opposed a proposal that would allow a recovering derivatives clearing organization (DCO) to use the margin of non-defaulting customers of clearing members to support its recovery; urged the SEC to repropose its capital, margin, and segregation proposal for security-based swaps; and recommended changes to the "made available to trade" (MAT) process (see page 19). ●

EXPANDING ACCESS TO THE CAPITAL MARKETS

Millions of Americans have become investors because of mutual funds. Many were first brought to the markets through the funds offered by defined contribution plans in their workplace, such as a 401(k)—as of 2015, 63 percent of mutual fund-owning households acquired their first fund through a defined contribution plan. Such plans provide workers with easy access to capital markets, and an opportunity to share in the wealth created by the productivity of American business.



On June 2, 2006, then ICI Chairman Martin L. Flanagan, ICI President Paul Schott Stevens, other ICI Board of Governors members, and ICI staff celebrate the 25th anniversary of the 401(k) plan by ringing the bell that signals the start of the day's trading on the New York Stock Exchange.

ICI FORUMS EXPLORE MARKET ISSUES AFFECTING FUNDS

ICI's Capital Markets Conference, held in February in New York City, included a keynote address by Commissioner J. Christopher Giancarlo of the Commodity Futures Trading Commission. Both he and a panel focused on implementation of the Dodd-Frank Act's swaps provisions, and their implications for U.S. and European markets and investors.

The third annual ICI Global Trading and Market Structure Conference, held in London in December 2014, featured keynote speaker David Wright, secretary-general of the International Organization of Securities Commissions (IOSCO). He highlighted asset management's role in the global growth agenda, and explored one of the event's hot topics: how regulatory proposals on the use of dealing commissions to acquire investment research might affect funds. ●

For insights from these and other conferences, please visit www.ici.org/events/highlights.



David Wright, secretary-general of IOSCO, highlights asset management's role in the global growth agenda at the December 2014 ICI Global Trading and Market Structure Conference in London.

Exchange-Traded Funds

ADVOCACY IN A COMPLEX ENVIRONMENT

Exchange-traded funds (ETFs) have seen steady demand and brisk growth since their introduction in 1993. As the size and scope of the industry have grown, interest in ETFs has also increased, bringing both scrutiny and a desire for better understanding of ETFs from regulators, policymakers, and commentators. ICI has responded with objective research, legal expertise, broad education, and effective advocacy—all part of ICI's ongoing efforts to ensure that examinations of ETFs and their role in the markets are fully informed.

EXPLAINING ETFs' ROLE IN THE MARKETS

ICI continued to expand its research efforts to address the scrutiny and respond to inquiries from various regulatory agencies. In early 2015, ICI Senior Economist Rochelle Antoniewicz and ICI Associate General Counsel Jane Heinrichs conducted a survey of ETF sponsors to collect information on authorized participants (APs)—financial institutions that deal directly with ETFs in the process used to create and redeem ETF shares.

This comprehensive look was in response to policymakers' concern that the primary market in ETF shares depends too much on a limited number of active APs, and that this dependence could add stress to the financial markets.

The resulting report—*The Role and Activities of Authorized Participants of Exchange-Traded Funds*—showed that in fact

there are many APs and other liquidity providers ready and willing to keep the ETF primary and secondary markets functioning smoothly, even if a major AP should step away from its ETF business.

Given the growth of assets in ETFs and the range of investment strategies offered, regulators are examining the role that ETFs play in

liquidity, particularly in the bond markets. The Securities and Exchange Commission (SEC) recently sought comment on topics associated with its oversight of the listing and trading of ETFs on national exchanges, expressing particular interest in ETFs with underlying holdings that are less liquid.

ICI's analysis found that daily primary market activity in bond ETFs—in other words, the number of new ETF shares created or redeemed—accounted for a relatively small share of bond market trading across all four of the bond categories examined (U.S. government, other corporate, high-yield, and municipal). In addition, in both stressed and normal market conditions, ICI found that most of the trading in bond ETFs occurs in the secondary market—and, consequently, does not necessarily affect the prices of the underlying bonds.

ICI's findings, and its response to the SEC, reiterated its strong support for efforts to add certainty and uniformity to the ETF regulatory process.

PROMOTING MORE ORDERLY MARKETS

A markdown in global economic prospects led to substantial selling pressure in U.S. equity markets on the morning of August 24, 2015, revealing weaknesses in the structure of equity markets that affected ETFs. As a result of this market activity, regulators and market participants currently are examining how market structure rules, including mechanisms for market opening and trading halts, are working. ICI is working closely with regulators, exchanges, and members to help shape any proposals that might promote more orderly markets.

In the months ahead, ICI will continue to provide research and commentary on ETFs and the effects of the current regulatory model for exchanges and other trading venues on ETF activity, especially during volatile market periods. ●

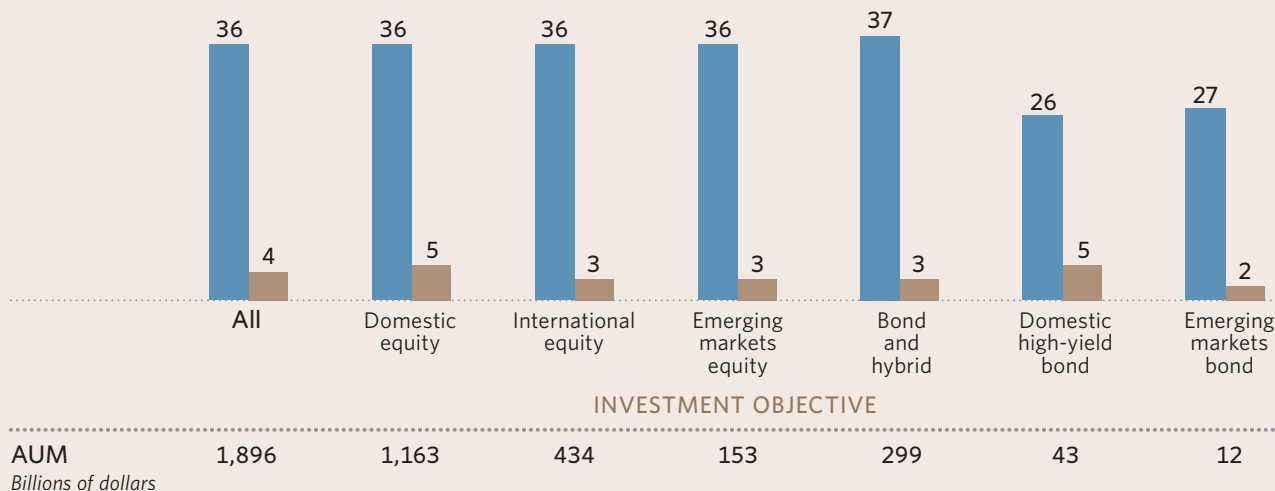
For more information on ICI's work on ETFs, please visit www.ici.org/etf.



Most ETFs Have Many Authorized Participants Available to Keep the Primary Market Running Smoothly

ICI conducted a survey in early 2015 of ETF sponsors to collect information on authorized participants (APs)—financial institutions that deal directly with ETFs in the process used to create and redeem ETF shares. The resulting report showed that there are many APs and other liquidity providers ready to keep the ETF primary and secondary markets running smoothly.

- Median number of APs under agreement¹
- Median number of active APs²



¹ APs are entities that have a legal contract with an ETF distributor to create and redeem ETF shares.

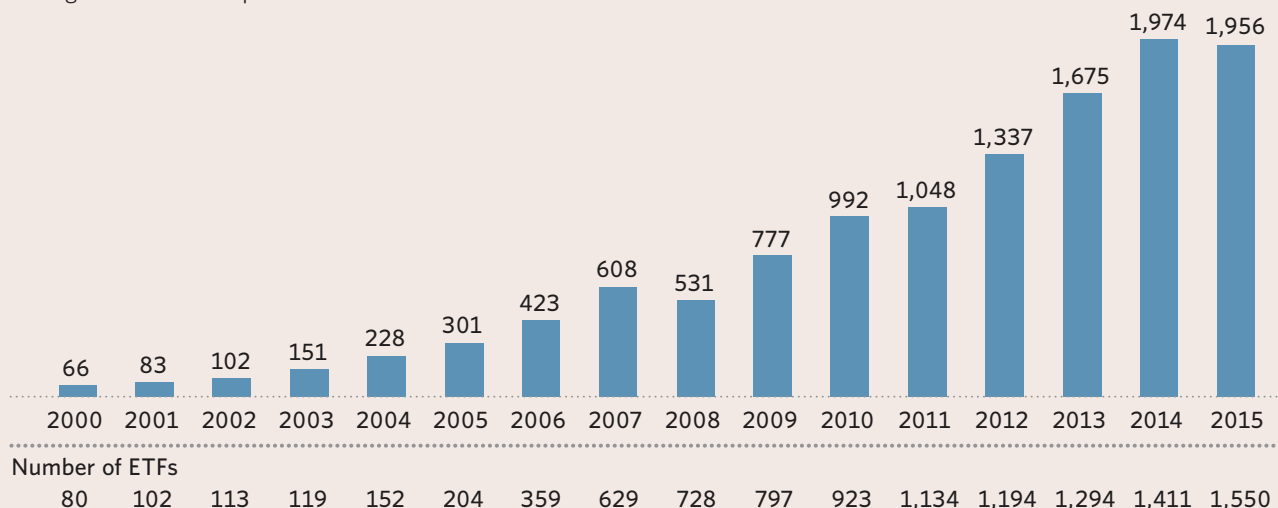
² For purposes of the survey, an AP was deemed active in an ETF if it had conducted at least one creation or redemption in that particular ETF's shares in the previous six months.

Source: Investment Company Institute

ETFs Have Enjoyed Rapid Growth

BILLIONS OF DOLLARS; YEAR-END, 2000-2015

ETFs have been available as an investment product for more than 20 years in the United States. The first ETF—a broad-based domestic equity fund tracking the S&P 500 index—was introduced in 1993. Actively managed ETFs, which do not seek to track the return of a particular index, have been available to investors only since 2008. There was \$25 billion in actively managed ETFs as of September 2015.



Note: Data for 2015 are through September 2015. Data for ETFs that invest primarily in other ETFs are excluded from the totals.

Source: Investment Company Institute



Providing a Strong Voice for Funds and Their Managers Worldwide

Policymakers worldwide are increasingly recognizing that strong and diverse capital markets are critical to fostering economic growth. Key to the development of such markets is a regulatory framework that fosters the fair and efficient operation of securities markets and investor confidence.

Given that funds and their investors play a critical role in both securities and capital markets, ICI Global advocated for sound and appropriate regulations on behalf of its members in five key areas: the role of funds in financing the real economy, cross-border regulation, trading and market structure, operations and cybersecurity, and the role of funds in retirement and long-term savings.

The role of funds in financing the real economy. ICI Global helped support capital market initiatives worldwide while advocating against inappropriate financial regulations that could harm funds, their investors, and economic growth.

In Europe, policymakers launched an initiative seeking to diversify funding sources for the economy by integrating and deepening the region's capital markets. If realized, the Capital Markets Union (CMU) could present opportunities for funds and their investors. ICI Global commented on key parts of a CMU consultation and shared members' perspectives on the initiative with EU policymakers.

Japan also is focusing on developing and strengthening its capital markets through the work of its Panel for Vitalizing Financial and Capital Markets. In a meeting with the group, and a speech at the American Chamber of Commerce of Japan in April, ICI President and CEO Paul Schott Stevens discussed the key elements of strong capital markets and the powerful role that funds can play.

In addition, ICI Global engaged on other capital market initiatives in the Asia-Pacific region, including the Shanghai-Hong Kong Stock Connect scheme; a framework for the Mutual Recognition of Funds between mainland China and Hong Kong; and the Asia Region Funds Passport. Working with members, ICI Global offered suggestions to regulators for the development and implementation of each scheme.

In March, the Financial Stability Board (FSB) and International Organization of Securities Commissions (IOSCO) issued a second consultation considering how to evaluate investment funds and asset managers for possible designation as global systemically important financial institutions (G-SIFIs). As with an earlier consultation, the proposed methodologies were deeply flawed and focused inappropriately on the largest regulated funds. ICI and ICI Global responded strongly, maintaining that regulators instead should evaluate potential risks within asset management through a marketwide, activities-based approach, and were encouraged when the FSB decided to set aside its G-SIFI work to conduct a review of asset management activities and products (see pages 16 and 17).

Cross-border regulation. Rules with cross-border effects can pose acute problems to funds. Some—such as the European Market Infrastructure Regulation (EMIR) and its impact on funds' use of derivatives—are complicated to implement. In May, the European Commission issued a consultation on the implementation of EMIR to date. ICI Global recommended a number of amendments, including urging the Commission to adopt a single-sided reporting regime in which the counterparty with the greater capacity to report a transaction—such as a dealer, rather than a regulated fund—would be required to report it.

about the shock of any crisis. There is no necessity of reviewing. It is enough to point out that the investment trusts have themselves of their activities. This attitude on the part of the investment trusts that business men have at last come to recognize that it is this

Other cross-border regulations are simply bad ideas. In early 2015, Indian tax auditors asserted that non-Indian funds owed an 18.5 percent capital gains tax retroactively under the two-decades-old minimum alternate tax (MAT). ICI Global responded forcefully by making five submissions to the Indian government, leading an industry coalition against the tax, and joining a lawsuit in the Indian Supreme Court. In its arguments, ICI Global asked the government to clarify that MAT never applied to foreign funds. The Indian government formed a commission, which ultimately agreed with ICI Global's position. The government subsequently announced that it will advance legislation to clarify that the MAT never applied to foreign funds.

Trading and market structure. Markets for securities and derivatives are rapidly evolving—as are policymakers' efforts to regulate them. During the year, ICI Global engaged on a host of related policies, including the reform of the Markets in Financial Instruments Directive (MiFID II) and Regulation (MiFIR).

When the European Securities and Markets Authority (ESMA) published its final technical advice to the European Commission for implementing MiFID II, one of the most important issues concerned the use of dealing commissions to pay for research. ESMA proposed implementing measures that would require firms to either purchase research themselves or purchase research through a separate account funded by the client. ICI Global explained to European officials how ESMA's proposal would disproportionately harm global fund managers and their investors, small- and medium-sized issuers, and the provision of research.

ESMA also issued a consultation on transparency and trading obligations for derivatives under MiFIR. Although ICI Global supported ESMA's goal of providing greater oversight of the derivatives market, it warned against adopting a one-size-fits-all approach. It also urged ESMA to adopt not only a flexible regulatory regime that could adapt to changing conditions, but also to coordinate its efforts with international regulators.

Operations and cybersecurity. Through its International Operations Advisory Committee, ICI and ICI Global worked on numerous operational challenges facing funds, including the need for fund managers to have more detailed and standardized information about distributors during the due diligence process. One result was the "Know Your

Distributor" survey, which helps funds gather data about distributors and their business practices.

Responding to growing cybersecurity risks facing members, ICI Global formed the Information Security Officer Committee, providing a platform for members to share knowledge. In July 2015 in London, ICI Global also hosted its first cybersecurity forum.

The role of funds in retirement and long-term savings. As economic conditions and demographic changes put pressure on government pay-as-you-go retirement systems, more countries are examining and reforming their employer-based and individual private pension systems. To facilitate an exchange of knowledge about designing pension systems, ICI Global organized two international events: a Global Retirement Savings Summit in Tokyo and a Global Retirement Savings Conference in Paris, which it cohosted with the Organisation for Economic Co-operation and Development (see page 22).

ICI Global also engaged with stakeholders in different jurisdictions on issues surrounding pension provision. For example, ICI Global commented on a consultation published by Hong Kong's Mandatory Provident Fund Schemes Authority (MPFA), which proposed a "core fund" that would serve as a default fund for participants who do not make investment choices. ICI Global supported the MPFA's recommendation that the fund should be a lifecycle-type product, but cautioned against adopting product design rules that are too prescriptive. ●



Akiko Nomura, senior analyst at the Nomura Institute of Capital Markets Research, discusses Japan's DC system at the 2015 Global Retirement Savings Summit in Tokyo.



Advocacy for Funds in the Complex European Regulatory Climate

Patrice Bergé-Vincent, managing director of ICI Global, Europe, recently discussed the regulatory climate in Europe and how ICI Global's work in Europe is benefiting regulated funds worldwide.

Europe's regulatory climate is extremely complex. How is it affecting funds and their managers?

They are facing an enormous amount of new regulation. Since the financial crisis, the European Commission has been working on 40 regulatory initiatives, many of which affect funds in the European Union, in the United States, and elsewhere. Yet there has been a lack of coordination with other jurisdictions and a lack of consistency between the initiatives. Asset managers have had to grapple with conflicting requirements as they try to comply with each initiative.

There also are opposing economic and political forces driving the direction of regulation. European policymakers recognize the need for more market-based financing to spur economic growth. Yet there are two factors at odds with this need—some postcrisis regulatory initiatives could stifle the success of market-based financing initiatives, and there is currently little political momentum to support legislation to foster more market-based financing. Indeed, some European policymakers still want to heavily regulate the financial services sector.

In addition, there is “regulatory fatigue” among policymakers, given that they have been working on 40 regulatory initiatives. Yet as the need for economic growth increases, I remain hopeful that more policymakers will shift their focus from the regulatory agenda to encouraging market-based financing, which will create tremendous opportunities for funds.

What European regulatory initiatives should U.S. or Asian asset managers monitor, and how is ICI Global responding to these?

Many EU initiatives could affect funds domiciled outside Europe, including the Capital Markets Union [CMU], new regulations governing securities financing transactions, and remuneration frameworks for fund managers.

The CMU initiative presents many opportunities for U.S. and Asian asset managers, because it could enable funds to play a bigger role in financing the EU economy. The European Union is also working on regulations governing securities financing transactions, which could present some challenges. This regulation introduces new reporting obligations for funds engaging in securities financing transactions. Given that the U.S. Securities and Exchange Commission also is developing reporting requirements for such transactions, U.S. funds could face inconsistent reporting obligations. In comment letters and meetings with regulators, ICI Global has urged EU policymakers to coordinate their efforts with other regulators to develop more consistent reporting frameworks.

ICI Global also has been vigorously engaging with policymakers on the importance of having appropriate and consistent remuneration requirements for fund managers under the fifth iteration of Undertakings for the Collective Investment of Transferable Securities, or UCITS V, and the fourth Capital Requirements Directive, or CRD IV. Proposed guidelines on remuneration requirements under CRD IV are overly stringent, in part because they would apply to fund manager subsidiaries of banks, which already are subject to comprehensive remuneration policies under UCITS V.

MORE THAN 60 YEARS OF GLOBALIZATION

The early 1950s saw the beginnings of a trend that grew slowly for decades before quickly accelerating at the end of the century: international investment by U.S. funds.

In the 1950s, the increasing development of industry in Canada drove Americans' desire to invest in the neighbor to the north. In 1951, the first open-end fund incorporated in the United States that specialized in Canadian stocks—Natural Resources of Canada Fund, Inc.—was organized. By 1960, interest in overseas investment began to rise, centering on Western Europe and flirting with newly developing areas such as Australia and South Africa. American investment companies held an estimated half billion dollars of foreign securities in 1960. Although not much more than 2 percent of funds'

total assets, the total represented an impressive increase over the two years before.

The pace of growth remained slow throughout the 1960s and 1970s, but U.S. mutual funds investing worldwide began to enjoy explosive growth in the 1980s and 1990s. Funds focused on worldwide bond holdings were launched in the 1980s and grew at a stunning pace. The number of stock and bond funds with a worldwide focus—whether investing solely in non-U.S. securities or investing in both U.S. and non-U.S. securities—grew from 30 in 1984 to 1,124 in 1999.

As of September 2015, there were 1,835 U.S.-domiciled funds focusing on investment opportunities worldwide, with \$2.5 trillion in assets under management.

Sources: ICI and Arthur Wiesenberger's *Investment Companies* series

Why is it important for ICI Global to have a strong presence in Europe, and how is it benefiting ICI's U.S. and global membership?

Europe is a huge, developed market with many opportunities and challenges for funds domiciled in the United States or elsewhere. To seize those opportunities and address those

challenges, funds and their managers need to understand the regulatory environment. By having a strong presence in Europe, ICI Global is able to quickly grasp regional and international policy developments, help our members assess how those policies could affect them, and advocate on behalf of U.S. and other funds early in the regulatory process. ●

REGULATED FUNDS AND EMERGING MARKETS

New ICI Global Research Offers Fresh Perspective

Regulated fund holdings of emerging market stocks and bonds have grown significantly in the past decade. This growth is part of a broader trend of investors seeking greater exposure to emerging markets. From 2010 to 2014, emerging market economies received cumulative gross portfolio capital flows of \$1.4 trillion. Of this, almost \$200 billion came from regulated funds.



Amid this strong growth, some observers have expressed concern that redemptions during a market downturn could hurt these emerging market economies. "Regulated Funds, Emerging Markets, and Financial Stability," published by ICI Global in April 2015, answers these concerns by examining

the role of regulated funds in capital flows and investment trends in emerging markets. The study's author, ICI Senior Economist Chris Plantier, cites three main reasons that funds are unlikely to pose systemic risk in emerging economies:

- » **Small relative size.** Market participants other than regulated funds, most notably domestic investors, dominate the equity and fixed-income markets in emerging markets.
- » **Stable investor base.** Regulated funds provide a stable investor base, accounting for less than 15 percent of the volatility in foreign portfolio capital flows to emerging markets from 2005 to 2013.
- » **Diversified holdings.** Regulated fund holdings are diversified across a wide number of emerging economies, limiting the effects of their portfolio transactions on any particular country. ●

IDC Serves Fund Directors Through Education and Policy Initiatives

Over the past year, the Independent Directors Council (IDC) brought a range of initiatives to bear in support of directors' work on behalf of fund shareholders. Director education—the foundation of IDC's efforts since its inception in 2004—took center stage once again, thanks to substantive events and informative educational resources.

The 2014 Fund Directors Conference demonstrated why it is the premier gathering of the independent director community, with lively discussion on such topics as investment performance analytics, the regulatory focus on fund directors by the Securities and Exchange Commission (SEC), and common practices for overseeing cybersecurity risk. And at the 2015 Fund Directors Workshop—held alongside ICI's General Membership Meeting—directors compared notes on oversight of liquidity management, board composition and recruitment, methodologies for issuing stewardship grades, innovations in fund products, and more.

Webinars also featured heavily in IDC's educational offerings, providing a flexible way to inform directors quickly on industry and regulatory developments that could affect their roles and responsibilities. For example, IDC and ICI held a webinar to help fund advisers and boards evaluate recent guidance from SEC staff on proxy voting and another analyzing the SEC's liquidity risk management proposal.

IDC also debuted its Deeper Dive Webinar Series, which looks at director issues in greater depth than it has done before. The series opened with a pair of webinars on derivatives—the first covering how funds use derivatives to implement investment strategies, and the second covering operational and regulatory implications for funds using derivatives. IDC plans to build on the success of this series in the coming months; one upcoming webinar will examine the process for approving advisory contracts.

VOICING THE DIRECTOR PERSPECTIVE

With a strong voice on behalf of independent directors, IDC delivered commentary to regulators on important policy debates.

- » In response to a request for information from the U.S. Financial Stability Oversight Council (FSOC), IDC emphasized that fund boards' robust protection of shareholder interests limits the potential for systemic risk in asset management—and that the SEC, the industry's primary regulator, should address any concerns in this area.
- » In a letter to the SEC, IDC expressed support for the Commission's proposal to modernize how regulated funds report information on their portfolio holdings, including for the part of the proposal that would permit funds to deliver shareholder reports online, as opposed to through the mail.
- » In response to a Public Company Accounting Oversight Board staff paper suggesting changes to auditing standards, IDC joined with ICI to express concern that the changes could raise costs for funds and investors without a commensurate increase in audit quality.
- » In another letter to the SEC, IDC asserted that the additional audit committee reporting requirements contemplated in a concept release from the Commission would not benefit investors in closed-end funds and would not make sense for open-end funds, which are not currently subject to audit committee reporting requirements.

IDC also worked with ICI to provide the independent director perspective in litigation affecting the fund industry. In *Northstar Financial Advisors Inc. v. Schwab Investments*, a case involving a fund's alleged failure to adhere to its fundamental investment objectives as outlined in its registration statement and prospectus, the U.S. Court of Appeals for the Ninth Circuit held, among other things, that the documents create a contract between the fund and its shareholders.

TWO DECADES OF SUPPORTING FUND INDEPENDENT DIRECTORS

Though the Independent Directors Council celebrated its 10-year anniversary in 2014, its history reaches back two decades. In 1995, ICI formed the Director Services Committee to support the work of fund directors. As regulators increased their focus on fund boards, and independent directors' roles and responsibilities expanded, ICI recognized the benefits of launching a distinct organization to serve the independent director community, with its own leadership and staff. IDC launched in May 2004 to advance the education, communication, and policy positions of independent directors, as well as to promote public understanding of their unique role—all with the overarching goal of helping them better serve shareholder interests. IDC is supported by all of the research, analytical, and communications resources of ICI.



Dawn-Marie Driscoll, an independent director of the Scudder Funds, as part of a panel of mutual fund independent directors and industry leaders, announces the June 1999 *Report of the Advisory Group on Best Practices for Fund Directors*—recommendations to enhance the system of governance that protects mutual fund shareholders.

In support of Schwab's petitions for a rehearing of the decision, IDC and ICI filed two amici curiae briefs—first with the Ninth Circuit, and then with the U.S. Supreme Court. The briefs argued that the prospectus is a disclosure document governed by SEC regulation, and that converting it into a contract enforceable under state law undercuts Congress's and the SEC's comprehensive regulatory framework for mutual funds. The case has returned to the California district court in which it was first heard.

FACILITATING MEANINGFUL DIALOGUE

IDC continued to broaden its efforts to bring independent directors together for meaningful dialogue with their peers. In 2014, IDC began a series of conference calls targeted to

audit committee chairs and board leaders. These calls offer directors the opportunity to discuss topics of interest in an informal session designed for their unique roles—and in 2015, IDC expanded the series, adding calls for governance committee chairs and directors of small fund complexes.

In addition, IDC upgraded its slate of chapter meetings to include several in a new, expanded format. Beyond the customary interactive discussions, these chapter meetings featured presentations from fund industry experts offering a business perspective on such topics as the asset management industry, distribution, and liquidity and valuation. ●

The Independent Directors Council (IDC) brought a range of initiatives to bear in support of directors' work on behalf of fund shareholders.

OPERATIONS

Providing Resources and Support for Operations Programs



The fund industry could not function without the thousands of individuals who devote their careers to the distribution, operational processing, servicing, and support of fund products. To help these professionals improve the services they provide, and thus benefit fund shareholders, ICI's Operations team continued to provide resources and support for members on a number of initiatives.

- » Following amendments by the Securities and Exchange Commission (SEC) to its money market fund rules in 2014, ICI formed four working groups to help members address key implementation questions and challenges (see page 36). Together with ICI's Law Department, Operations staff hosted a conference in February to discuss ways funds can achieve a smooth transition to the new regulatory regime.
- » The Institute's Chief Information Security Officer Advisory Committee, which includes ICI members and critical service providers, continued to serve as a trusted network that enables peers to come together to share information and exchange ideas on cyberthreats and vulnerabilities. ICI Global formed a committee to serve the same function for its members, and ICI and ICI Global sponsored cybersecurity forums in Washington, DC, and London.
- » Operations continued to contribute to efforts to shorten the settlement cycle for a range of securities from trade date plus three days (T+3) to trade date plus two days (T+2), acting as co-leader of the T+2 Industry Steering Committee. In June, the group released a white paper detailing a timeline for implementation of plans to shorten the settlement cycle. During the same month, ICI submitted a letter jointly with the Securities Industry and Financial Markets Association to the SEC regarding its development of rules governing the move to T+2, prompting a positive response from SEC Chair Mary Jo White (see page 37).
- » Working with members of several ICI committees, Operations staff coordinated a member survey to determine areas where ICI and the Independent Directors Council (IDC) can better help members enhance their oversight programs (see page 37).
- » Operations staff represented regulated funds' views in comments to financial reporting and auditing regulators, seeking to meet regulators' goals as efficiently as possible. ICI persuaded the Financial Accounting Standards Board (FASB) to drop a proposal that would have imposed additional portfolio holdings disclosure requirements on funds investing in other funds. FASB cited ICI's concerns among the reasons for its action. In addition, ICI and IDC jointly expressed concerns in comments to the Public Company Accounting Oversight Board (PCAOB) on a staff consultation paper relating to auditing accounting estimates and fair value measurements, warning that the approach described in the paper could increase audit requirements without providing commensurate benefits. The PCAOB is expected to issue proposed changes to auditing standards for public comment during the fourth quarter of 2015. ●

ELECTRONIC CLEARING AND SETTLEMENT: A RESPONSE TO THE PAPERWORK CRISIS OF 1968

The advent of electronic clearing and settlement of securities transactions made the explosive growth of funds possible. The modern systems were a response to a historic paperwork crisis that began in 1968, at the zenith of a stock market bubble that had Wall Street brokerage houses overwhelmed with an unexpected influx of new customers. Average trading volume in 1968 was nearly 13 million shares per day, double the around 6 million shares a day traded three years earlier. Brokerage firms' back offices—where trades were still cleared and settled manually using paper stock certificates—simply could not keep up with the flood of documents. Funds were among the market participants hit hard by this backlog, which affected their share pricing and other operations.

In response to the crisis, U.S. exchanges began to transfer securities electronically, eliminating their physical handling for settlement purposes. The Depository Trust Company (DTC) and the National Securities Clearing Corporation (NSCC) were established and assumed this function in the 1970s. In 1999, the Depository Trust & Clearing Corporation (DTCC) was formed as a holding company of

the DTC and NSCC. The DTC holds custody of trillions of securities, and actual stock certificates are slowly being removed and retired from circulation. In 1973, the DTC held 32 million paper certificates. As of March 2015, there were about 1.03 million paper certificates left in the DTC vault.



PHOTO COURTESY OF THE LIBRARY OF CONGRESS

INFORMATION SECURITY: KEEPING UP WITH A RAPIDLY EVOLVING THREAT

Cybersecurity has long been one of the fund industry's greatest concerns—and given the rapid advance and evolving nature of cyberthreats, that is not likely to change any time soon. This is why ICI has continued to work with members and industry experts to identify threats, share information, and promote sound practices that ultimately benefit fund shareholders.

Though ICI's Technology Committee had made cybersecurity part of its agenda for almost two decades, ICI created a separate Chief Information Security Officer Advisory Committee (CISOAC) in early 2014 to focus its efforts more precisely. A year later, the Institute's international arm followed suit, creating the ICI Global Information Security Officer Committee.

Over the past year, both committees have been busy, holding well-received forums and helping build online ICI resource centers that feature a wealth of information. Among other useful material, the centers include a detailed set of questions to help members better evaluate their own cybersecurity and that of their vendors.

To get a better sense of how practices are developing—and where to direct its efforts—the CISOAC also conducted a detailed survey on members' information security programs. This unique survey, designed exclusively for the fund industry rather than for the overall financial services sector, will enable firms to compare their programs to industry peers.

The CISOAC also is working with the Financial Services Sector Coordinating Council—a public-private partnership formed to help protect financial services infrastructure—to give members the opportunity to meet with agents from the cyber divisions of the Federal Bureau of Investigation and the Secret Service. Members will learn about the capabilities of law enforcement in their jurisdictions, while the agents will learn about security needs of the fund industry. ●

For more information on ICI's cybersecurity efforts, visit www.ici.org/cyber and www.iciglobal.org/globalcyber.

A Smooth Transition

IMPLEMENTING NEW MONEY MARKET FUND REFORMS

Several of ICI's operations committees have engaged members and intermediaries in an ongoing effort to implement rules governing money market funds passed in July 2014 by the Securities and Exchange Commission (SEC).

The second round of reforms for money market funds since the 2008 financial crisis, the new rules aim to further enhance funds' ability to respond to quickly changing market conditions and redemption pressures. The SEC sought to accomplish this while preserving, as much as possible, money market funds' benefits. Various sections of the reform will become effective throughout 2015 and 2016, and the final implementation deadline is in October 2016.

Funds and intermediaries are making significant structural changes to operational processes and systems to implement the final rules. For example, institutional prime and tax-exempt money market funds will be required to sell and redeem shares using a floating net asset value (NAV) calculated to four decimal places. Money market funds and intermediaries also must be ready to support and administer rule provisions that require—at the discretion of the fund board—a liquidity fee or redemption gate if a fund's weekly liquid assets drop below a given threshold.

To help members and intermediaries implement the new rules, ICI's Operations team formed four working groups, each addressing a core implementation goal:

- » The *Retail Versus Institutional Customers Working Group* is addressing the challenges of categorizing and placing shareholders in retail or institutional money market funds, based on the definitions in the final rules.
- » The *Four-Decimal Point NAV Calculation Working Group* is addressing systems and processing considerations for floating NAV funds and their adoption of basis-point pricing.
- » The *Liquidity Fees/Redemption Gates Working Group* is addressing operational considerations and challenges related to the imposition and removal of fees and gates.
- » The *Intraday Processing for Floating NAV Money Market Funds Working Group* is addressing the feasibility of calculating multiple NAVs to support several cash settlements in one business day.

Experts from ICI's Operations and Law departments also worked closely with members to interpret a broad set of frequently asked questions released by the SEC to clarify ambiguities and definitions in the rules. Key FAQs for members addressed the definition of a *retail money market fund*, concerns about disclosure and reporting, and implementation technicalities surrounding fees and gates.

In conjunction with these efforts, in February ICI hosted a one-day conference in Washington, DC, that brought together experts from many parts of the money market fund industry. ICI President and CEO Paul Schott Stevens delivered opening remarks, and the conference featured four panels comprising industry leaders, current and former regulators, and expert outside attorneys, moderated by ICI Law and Operations staff. The panels examined legal and interpretive challenges, operational implications, and disclosure provisions, as well as new board responsibilities under the rules. ●

“*Though the two-year time frame for implementation granted by the SEC sounds like a long time, you know as well as I do that when it comes to implementation of a 900-page rulemaking that touches just about every part of a money market fund's organization, every second counts.*”

— ICI President and CEO Paul Schott Stevens, February 4, 2015, Washington, DC, “Will You Be Ready? Implementing the New Money Market Fund Rules”

GAINING INSIGHT ON INTERMEDIARY OVERSIGHT

In fall 2014, a subgroup of ICI's Broker-Dealer Advisory, Chief Compliance Officer, Operations, and Transfer Agent Advisory committees conducted a survey to collect data on how mutual funds are overseeing their intermediary partners' investor servicing and recordkeeping activities. The goal of the survey was to gain a better understanding of the approaches and tools that mutual funds use to obtain information about their intermediaries' compliance with fund policies, procedures, and prospectus requirements—and to identify areas where ICI can help members enhance their oversight programs.

Ninety-eight fund complexes, from small to large, participated in the survey. Participants managed about \$10.7 trillion, or 80 percent, of U.S. long-term mutual fund assets at year-end 2014. Once the participants had submitted their responses, ICI's Operations and Law departments, along with the Independent Directors

Council (IDC), reviewed the data and identified three opportunities for ICI staff, IDC, and committees to focus on over the next several years:

- » Continue encouraging fund complexes and intermediaries to use the Financial Industry Controls and Compliance Assessment (FICCA)—an efficient, flexible framework through which intermediaries can report to fund complexes how effectively they are servicing fund shareholders.
- » Where possible, develop standardized templates for the questionnaires and certifications that fund complexes ask intermediaries to complete as part of their oversight programs, to ease the burdens on both funds and intermediaries.
- » Identify common practices around how funds report information on their oversight programs to their boards of directors—and the types of information they should be reporting. ●

MAKING PROGRESS ON A SHORTENED SETTLEMENT CYCLE

During the past year a voluntary, industry-led effort made great strides toward shortening the settlement cycle for a range of securities from trade date plus three days (T+3) to trade date plus two days (T+2). The initiative recently has garnered vocal support from several commissioners on the Securities and Exchange Commission (SEC).

ICI has been working on the initiative with a number of industry partners—including the Depository Trust & Clearing Corporation (DTCC) and the Securities Industry and Financial Markets Association (SIFMA)—since January 2014. In June 2015, the T+2 Industry Steering Committee (ISC) released a white paper outlining the timeline and activities required to move to T+2 in the United States by the end of the third quarter in 2017.

Based on input from more than 600 industry participants across 12 market segments, the

proposed timeline depends upon successfully completing industrywide testing during the second and third quarters of 2017. It also depends on regulators' support to amend exchange and securities rules that apply to the settlement cycle. Consequently, SIFMA and ICI—cochairs of the ISC—submitted a letter to the SEC outlining the specific regulatory changes needed to facilitate the move to T+2, leading to a formal response from SEC Chair Mary Jo White recognizing its potential to reduce risk in the overall financial system.

ICI also has formed the Securities Operations Advisory Committee, which is focused on such middle-office functions as portfolio trading clearance and settlement, and includes almost 100 ICI members and business partners from the buy-side. ●

For more information about the shortened settlement cycle, visit www.ici.org/ssc.

Facing the Future

The fund industry celebrated 75 years of success while keeping its eyes clearly on the future when its leaders gathered on May 6–8 for the 57th Annual General Membership Meeting (GMM) under the banner “ICI at 75: Facing the Future.”

In his opening remarks, George C. W. Gatch, chairman of the GMM Planning Committee and CEO for Global Funds Management and Institutional at J.P. Morgan Asset Management, kicked off the commemoration of the 75th anniversary of the Investment Company Act of 1940, the Investment Advisers Act of 1940, and ICI itself. “The modern fund industry’s founding documents and the Institute have played crucial roles in the growth of funds and the success of our shareholders,” he said, adding that the meeting was a chance to “savor our past” as well as to look ahead to the future.

ICI Chairman F. William McNabb III, chairman and CEO of the Vanguard Group, described the ‘40 Acts as “remarkable pieces of legislation” that have “stood the test of time” and will continue to guide funds in the future. He also touched on themes of market access, innovation, globalization, and the industry’s responsibility to investors. “We are stewards of our investors’ hard-earned capital,” he reminded the capacity crowd. “We must never forget that.”



George C. W. Gatch, 2015 GMM Planning Committee Chair and CEO for Global Funds Management and Institutional at J.P. Morgan Asset Management, pays tribute to ICI’s 75th anniversary in his opening address at GMM.

LESSONS FOR SUCCESS

Walter W. Bettinger II, president and CEO of the Charles Schwab Corporation, then participated in a wide-ranging discussion with Paul Schott Stevens, president and CEO of ICI. They covered such topics as changes in investor behavior, the importance of human interaction in financial services, Schwab’s belief in choice for investors, and the power of putting people first. “We must remember that the core of the financial services industry is trust,” said Bettinger. Some industries can get by without relying heavily on human interaction, he said, “but our industry is different—we must remain committed to serving people.”

During the meeting’s second day, Indra Nooyi, PepsiCo chairman and CEO, sat down for a lively post-lunch question-and-answer session with McNabb. She discussed her ideas regarding success, the global marketplace, and how to build a business with “soul.” Nooyi also explained the three trends that had contributed to “Performance with Purpose,” PepsiCo’s mantra during her tenure as CEO: shifting PepsiCo’s product portfolio toward health and wellness, fostering an environmental consciousness across the company, and integrating employees’ work lives with their lives outside work.

“WE HAVE THE TOOLS WE NEED”

Appearing at GMM for the third consecutive year, Securities and Exchange Commission (SEC) Chair Mary Jo White discussed the most pressing regulatory issues facing the fund industry. White contended that the SEC has the tools it needs to address risks in the industry and the capital markets because, under the ‘40 Acts, the regulatory tools at the SEC’s disposal are “adaptable.”

The SEC’s expertise in capital markets is especially important, White noted, and gives it a key role to play in larger regulatory bodies—such as the U.S. Financial Stability Oversight Council—that are sometimes dominated by banking regulators. When examining the issue of systemic risk, White said, “You need all perspectives, not just the prudential one from banking regulators, but the capital markets’ perspective.” She also emphasized that the SEC was continuing to focus on how to limit risks to the financial system, stressing that, “in terms of the basic issues that pertain to the asset management industry, we have the tools we need.”

A CULTURE OF COMMITMENT AND A LEGACY OF COLLABORATION

Jack Brennan, chairman emeritus of the Vanguard Group; Paul G. Haaga, former chairman, Capital Research & Management; and James Riepe, senior adviser and retired vice chairman, T. Rowe Price Group, joined ICI President and CEO Paul Schott Stevens to share lessons they learned over the course of their careers, as well as during their years of service as volunteer leaders at ICI. The panelists agreed that ICI's unique culture

is one of the main reasons for its success. A commitment to doing the right thing for the shareholder is a key facet of the ICI culture, they said, as are commitments to gather and analyze data objectively and to work closely with regulators toward common goals. They also noted that friendship fostered by working together at ICI made it much more possible to get agreement on tough issues.



At the General Membership Meeting, ICI President and CEO Paul Schott Stevens and former ICI chairmen Jack Brennan of the Vanguard Group, Paul Haaga of Capital Research & Management Company, and Jim Riepe of T. Rowe Price Group participate in a thoughtful and entertaining discussion about the evolution of the fund industry and Institute.

WIDE-RANGING PROGRAM

GMM also enabled attendees to sample a diverse offering of other sessions, including those from the Operations and Technology Conference, the Mutual Fund Compliance Programs Conference, and the Fund Directors Workshop, all of which ran concurrently with GMM.

Several panels discussed various aspects of investing for the largest generational group in the workforce—the Millennial Generation. Panelists agreed that though there are some attributes that set Millennials apart from other generations, in the end, they want what everyone wants—

help from trusted sources in navigating the complex and competing financial demands of their lives.

GMM wrapped up with a presentation from retired U.S. Navy admiral James Stavridis, former Supreme Allied Commander, Europe for NATO, who offered a global perspective on the world's biggest threats, including violent extremism, biological risks, and cybercrime. In explaining how these threats might affect the fund industry, he gave advice that applies to every area of life—to strengthen security, he said, “we must build bridges instead of walls.” ●

“*You compete like crazy, but there are a lot of awful deep friendships that come out of [volunteer leadership for ICI]. That matters. Work is work. But at the end of the day, if you can do good things for your investors, for your company, and your industry, and do it with people you value because they have high character and integrity—how good is that?*”

— Jack Brennan, former ICI chairman and chairman emeritus of the Vanguard Group

Strengthening Members' Voices on Capitol Hill

ICI's Government Affairs program effectively represents the interests of funds and their investors on a wide range of increasingly important legislative issues—including financial, tax, and pension issues. Though the range of issues covered by the team is growing ever wider—as they deal with congressional committees on topics such as commodities and cybersecurity—ICI's reputation for objective data and consensus building provides it with frequent opportunities to offer research findings, legal analysis, and operational insights to lawmakers and their aides.

ICI's political action committee (ICI PAC) is a key part of the Institute's efforts to establish and sustain dialogue with key lawmakers—enabling members to show their support for elected officials who understand the issues affecting funds and their more than 90 million shareholders.

Thanks to member and ICI staff support, ICI's political program raised \$2.86 million during the 2013–2014 election cycle for lawmakers in key positions. Contributions in 2014 supported almost 200 legislators who are leading members of such important panels as the Senate Finance Committee, the Senate Banking Committee, the House Ways and Means Committee, and the House Financial Services Committee.

This support complemented ICI's ongoing efforts to build relationships with legislators who have expertise on a host of fund-related issues. For example, as the House and Senate tax-writing committees renew their focus on comprehensive tax reform, the Institute is working to ensure that any reform legislation does not negatively affect the current tax incentives for retirement savings and for municipal bonds. ICI has continued to meet with members of the Ways and Means

and Finance committees to explain the importance of existing tax incentives for retirement savings and the tax exemption for municipal bond interest. The Institute also has presented research to Senate Finance Committee working groups that are developing a range of tax reform proposals.

ICI members get directly involved in outreach to Capitol Hill. For example, on July 23, members of the Board of Governors and other industry executives came to Washington to meet with 22 leaders from both houses of Congress and both parties to discuss the Department of Labor's fiduciary proposal, as well as tax policy, financial stability, and other fund-related issues.

Each year, the Institute's Board of Governors appoints a group of its members—the ICI PAC Board—to oversee and provide policy direction for ICI's political activities. William F. "Ted" Truscott, CEO of Columbia Threadneedle Investments, has led the ICI PAC Board since May 2014. Day-to-day work is managed by ICI Political Affairs Officer George F. Shevlin IV.

ICI's political program offers a number of ways for members to connect with elected officials. Members can donate directly to ICI PAC, contribute directly to specific candidates by participating in fundraisers hosted by ICI PAC, and contribute directly to lawmakers recommended by the ICI PAC Board.

"Participating in ICI PAC," Truscott explains, "is the best way for members to 'get invested' in the major policy issues affecting the fund industry." ●

For questions about the ICI PAC Board or ICI PAC, please contact George Shevlin at george.shevlin@ici.org or 202-326-5892.

*ICI PAC is a key part of the Institute's efforts
to establish and sustain dialogue
with key candidates and policymakers.*

From the shock of any crisis. There is no necessity of reviewing. It is enough to point out that the investment trusts have themselves of their activities. This attitude on the part of the investment trusts that business men have at last come to recognize that it is this



ICI Chairman Bill McNabb, chairman and CEO of the Vanguard Group (left), and ICI President and CEO Paul Schott Stevens (right) listen to Ways and Means Committee Chairman Paul D. Ryan (R-WI) give a political update at an event held in Representative Ryan's honor shortly before he became Speaker of the House of Representatives in October 2015.



Representative David Scott (D-GA), a member of both the House Committee on Agriculture and the Committee on Financial Services, answers questions at a luncheon held in his honor at ICI on February 12, 2015.



Newly elected ICI PAC Board Chairman and CEO of Columbia Threadneedle Investments, William F. "Ted" Truscott, welcomes Representative John K. Delaney (D-MD) to a reception hosted for him by ICI PAC on September 2, 2015.



Representative Ander Crenshaw (R-FL), chairman of the House Committee on Appropriations' Subcommittee on Financial Services and General Government, briefs attendees at an ICI PAC reception on July 22, 2015.

APPENDIX A

Governance and Finances

GOVERNANCE

ICI is a 501(c)(6) organization that represents registered investment companies on regulatory, legislative, and securities industry initiatives that affect funds and their shareholders.

ICI members include mutual funds, exchange-traded funds, closed-end funds, sponsors of unit investment trusts in the United States, similar funds offered to investors in jurisdictions worldwide, and their investment advisers and principal underwriters. The ICI president and staff report to the Institute's Board of Governors, which is responsible for overseeing the business affairs of ICI and determining the Institute's positions on public policy matters (see Appendix C, page 46).

ICI's Board of Governors is composed of 56 members, representing ICI member companies and independent directors of investment companies. Governors are elected annually to staggered three-year terms. The board is geographically diverse and includes representatives from large and small fund families as well as fund groups sponsored by independent asset managers, broker-dealers, banks, and insurance companies. This broad-based representation helps to ensure that the Institute's policy deliberations consider all segments of the fund industry and all investment company shareholders.

Five committees assist the Board of Governors with various aspects of the Institute's affairs. These five include an Executive Committee—responsible for evaluating policy alternatives and various business matters and making recommendations to the Board of Governors—as well as Audit, Compensation, Investment, and Nominating

Committees. Other than the Institute's president, who is a member of the Executive Committee, all members of these committees are governors. The board also has appointed an ICI PAC Board to administer the Institute's political programs, including the political action committee, ICI PAC (page 40). The ICI PAC Board includes 10 governors, the treasurer of ICI PAC, and the Institute's president (ex officio).

ICI addresses the needs of investment company independent directors through the Independent Directors Council (IDC). IDC is led by a Governing Council of independent directors (Appendix E, page 49). IDC organizes educational programs, keeps directors informed of industry and regulatory developments, and assists in the development and communication of policy positions on key issues for fund boards.

Seventeen standing committees, bringing together more than 1,800 industry professionals, guide the Institute's policy work. ICI standing committees perform a number of important roles, including assisting with formulation of policy positions as well as gathering and disseminating information on industry practices (see Appendix D, page 48). In addition, 31 industry advisory committees, task forces, forums, and working groups with more than 2,600 participants tackle a range of regulatory, operations, and business issues. In all of its activities, ICI strictly observes federal and state antitrust laws, in accordance with a long-standing and well-established compliance policy and program.

The Institute employs a staff of 180 (see Appendix B, page 45).

FINANCES

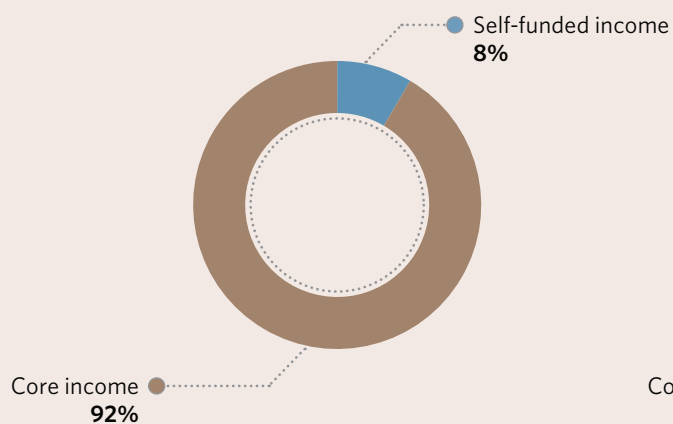
Throughout its history, the Institute has sought to prudently manage its financial affairs in a manner deemed appropriate by the Board of Governors, which is responsible for approving ICI's annual budget and its member net dues rate. The Board of Governors considers both the Institute's core and self-funded activities when approving the annual net dues rate.

Core activities are related to public policy and include regulatory, legislative, operational, economic research, and public communication initiatives in support of investment companies and their shareholders, directors, and advisers. Reflecting the Institute's strategic focus on issues affecting investment companies, the Board of Governors has chosen to fund core activities with dues rather than seek alternative sources of revenues, such

as sales of publications. The significant majority of ICI's total revenues, 92 percent, comes from dues, investment income, royalties, and miscellaneous program sources (see Figure 1). Similarly, by design, 93 percent of the Institute's total resources are devoted to core activities (see Figure 2).

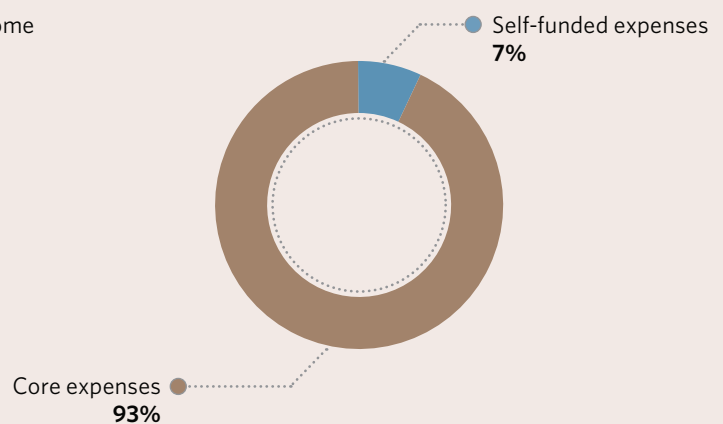
Core expenses support the wide range of initiatives described in this report. Self-funded activities (e.g., conferences, special surveys) are supported by separate fees paid by companies and individuals who participate in these activities. The financial goal for self-funded activities is that fees should cover all direct out-of-pocket costs and provide a margin to cover associated staff costs to ensure that these activities are not subsidized by member dues. ●

FIGURE 1



FY 2015 = \$72,813,744
TOTAL REVENUES

FIGURE 2



FY 2015 = \$71,453,872
TOTAL OPERATING EXPENSES

ICI Unaudited Financial Statements

Statement of Financial Position

AS OF SEPTEMBER 30, 2015

ASSETS

Cash and cash equivalents	\$1,514,375
Investments, at market value	55,127,200
Accounts receivable	1,186,804
Prepaid expenses	2,193,358
Other assets	1,112,173
Furniture, equipment, and leasehold improvements; net (less accumulated depreciation of \$11,016,169)	5,307,247
Total assets	\$66,441,157

LIABILITIES AND NET ASSETS

LIABILITIES

Payroll and related charges accrued and withheld	4,844,430
Accrued pension liabilities	4,807,671
Accrued postretirement liabilities	11,710,403
Accounts payable and accrued expenses	3,090,739
Deferred revenue	1,064,660
Rent credit	3,345,071
Deferred rent	4,320,361
Total liabilities	33,183,335

NET ASSETS

Undesignated net assets	39,812,179
Board-designated net assets	1,000,000
Total net assets	33,257,822
Total liabilities and net assets	\$66,441,157

Statement of Activities and Changes in Net Assets

FOR THE YEAR ENDED SEPTEMBER 30, 2015

CORE INCOME

Membership dues	\$60,961,879
	3,314,945
Investment income	114,431
Royalty income	879,652
Program income	1,387,350
Total core income	66,658,257

CORE EXPENSES

Administrative expenses	49,523,899
Program expenses	7,451,373
ICI Global expenses	6,192,829
Depreciation and lobby proxy tax	3,187,174
Total core expenses	66,355,275
Change in net assets—core	302,982

SELF-FUNDED INCOME

Conferences	5,879,870
Other self-funded income	275,617
Total self-funded income	6,155,487

SELF-FUNDED EXPENSES

Conferences	5,012,560
Other self-funded expenses	86,037
Total self-funded expenses	5,098,597
Change in net assets—self-funded	1,056,890
Change in net assets from operations	1,359,872
Non-operating expenses	(43,755)
Actuarial pension/postretirement plan loss	(4,027,458)
Change in net assets	(2,750,408)
Net assets, beginning of year	36,008,230
Net assets, end of year	\$33,257,822

These financial statements are preliminary unaudited statements as of September 30, 2015. Audited financial statements for the fiscal year ended September 30, 2015, will be available after February 1, 2016. To obtain copies of the audited statements, please contact Mark Delcoco at 202-326-5974.

APPENDIX B

ICI Staff Leadership and Management

AS OF SEPTEMBER 30, 2015

EXECUTIVE OFFICE

Paul Schott Stevens^{1,2,5}
President and CEO

Peter H. Gallary³
Chief Operating Officer

GOVERNMENT AFFAIRS

Donald C. Auerbach
Chief Government Affairs Officer
and Co-Head

Dean R. Sackett III
Chief Government Affairs Officer
and Co-Head

Peter J. Gunas III
Government Affairs Officer,
Retirement Security and Tax Policy

Allen C. Huffman
Director, Retirement Security
and Tax Policy

Michelle Y. Mesack
Director, Financial Services

George F. Shevlin IV
Political Affairs Officer

LAW

David W. Blass
General Counsel

Dorothy M. Donohue
Deputy General Counsel,
Securities Regulation

Sarah A. Bessin
Associate General Counsel

Jennifer S. Choi
Associate General Counsel

Kenneth C. Fang
Assistant General Counsel

Linda M. French
Counsel

Rachel H. Graham
Associate General Counsel

Jane G. Heinrichs
Associate General Counsel

Tamara K. Salmon
Associate General Counsel

Frances M. Stadler
Associate General Counsel
and Corporate Secretary

J. Matthew Thornton
Counsel

David M. Abbey
Deputy General Counsel,
Retirement Policy

Elena B. Chism
Associate General Counsel

Keith D. Lawson⁴
Deputy General Counsel, Tax Law

Karen L. Gibian
Associate General Counsel

Ryan M. Lovin
Assistant General Counsel

OPERATIONS

Martin A. Burns
Chief Industry Operations Officer

Linda J. Brenner
Director, Distribution Management
and Operations

Ahmed M. El Ghazali
Director, Securities Operations

Joanne M. Kane
Director, Transfer Agency and
Operations

Jeffrey A. Naylor
Director, Operations and Distribution

Peter G. Salmon
Senior Director, Operations and
Technology

Gregory M. Smith
Senior Director, Fund Accounting
and Compliance

PUBLIC COMMUNICATIONS

Mike McNamee
Chief Public Communications Officer

Matthew J. Beck
Senior Director, Media Relations

Rachel W. McTague
Director, Media Relations

Stephanie M. Ortals-Tibbs
Director, Media Relations

Todd Bernhardt
Senior Director, Policy Writing
and Editorial

Miriam E. Bridges
Director, Editorial

Janet M. Zavistovich
Senior Director, Communications
Design

Jodi M. Weakland
Director, Design

RESEARCH

Brian K. Reid
Chief Economist

Sarah A. Holden
Senior Director, Retirement
and Investor Research

Peter J. Brady
Senior Economist

Kimberly D. Burham
Economist

Sean S. Collins
Senior Director, Industry and
Financial Analysis

Rochelle L. Antoniewicz
Senior Economist

Emily A. Gallagher
Economist

L. Christopher Plantier
Senior Economist

Judith A. Steenstra
Senior Director, Statistical Research

Sheila M. McDonald
Director, Statistical Research

Erin H. Short
Director, Statistical Research

ADMINISTRATION

Christopher E. Boyland
Senior Director and Information
Technology Officer

Paul R. Camarata
Director, Electronic Data Collection

Andrew L. Colb
Director, System Operations

Mark A. Delcoco
Controller/Treasurer

Patricia L. Conley
Director, Accounting

Jane A. Forsythe
Senior Director, Conferences

Mary D. Kramer
Chief Human Resources Officer

Suzanne N. Rand
Director, Human Resources

Anne S. Vandegrift
Director, Benefits

Sheila F. Moore
Director, Office Services

Lee D. Butler
Director, Information Services

Michelle M. Kretsch
Senior Director, Membership

ICI GLOBAL

Daniel F. Waters
Managing Director, ICI Global

Qiumei Yang
CEO, ICI Global, Asia-Pacific

Patrice Bergé-Vincent
Managing Director, ICI Global,
Europe

Susan M. Olson
Chief Counsel

Anna A. Driggs
Associate Chief Counsel,
Retirement Policy

Eva M. Mykolenko
Associate Chief Counsel,
Securities Regulation

Giles S. Swan
Director, Global Funds Policy

INDEPENDENT DIRECTORS COUNCIL

Amy B. R. Lancellotta
Managing Director

Annette M. Capretta
Deputy Managing Director

Lisa C. Hamman
Senior Associate Counsel

¹ Executive Committee of ICI's
Board of Governors

² ICI PAC Board (ex officio)

³ ICI PAC Board and Treasurer to
ICI PAC

⁴ Secretary to ICI's PAC Board,
Assistant Treasurer to ICI PAC,
Political Compliance Counsel

⁵ ICI Education Foundation Board

APPENDIX C

ICI Board of Governors

AS OF SEPTEMBER 30, 2015

F. William McNabb, III^{2,3,4,6,7}
ICI Chairman
Chairman and CEO
Vanguard

Gregory E. Johnson^{2,7}
ICI Vice Chairman
Chairman and CEO
Franklin Resources, Inc.

Ashok N. Bakhru
Independent Director
Goldman Sachs Funds

Edward C. Bernard^{2,6,7}
Vice Chairman
T. Rowe Price Group, Inc.

Dorothy A. Berry²
Independent Director
Professionally Managed Portfolios and
PNC Funds

David G. Booth²
Chairman
Dimensional Fund Advisors LP

Leonard P. Brennan
Chief Executive Officer
Russell Investments

Marie A. Chandoha²
President and CEO
Charles Schwab Investment
Management, Inc.

Robert Conti
President
Neuberger Berman Management LLC

Bruce L. Crockett³
Independent Director
Invesco Funds

James E. Davey
President
The Hartford Mutual Funds

Thomas R. Donahue
Chief Financial Officer and Treasurer
Federated Investors, Inc.

Kenneth C. Eich
Chief Operating Officer
Davis Selected Advisers, L.P.

Nora M. Everett
President, Retirement and Investor Services,
and Chairman, Principal Funds
The Principal Financial Group

Thomas E. Faust Jr.⁴
Chairman and CEO
Eaton Vance Corporation

Martin L. Flanagan²
President and CEO
Invesco Ltd.

Paul K. Freeman^{1,2,5}
Independent Director
Deutsche Funds

Brian J. Gaffney¹
Chief Executive Officer
Allianz Global Investors U.S. LLC

George C. W. Gatch^{1,2,3,6}
CEO, Global Funds Management
and Institutional
J.P. Morgan Asset Management

William J. Hackett
Chief Executive Officer
Mathews International Capital
Management, LLC

John T. Hailer¹
President and CEO, U.S. and Asia
Natixis Global Asset Management, L.P.

Peter A. Harbeck
President and CEO
SunAmerica Asset Management, LLC

Brent R. Harris^{1,4,6}
Chairman
PIMCO Funds

Diana P. Herrmann
President and CEO
Aquila Investment Management LLC

Melody Hobson^{2,6}
President
Ariel Investments, LLC

Karen N. Horn
Independent Director
T. Rowe Price Funds

James A. Jessee¹
President
MFS Fund Distributors, Inc.

Lisa M. Jones
President and CEO
Pioneer Investment Management
USA Inc.

Lawrence H. Kaplan
Partner, General Counsel
Lord Abbett & Co. LLC

Alain Karaoglan¹
Chief Operating Officer
Voya Financial

Robert M. Keith
Head of Global Client Group
AB Global

Marie L. Knowles
Independent Director
Fidelity Fixed Income and Asset
Allocation Funds

Drew Lawton
Chief Executive Officer
New York Life Investment Management LLC

Arthur J. Lev
Managing Director and Head, Long Only
Business
Morgan Stanley Investment Management Inc.

Susan C. Livingston⁶
Partner
Brown Brothers Harriman & Co.

Susan B. McGee
President and General Counsel
U.S. Global Investors, Inc.

Barry McInerney
Co-Chief Executive Officer
BMO Global Asset Management

James A. McNamara²
President and CEO
Goldman Sachs Mutual Funds

Jerry W. Miller
Head of Asset and Wealth Management
Americas
Deutsche Asset & Wealth Management

Thomas M. Mistele²
Chief Operating Officer
Dodge & Cox

Charlie S. Morrison^{1,2}
President, Asset Management
Fidelity Investments

Mark D. Nerud
President and CEO
Jackson National Asset Management LLC

Barbara Novick^{1,2}
Vice Chairman
BlackRock, Inc.

Steven J. Paggioli¹
Independent Director
AMG Funds, Aston Funds, and
Professionally Managed Portfolios

Stuart S. Parker
President
Prudential Investments

Karla M. Rabusck
President
Wells Fargo Funds Management, LLC

Robert L. Reynolds
President and CEO
Putnam Investments

James E. Ross
Senior Managing Director and
Global Head of ETFs
State Street Global Advisors

Thomas S. Schreier Jr.^{1,3,6}
Vice Chairman, Wealth Management
Nuveen Investments

Laura T. Starks
Independent Director
TIAA-CREF Funds

Joseph A. Sullivan
Chairman and CEO
Legg Mason, Inc.

Jonathan S. Thomas¹
President and CEO
American Century Investments

Garrett Thornburg⁶
Chairman
Thornburg Investment Management, Inc.

William F. Truscott^{1,2,4,6}
Chief Executive Officer
Columbia Threadneedle Investments

Ralph F. Verni
Independent Director
Eaton Vance Funds

Lloyd A. Wennlund^{2,6}
Executive Vice President and
Managing Director
Northern Trust Global Investments

¹ Governor on sabbatical

² Executive Committee member

³ Audit Committee member

⁴ Investment Committee member

⁵ Chairman of the Independent Directors Council

⁶ Chairman's Council member

⁷ ICI Education Foundation Board member

2015 ICI Executive Committee



From left to right: George C. W. Gatch, William F. Truscott, Thomas M. Mistele, Paul K. Freeman, Dorothy A. Berry, David G. Booth, Edward C. Bernard, Paul Schott Stevens, F. William McNabb III, Mellody Hobson, James A. McNamara, Gregory E. Johnson, Charlie S. Morrison, Barbara Novick, Martin L. Flanagan

Not pictured: Marie A. Chandoha, Lloyd A. Wennlund

APPENDIX D

ICI Committees and Task Forces

AS OF SEPTEMBER 30, 2015

ICI STANDING COMMITTEES AND CHAIRS

ACCOUNTING/TREASURERS

Brian W. Wixted
Vice President and Treasurer
OppenheimerFunds

CHIEF COMPLIANCE OFFICER

Nancy M. Morris
Chief Compliance Officer
Wellington Management
Company, LLP

CHIEF RISK OFFICER

Joseph A. Carrier
Chief Risk Officer
Legg Mason, Inc.

CLOSED-END INVESTMENT COMPANY

William Renahan
Vice President and Senior Counsel
Virtus Investment Partners

ETF (EXCHANGE-TRADED FUNDS)

James E. Ross
Senior Managing Director and
Global Head of ETFs
State Street Global Advisors

INTERNATIONAL

Liliane Corzo
Vice President and Senior
Counsel
Capital Research and
Management Company

INVESTMENT ADVISERS

OPERATIONS

Basil Fox
President
Franklin Templeton Investor
Services LLC

PENSION

Douglas O. Kant
Senior Vice President and
Deputy General Counsel
Fidelity Investments

PUBLIC COMMUNICATIONS

Kristin Chambers
Global Head of Media Relations
J.P. Morgan Investment
Management, Inc.

RESEARCH

Gary Blank
Senior Vice President for
Public Affairs and Policy
Fidelity Investments

SALES AND MARKETING

James A. Jessee
President
MFS Fund Distributors, Inc.

SEC RULES

John M. Zerr
General Counsel
Invesco Advisers, Inc.

SMALL FUNDS

Susan B. McGee
President and General Counsel
U.S. Global Investors, Inc.

TAX

Gregory K. Hinkle
Vice President and Controller
Dimensional Fund Advisors LP

TECHNOLOGY

Michael L. Radziemski
Partner, Chief Information Officer
Lord Abbett & Co., LLC

UNIT INVESTMENT TRUST

W. Scott Jardine
General Counsel
First Trust Advisors, L.P.

ICI ADVISORY COMMITTEES/TASK FORCES AND CHAIRS

ABLE ACT WORKING GROUP

ACCOUNTING POLICY SUBCOMMITTEE

Paul Ricci
Senior Manager
Capital Research and Management
Company

ADVERTISING COMPLIANCE ADVISORY

AML COMPLIANCE WORKING GROUP

BANK, TRUST, AND RETIREMENT ADVISORY

James Waters
Vice President
Goldman Sachs & Co.

BROKER/DEALER ADVISORY

Scot Hawthorne
Executive Director
JPMorgan Asset Management

CCO ADVISORY ISSUES SUBCOMMITTEE

Francis Knox
Chief Compliance Officer
John Hancock Funds

CHIEF INFORMATION SECURITY OFFICER ADVISORY

Ellen Rinaldi
Principal, Enterprise Security
Vanguard Group

COMPLIANCE ADVISORY

Thomas Misteale
Chief Operating Officer
Dodge & Cox

DERIVATIVES MARKETS ADVISORY

William Thum
Principal
Vanguard Group

END OF DAY PRICING FORUM

Curt Ruoff
Managing Director
BlackRock, Inc.

EQUITY MARKETS ADVISORY

Matt Lyons
Senior Vice President and Global
Trading Manager
Capital Research & Management
Company

ETF ADVISORY

529 PLAN ADVISORY

FIXED INCOME ADVISORY

INTERNAL AUDIT COMMITTEE

Kathleen Ives
Senior Vice President and
Director of Internal Audit
OppenheimerFunds

INTERNAL SALES MANAGERS ROUNDTABLE

INTERNATIONAL INVESTING SUBCOMMITTEE

Liliane Corzo
Senior Vice President and
Senior Counsel
Capital Research and Management
Company

INTERNATIONAL OPERATIONS ADVISORY

Maureen Leary-Jago
Senior Global Advisor
MFS Investment Management

MANAGEMENT COMPANY TAX SUBCOMMITTEE

MONEY MARKET FUNDS ADVISORY

Nancy Prior
President, Fixed Income
Fidelity Management & Research
Company

MUNICIPAL SECURITIES ADVISORY

Cadmus Hicks
Managing Director
Nuveen Asset Management, LLC

PENSION OPERATIONS ADVISORY

PRINCIPAL UNDERWRITERS WORKING GROUP

PRIVACY ISSUES WORKING GROUP

REGISTERED FUND CPO ADVISORY

Tara Tilbury
Vice President and Chief Counsel—
Asset Management
Ameriprise Financial, Inc.

RISK ADVISORY

SECURITIES OPERATIONS ADVISORY

Louis Rosato
Director
BlackRock, Inc.

SECURITIES REGULATION ADVISORY GROUP

TRANSFER AGENT ADVISORY

Mary Corcoran
Senior Vice President
Invesco Investment Services, Inc.

VARIABLE ANNUITY INSURANCE PRODUCTS ADVISORY

Charlene Grant
Vice President and Counsel
Pacific Life Insurance Company

APPENDIX E

IDC Governing Council Members

AS OF SEPTEMBER 30, 2015

Paul K. Freeman*

IDC Chairman
Independent Director
Deutsche Funds

Julie Allecta

Independent Director
Forward Funds

Ashok N. Bakhr*

Independent Director
Goldman Sachs Funds

Dorothy A. Berry*

Independent Director
Professionally Managed Portfolios
and PNC Funds

James H. Bodurtha

Independent Director
BlackRock Funds

David H. Chow

Independent Director
Market Vectors ETF Trust

Bruce L. Crockett*

Independent Director
Invesco Funds

Diana M. Daniels

Independent Director
Goldman Sachs Funds

Dennis J. Dirks

Independent Director
Fidelity Equity & High Income
Group of Funds

Anne M. Goggin

Independent Director
RS Funds

Keith F. Hartstein

Independent Director
Prudential Retail Funds

Karen N. Horn*

Independent Director
T. Rowe Price Funds

Cynthia Hostetler

Independent Director
Aberdeen Investment Funds

Leonade D. Jones

Independent Director
American Funds

John P. Kavanaugh

Independent Director
MFS Funds

Marie L. Knowles*

Independent Director
Fidelity Fixed Income and
Asset Allocation Funds

Thomas P. Lemke

Independent Director
AXA Premier VIP Trust
J.P. Morgan Exchange-Traded
Fund Trust
SEI Funds

Garry L. Moody

Independent Director
AllianceBernstein Funds

Steven J. Paggioli*

Independent Director
AMG Funds, Aston Funds, and Professionally
Managed Portfolios

Sheryl K. Pressler

Independent Director
Voya Funds

Davey S. Scoon

Independent Director
Allianz Funds

Erik R. Sirri

Independent Director
Natixis Funds

Laura T. Starks*

Independent Director
TIAA-CREF Funds

George J. Sullivan Jr.

Independent Director
SEI Funds
State Street Navigator Trust

Ronald E. Toupin, Jr.

Independent Director
Guggenheim Funds

Dawn M. Vroegop

Independent Director
MetLife Funds
Driehaus Funds

Ralph F. Verni*

Independent Director
Eaton Vance Funds

Jonathan F. Zeschin

Independent Director
Matthews Asia Funds

* On ICI Board of Governors

APPENDIX F

ICI Global Steering Committee

AS OF SEPTEMBER 30, 2015

Campbell Fleming

ICI Global Steering Committee
Chairman
CEO, EMEA and Global Chief
Operating Officer
Columbia Threadneedle Investments

Mark Armour

Chief Executive Officer
Invesco Perpetual

Andrew Arnott

President and CEO, John Hancock
Funds
John Hancock Financial Services,
Inc.

Richard Bisson

President
Nomura Asset Management UK
Limited

David J. Brennan

Chairman and CEO
Baring Asset Management Limited

Eddie Chang

Chief Executive Officer
China International Fund
Management Co., Ltd.

Peng Wah Choy

Chief Executive Officer
Harvest Global Investments Limited

Robert Conti

President
Neuberger Berman Management
LLC

Chen Ding

Chief Executive Officer
CSOP Asset Management Limited

Jiunn-Shyony Duh

Chairman
Fuh Hwa Securities Investment Trust
Co. Ltd.

Gregory P. Dulski

Senior Corporate Counsel
Federated Investors, Inc.

Mark Flaherty

Chief Investment Officer, UK
Fidelity Management & Research
Company, UK

Hamish Forsyth

President, Europe
Capital Group Companies Global

Toby E. Goold

Managing Director
Dodge & Cox Worldwide
Investments Ltd.

Massimo Greco

Head of European Fund Business
J.P. Morgan Asset Management
(UK) Limited

Tjalling Halbertsma

Managing Director, EMEA Business
Development
Nuveen Investments

James S. Hamman

Managing Director, Corporate
Development/Legal
Artisan Partners Limited Partnership

Meekal Hashmi

Senior Vice President and Senior
Global Counsel
Affiliated Managers Group Limited

Robert Higginbotham

President, Global Investment
Services
T. Rowe Price International Ltd.

Arnie Hochman

Vice President, Legal
TD Bank Financial Group

Gaohui Huang

Chief Executive Officer
E Fund Management (HK) Co. Ltd.

James D. Hughes

Senior Counsel
Waddell & Reed, Inc.

Terry Johnson

Head, International Sales
Legg Mason Investments (Europe)
Limited

Zhang Lixin

Chief Executive Officer
Fullgoal Asset Management
(HK) Ltd.

Ross Long

Chief Legal Officer
Nikko Asset Management Co., Ltd.

Brenda Lyons

Executive Vice President
State Street Bank and Trust
Company

John McCarthy

Executive Vice President, Secretary,
and General Counsel
Nuveen Investments

Lina Medeiros

President of Distribution for UCITS
MFS International (UK) Limited

Bryan Melville

Managing Director
Coronation International Limited

James M. Norris

Managing Director, International
Operations
Vanguard Asset Management
Limited

Nicholas Phillips

Head of EMEA Third Party
Distribution
Goldman Sachs Asset Management
International

Jed Plafker

Executive Managing Director
Franklin Templeton Investments

Niall Quinn

Managing Director
Eaton Vance Management
(International) Limited

Karla M. Rabusch

President
Wells Fargo Funds Management, LLC

JungHo Rhee

Chief Executive Officer
Mirae Asset Global Investments
(HK) Limited

Tom Rice

Executive Vice President and
European Legal Counsel
PIMCO Europe Ltd.

Patrick Rudden

Chief Executive Officer
AllianceBernstein, Ltd.

Jonathan Schuman

Executive Vice President, Head of
Global Business Development
Matthews International Capital
Management, LLC

Roger Thompson

Chief Financial Officer
Henderson Group plc

Lodewijk van Setten

Managing Director
Morgan Stanley Investment
Management Limited

Liz Ward

Chief Risk Officer, Global Asset
Management and Group Managing
Director
UBS Global Asset Management (UK)

Hidetoshi Yanagihara

Chief Executive Officer
DIAM International Ltd.

Shelley Yang

Managing Director
China Universal Asset Management
(HK) Limited

Ben Y. B. Zhang

Managing Director
Hai Tong Asset Management (HK)
Limited

Xiaoling Zhang

Chief Executive Officer
China Asset Management
(Hong Kong) Limited

APPENDIX G

ICI, IDC, and ICI Global Events

November 3-5, 2014	Fund Directors Conference ¹	Chicago
November 4, 2014	Closed-End Fund Conference	New York
December 9, 2014	ICI Global Trading and Market Structure Conference ²	London
December 10, 2014	Securities Law Developments Conference ³	Washington, DC
December 11, 2014	ICI Cybersecurity Forum	Washington, DC
February 4, 2015	Will You Be Ready? Implementing the New Money Market Fund Rules	Washington, DC
February 10, 2015	ICI Capital Markets Conference	New York
March 11, 2015	Conference on Financial Stability and Asset Management ⁴	Boston
March 15-18, 2015	Mutual Funds and Investment Management Conference ⁵	Orlando
April 8, 2015	ICI Retirement Summit	Washington, DC
April 10, 2015	The 1940 Acts at 75	Charlottesville
April 23, 2015	Global Retirement Savings Summit	Tokyo
May 6-8, 2015	General Membership Meeting	Washington, DC
May 6-8, 2015	Operations and Technology Conference	Washington, DC
May 7-8, 2015	Mutual Fund Compliance Programs Conference	Washington, DC
May 7, 2015	Fund Directors Workshop ¹	Washington, DC
June 24, 2015	Global Retirement Savings Conference ⁶	Paris
July 14, 2015	ICI Global Cybersecurity Forum	London
September 27-30, 2015	Tax and Accounting Conference	Orlando

¹ Sponsored by IDC

² Cosponsored by ICI and ICI Global

³ Sponsored by the ICI Education Foundation

⁴ Cosponsored by ICI and the Boston University (BU) Center for Finance, Law, and Policy

⁵ Cosponsored by ICI and the Federal Bar Association

⁶ Cosponsored by ICI Global, the Organisation for Economic Co-operation and Development, and the International Organisation of Pension Supervisors

APPENDIX H

Publications and Statistical Releases

ICI is the primary source of analysis and statistical information on the investment company industry. A complete list of ICI research publications and statistical releases is available on the Institute's website at www.ici.org/research. Participant-funded studies are not listed.

INDUSTRY AND FINANCIAL ANALYSIS

- » The Closed-End Fund Market, 2014, *ICI Research Perspective*, April 2014
- » *The Role and Activities of Authorized Participants of Exchange-Traded Funds*, March 2015

INVESTOR RESEARCH

- » Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2014, *ICI Research Perspective*, November 2014
- » Characteristics of Mutual Fund Investors, 2014, *ICI Research Perspective*, November 2014
- » Defined Contribution Plan Participants' Activities, First Half 2014, *ICI Research Report*, November 2014
- » American Views on Defined Contribution Plan Saving, *ICI Research Report*, January 2015
- » Defined Contribution Plan Participants' Activities, First Three Quarters of 2014, *ICI Research Report*, February 2015
- » Profile of Mutual Fund Shareholders, 2014, *ICI Research Report*, February 2015
- » Defined Contribution Plan Participants' Activities, 2014, *ICI Research Report*, April 2015
- » The IRA Investor Profile: Traditional IRA Investors' Activity, 2007-2013, *ICI Research Report*, July 2015
- » The IRA Investor Profile: Roth IRA Investors' Activity, 2007-2013, *ICI Research Report*, July 2015
- » Defined Contribution Plan Participants' Activities, First Quarter 2015, *ICI Research Report*, August 2015
- » What Does Consistent Participation in 401(k) Plans Generate? Changes in 401(k) Account Balances, 2007-2013, *ICI Research Perspective*, September 2015

RETIREMENT RESEARCH

- » The Economics of Providing 401(k) Plans: Services, Fees, and Expenses, 2014, *ICI Research Perspective*, August 2014
- » A Look at Private-Sector Retirement Plan Income After ERISA, 2013, *ICI Research Perspective*, October 2014
- » Who Gets Retirement Plans and Why, 2013, *ICI Research Perspective*, October 2014
- » *The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at 401(k) Plans*, December 2014
- » 401(k) Plan Asset Allocation, Account Balances, and Loan Activity in 2013, *ICI Research Perspective*, December 2014
- » The Role of IRAs in U.S. Households' Saving for Retirement, 2014, *ICI Research Perspective*, January 2015
- » *The BrightScope/ICI Defined Contribution Plan Profile: A Close Look at ERISA 403(b) Plans*, June 2015

INVESTMENT COMPANY FACT BOOK

ICI's annual data and analysis resource, *2015 Investment Company Fact Book: A Review of Trends and Activity in the U.S. Investment Company Industry*, provides current information and historical trends for U.S.-registered investment companies, reporting on retirement assets, characteristics of mutual fund owners, use of index funds, and other trends. It is available in both PDF and HTML versions at www.icifactbook.org. The HTML version provides downloadable data for all charts and tables.

ICI VIEWPOINTS

At *ICI Viewpoints*, ICI publishes analysis and commentary from in-house experts in economics, law, fund operations, and government affairs on the key issues facing funds, their shareholders, directors, and investment advisers. *ICI Viewpoints* also offers short recaps of select ICI comment letters, as well as notes on ICI news and events. *ICI Viewpoints* is available on the Institute's website at www.ici.org/viewpoints.

INDEPENDENT DIRECTORS COUNCIL

» *Report on Funds' Use of Proxy Advisory Firms*, January 2015

ICI GLOBAL

» *Insights from the 2014 Global Retirement Savings Conference*, October 2014

STATISTICAL RELEASES

The most recent ICI statistics and an archive of statistical releases are available at www.ici.org/research/stats.

- » **Trends in Mutual Fund Investing:** A monthly report that includes mutual fund assets, sales, redemptions, cash positions, exchange activity, and portfolio transactions for the period.
- » **Estimated Long-Term Mutual Fund Flows:** A weekly report that provides aggregate estimates of net new cash flows to equity, hybrid, and bond mutual funds.
- » **Money Market Fund Assets:** A weekly report on money market fund assets by type of fund.
- » **Retirement Market Data:** A quarterly report that includes individual retirement account and defined contribution plan assets and mutual fund assets held in those accounts by type of fund.
- » **Exchange-Traded Fund Data:** A monthly report that includes assets, number of funds, issuance, and redemptions of ETFs.
- » **Closed-End Fund Data:** A quarterly report on closed-end fund assets, number of funds, issuance, and number of shareholders.
- » **Unit Investment Trust Data:** A monthly report that includes the value and number of deposits of new trusts by type and maturity.
- » **Worldwide Mutual Fund Market Data:** A quarterly report that includes assets, net sales, and number of mutual funds in countries worldwide.
- » **Taxable Money Market Fund Portfolio (N-MFP) Data:** A monthly report aggregating taxable money market fund data from the SEC's Form N-MFP that includes holdings by type of fund, type of security, and home country of issuer. It also includes weighted average maturities, weighted average lives, and daily and weekly liquid assets.

APPENDIX I

ICI Education Foundation

The ICI Education Foundation (ICIEF) partners with schools, government agencies, and other nonprofits to promote financial education initiatives on behalf of the mutual fund industry. Under a microgrant program launched in 2009, ICIEF awards grants to advance investor education within the greater Washington, DC, area. These grants fund teacher training in personal finance in Maryland, the District of Columbia, and Virginia, as well as adult and youth investment education programs online, on public television, and in workplaces, public libraries, job training programs, and the unique venue known as Finance Park. In addition, ICIEF participates in nationwide coalitions, conferences, and government events devoted to financial education and capability.

APPENDIX J

ICI Mutual Insurance Company

ICI Mutual Insurance Company, RRG (ICIM) is an independent company formed by the mutual fund industry to provide various forms of liability insurance and risk management services to mutual funds, their directors, officers, and advisers. An organization must be an ICI member to purchase insurance from ICIM.

ICI AND IDC PAST CHAIRS AND EXECUTIVES

INVESTMENT COMPANY INSTITUTE CHAIRS*

1946-1956 Dorsey Richardson The Lehman Corporation	1968-1969 John R. Haire Anchor Corporation	1982-1984 George S. Bissell Keystone Group, Inc.	1998-2000 John J. Brennan The Vanguard Group, Inc.
1956-1957 Robert E. Clark Bullock Fund, Ltd.	1969-1970 John C. Bogle The Vanguard Group	1984-1986 George F. Reed American Capital Asset Management, Inc.	2000-2002 Terry K. Glenn Merrill Lynch Investment Managers
1957-1958 Joseph E. Welch Wellington Management Company	1970-1972 John Barnard Jr. Massachusetts Financial Services	1986-1988 Richard M. Reilly Fidelity Investments & Oppenheimer Capital	2002-2004 Paul G. Haaga Jr. Capital Research & Management Company
1958-1960 Herbert R. Anderson Group Securities	1972-1974 George Putnam The Putnam Management Company	1988-1990 Thomas R. Powers Transamerica Fund Management	2004-2005 James S. Riepe T. Rowe Price Associates, Inc.
1960-1961 George K. Whitney Massachusetts Investors Trust	1974-1975 James D. Fullerton The Capital Group, Inc.	1990-1992 James S. Riepe T. Rowe Price Associates, Inc.	2005-2007 Martin L. Flanagan AMVESCAP PLC
1961-1963 Charles H. Schimpff American Mutual Fund, Inc.	1975-1976 Charles W. Schaeffer T. Rowe Price Associates, Inc.	1992-1994 Ronald P. Lynch Lord Abbett & Co.	2007-2009 John V. Murphy OppenheimerFunds, Inc.
1963-1964 Charles F. Eaton Jr. Eaton & Howard, Inc.	1976-1978 Jerome S. Hardy The Dreyfus Corporation	1994-1996 Jon S. Fossel Oppenheimer Management Corp.	2009-2011 Edward C. Bernard T. Rowe Price Associates, Inc.
1964-1966 D. George Sullivan Fidelity Fund, Inc.	1978-1980 John F. Cogan Jr. Pioneer Funds Distributors	1996-1998 Don G. Powell Van Kampen American Capital, Inc.	2011-2013 Gregory E. Johnson Franklin Templeton Investments
1966-1968 Francis S. Williams Chemical Fund, Inc.	1980-1982 Benjamin C. Korschot Waddell & Reed, Inc.		2013-Present F. William McNabb III Vanguard Group

INVESTMENT COMPANY INSTITUTE EXECUTIVES*

1941-1945 Paul Bartholet Executive Director	1958-1962 George A. Mooney Executive Director	1977-1991 David Silver President
1945-1956 John M. Sheffey Executive Secretary	1962-1967 Dorsey Richardson President	1991-2004 Matthew P. Fink President
1956-1958 Edward B. Burr Executive Director	1967-1977 Robert Augenblick President	2004-Present Paul Schott Stevens President and CEO

INDEPENDENT DIRECTORS COUNCIL CHAIRS

2004-2006 James H. Bodurtha Merrill Lynch Funds	2008-2010 Michael S. Scofield Evergreen Funds/Wells Fargo Funds	2012-2014 Susan B. Kerley Legg Mason Partners Funds and MainStay Funds
2006-2007 Robert W. Uek MFS Funds	2010-2012 Dorothy A. Berry PNC Funds and Professionally Managed Portfolios	2014-Present Paul K. Freeman Deutsche Funds

*Chairs and executives serving from 1941 to 1961 served under the National Association of Investment Companies, the predecessor to the Investment Company Institute.

ICI by the Numbers, 2015

AS OF SEPTEMBER 30, 2015

21,000+

people that *ICI Daily* reaches each day

596

ICI Memoranda issued to members

21

ICI research publications released

186

statistical releases posted

2,500

visits to ICI's statistical report builder

18,000+

page views for the *ICI Viewpoints* blog

53

statements, news releases, and editorials issued

73

comment letters submitted to regulators

13

submissions of oral or written testimony to Congress

38,000

downloads and visits to ICI's *2015 Investment Company Fact Book*

927,000

unique visits to www.ici.org

2.25

MILLION

page views on www.ici.org

ICI Action on Select Policy Developments, Fiscal Year 2015

FINANCIAL MARKETS

Capital Markets Union: In September 2015, as part of an effort to increase capital market financing of the real economy, the European Commission adopted its action plan for a Capital Markets Union (CMU) to integrate markets in the European Union.

ICI Global supports the objectives of the CMU, but has urged the European Commission to prioritize initiatives. ICI Global, for example, has made recommendations to strengthen the cross-border distribution of funds and encouraged the European Commission to consider approaches to develop the pan-EU private placement market and alternative ways to finance municipal infrastructure projects.

Shanghai-Hong Kong Stock Connect: The Shanghai-Hong Kong Stock Connect initiative, which allows institutional and retail investors in Hong Kong and the Chinese mainland to trade directly cross-border, went live in November 2014. The operational structure of the initiative, as well as regulatory concerns about share ownership and custody, hampered participation of regulated funds initially.

ICI Global engaged with the Hong Kong Stock Exchange CEO and the China Securities Regulatory Commission to encourage resolution of the issues for regulated funds, and held a number of presentations and seminars for members, informing them of key developments and their implications.

FUND REGULATION

Derivatives: The SEC proposed modifying its approach to the cross-border application of the security-based swap rules, which would address in part the concern that the rules would apply to non-U.S. regulated funds when they hire U.S. asset managers.

ICI Global successfully argued that a non-U.S. regulated fund hiring a U.S. asset manager should not trigger the application of the SEC's security-based swap rules for transactions between such a non-U.S. regulated fund and a non-U.S. dealer. See page 19.

Letter on Shareholder Report Reform: The SEC proposed permitting funds to make shareholder reports available online rather than mailing copies to shareholders, provided that funds satisfy certain conditions. This proposal would modernize shareholder report delivery and provide substantial cost savings to funds and their shareholders.

ICI submitted comments strongly supporting the proposal and providing detailed cost-savings estimates. The Institute also urged the SEC to make various changes to the proposed rule to improve efficiency and cost-effectiveness, to clarify the role of intermediaries, to retain the existing e-delivery model as an option, and to permit website transmission of summary and statutory prospectuses.

Lost (Abandoned) Property: As states have become more aggressive in seizing mutual fund and other financial accounts under their escheatment authority, ICI has become involved in a number of initiatives to protect shareholders.

In addition to working with states and ICI members to address the adverse effects of these laws on shareholders, the Institute launched the Lost Property Resource Center, which alerts shareholders to escheatment laws, describes how they operate, and provides practical advice on how shareholders can protect their accounts from being escheated. It also provides a link to search for property that already may have been lost to the states. In addition, ICI is engaging

in media outreach to help shareholders avoid being the victim of these aggressive seizures. See www.ici.org/lost_property.

Proxy Advisory Firms: SEC staff issued guidance about investment advisers' proxy voting responsibilities, particularly as they relate to the use of proxy advisory firms, in June 2014. The staff expected investment advisers to evaluate and make any necessary changes to their current systems and processes before the 2015 proxy season.

In January, ICI and IDC released "Report on Funds' Use of Proxy Advisory Firms." This report complements SEC staff guidance by providing practical assistance to fund advisers and boards as they evaluate their funds' proxy voting practices. ICI also hosted a webinar that reviewed these topics from the perspectives of panelists from large and midsize fund complexes.

SEC Reporting Modernization Proposal: In May 2015, the SEC proposed rules requiring investment companies to provide more frequent and substantive reporting on portfolio holdings.

ICI submitted a comment letter in August, agreeing that the proposed data collection could enhance the SEC's ability to monitor and oversee the fund industry. ICI expressed concerns, however, about the SEC's ability to maintain the security of the portfolio holdings data and recommended that the SEC engage an independent third party to verify the SEC's data security infrastructure and practices. The letter also identified items for which public disclosure, at any time, would be ill advised. See page 18.

Uncleared Swaps: The European Supervisory Authorities reproposed EU margin rules that would require EU entities both to collect and to post margin to non-EU entities, such as U.S. funds. This revised approach means that a U.S. fund and an EU dealer would be bilaterally exchanging margin.

ICI Global successfully argued that the EU margin rules should be modified to provide for two-way margining between EU and non-EU entities. The collection of margin by U.S. funds from their EU counterparties helps manage counterparty risk by providing protection against future replacement cost in case of a dealer default.

Volcker Rule: The compliance deadline for regulations implementing the Volcker Rule was in July 2015.

Leading up to the deadline, ICI and ICI Global engaged in dialogue with members, agency staff, and outside counsel concerning remaining issues for regulated funds. In a June letter to the Federal Reserve, ICI asked for clarification that the final regulations would not treat regulated funds as "banking entities" in certain circumstances, as this inappropriately would subject these funds to all of the prohibitions and restrictions of the Volcker Rule. Regulatory agency staff issued FAQ documents that favorably resolved the "banking entity" issues for ICI and ICI Global members.

INTERNATIONAL

Asia Region Funds Passport: In February 2015, a second consultation on the Asia Region Funds Passport, a cross-border fund initiative for several Asia-Pacific countries, was published, outlining revisions based on public comments on the initial consultation in 2014.

ICI Global urged an emphasis on tax issues, expressed support for increasing the number of participating economies, and encouraged further work on proposed provisions related to delegation, oversight, data, and permitted investment activities. The expectation is that funds will be able to use this cross-border initiative in late 2016.

EU Remuneration Guidelines: EU regulators have consulted on guidelines implementing certain remuneration provisions under the Capital Requirements Directive (CRD IV) and UCITS V. The proposals on proportionality and application of multiple directives to groups have raised significant concerns for fund managers.

ICI Global argued strongly against the interpretation of proportionality in its response to the CRD IV consultation, and subsequently advocated this position to various EU institutions and member state regulators. The later European Securities and Markets Authority (ESMA) consultation on UCITS V has proposed a more flexible interpretation of proportionality and application to groups. ICI Global submitted a response supporting ESMA's position and reiterating the unique role and regulation of fund managers.

Swiss Pension Authority: In 2013, the Swiss Occupational Pension Supervisory Commission (OPSC) imposed requirements on how a collective investment scheme must disclose its costs to Swiss pension institutions to be considered "cost-transparent" investments and to be included on a pension institution's income statement.

ICI Global submitted a request to the OPSC to recognize the total expense ratios of 1940 Act open-end investment companies. After a second letter and additional communications responding to detailed questions about expense reporting, the request for recognition was approved in February 2015.

Use of Dealing Commissions for Investment Research: The European Commission continues to work on finalizing the Markets in Financial Instruments Directive (MiFID II) delegated acts, including provisions that could fundamentally change the ability of investment firms to use dealing commissions to acquire investment research.

Since ESMA's delivery of the draft advice in December 2014, ICI Global has taken every opportunity to communicate concerns about its detrimental impact to relevant policymakers and regulators. These efforts have included working collaboratively with members and other associations on changes that would provide a workable solution for members while addressing policymakers' concerns.

OPERATIONS

FASB Investment Company Disclosure Proposal: The Financial Accounting Standards Board (FASB) issued a proposal that would require regulated funds to disclose information about investments held by investee funds whose fair values exceed 5 percent of the reporting fund's net assets.

ICI filed a comment letter arguing that there would be little benefit where the investee fund is a registered investment company, because its holdings already are publicly disclosed four times per year and are accessible on the SEC and fund websites. In addition, the disclosure could violate the investee fund's portfolio disclosure policies. As a result of the comment letter and follow-up calls with ICI, FASB dropped the project from its agenda.

RETIREMENT

Brokerage Window Study: The DOL published a request for information on standards for including brokerage windows, or self-directed brokerage accounts, in 401(k)-type plans.

ICI filed a comment letter arguing against the need for additional guidance on brokerage windows, explaining that existing DOL guidance sufficiently addresses concerns. The Institute explained the benefits of brokerage windows, examined the implications of imposing new rules that could discourage or eliminate their use, and urged the DOL to do a proper cost-benefit analysis.

DOL Fiduciary Rule: See page 20.

Retirement Plan Reform: Congressional leaders on both sides of the aisle have indicated a strong interest in making improvements to DC plans and the system as a whole.

ICI developed a set of targeted proposals to improve the already successful DC plan system and better equip workers with the tools they need to build a secure retirement. The proposals would expand coverage, participation, and savings rates in DC plans and IRAs; improve the delivery and quality of information to plan participants and sponsors; enhance flexibility in determining how and when to tap retirement savings; and eliminate unnecessary burdens in plan administration, enabling plans to function more effectively.

TAXES

EU Reclaims: U.S. funds have filed claims against several European countries for violating European law by taxing only foreign funds, which restricts the free movement of capital.

ICI Global supported members' efforts by filing complaints with the European Commission against France and Germany, suing France, preparing materials for members' litigation, and coordinating with members' counsel. Favorable court decisions were rendered by the European Court of Justice and two national courts; members have received substantial refunds.

OECD Initiatives: Three OECD initiatives—the Common Reporting Standard (CRS), Base Erosion and Profit Shifting (BEPS), and Treaty Relief and Compliance Enhancement (TRACE)—will affect funds significantly.

An OECD business advisory group chaired by ICI Global worked closely with the OECD and governments to implement the CRS's effective globalization of the U.S. Foreign Account Tax Compliance Act (FATCA) reporting regime. Several BEPS "tax fairness" papers were revised to reflect extensive comments submitted by ICI Global. The tax treaty benefits arising from TRACE, supported strongly by ICI Global, were advanced by the OECD in the CRS and BEPS.

India Minimum Alternate Tax (MAT): See page 29.

Money Market Fund Reform Tax Issues: In conjunction with the SEC's 2014 money market fund rule, the IRS issued proposed regulations to address tax issues raised by the new floating-NAV requirement. Among other things, the proposed regulations would provide a simplified method of tax reporting for investors in floating-NAV money market funds.

ICI provided comments to the IRS on the proposed regulations and testified at an IRS hearing on the issue. ICI submitted additional comment letters on other tax issues raised by the new SEC rule, including the ability to reorganize existing money market funds in a tax-free manner and the tax treatment of adviser contributions.

Municipal Bonds: Congress and the Obama Administration proposed limiting the value of the tax exemption for municipal bonds or applying a new surtax.

ICI countered these proposals by submitting letters to the Administration and to the Senate Finance Committee Tax Reform Working Groups. ICI also partnered with a coalition of trade associations to host a Capitol Hill fly-in and a seminar for members of Congress, and to publicize research and op-eds detailing how municipal bonds support American communities and infrastructure. These proposals have not advanced.



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