

ICI Applauds House Financial Services Committee Passage of Bills Supported by Mutual Funds and Their Advisers

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Washington, DC, January 18, 2018—*Investment Company Institute President and CEO Paul Schott Stevens issued the following statement after the House Financial Services Committee favorably reported several important pieces of legislation:*

“The House Financial Services Committee took important action today, approving measures to appropriately tailor financial stability regulation and help reduce the threat of abusive lawsuits that could harm registered funds and their shareholders.”

H.R. 4061, the Financial Stability Oversight Council (FSOC) Improvement Act

“We applaud the committee for passing H.R. 4061. Congressmen Dennis Ross (R-FL) and John Delaney (D-MD) should be commended for their bipartisan work. The bill would provide FSOC with additional ways to address potential risks to the financial system, while also making the systemically important financial institution (SIFI) process more accountable and transparent.

“FSOC’s goal should be to reduce systemic risk. H.R. 4061 is a reasonable approach that enhances the ability of FSOC to do just that. The bill appropriately ensures that nonbank SIFI designations are reserved for the limited cases in which identified risks to financial stability cannot be addressed more effectively by an entity’s primary regulator or action by the entity itself.

“ICI continues to maintain that SIFI designation is inappropriate for registered funds and their managers, because they do not pose the risks that SIFI designation is meant to address. Further, the consequences of SIFI designation—bank-style capital requirements and prudential supervision by the Federal Reserve—are altogether inappropriate in the case of registered funds and their managers and would be harmful to shareholders.”

H.R. 4566, the Alleviating Stress Test Burdens to Help Investors Act

“ICI welcomes passage of H.R. 4566, sponsored by Congressman Bruce Poliquin (R-ME), and as amended by Representative Carolyn Maloney (D-NY). This bill provides a modest but important update to the Dodd-Frank Act that would avoid inappropriate application of bank-oriented stress testing requirements to mutual funds, other registered investment companies, and their investment advisers.

“One important lesson from the financial crisis is that banks need to be able to meet their obligations to depositors and others without government support. Testing a bank’s ability to maintain sufficient capital in stressed conditions, as contemplated by the Dodd-Frank Act, therefore is appropriate. In contrast, such testing is ill-suited to registered funds, which do not guarantee investment returns or even the return of principal to their investors. And applying these requirements to funds would simply raise costs for fund shareholders.

“We believe H.R. 4566 tailors Dodd-Frank stress testing requirements in a sensible manner.”

H.R. 4738, the Mutual Fund Litigation Reform Act

“ICI strongly supports passage of H.R. 4738, which will improve the ability of federal courts to curb abusive lawsuits without precluding meritorious suits. Under current law, plaintiffs’ attorneys use Section 36(b) of the Investment Company Act of 1940 to bring lawsuits that lack merit; waste the time of courts, fund advisers, and fund independent directors; and rarely benefit shareholders. Indeed, none of the lawsuits brought since Congress added Section 36(b) in 1970 has resulted in a final judgment against the defendant adviser. These lawsuits are burdensome and costly, taking five years or longer to resolve at a cost of \$10

million to more than \$20 million for fund advisers to defend.

“H.R. 4738, introduced by Congressman Tom Emmer (R-MN), would discourage plaintiffs’ attorneys from bringing non-meritorious lawsuits by allowing judges to dismiss those suits at an earlier stage in the legal process. Importantly, this move would adopt the same pleading standard as the Private Securities Litigation Reform Act of 1995, which has successfully curbed abusive securities litigation. We welcome passage of this sensible legislation.”

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