Markets and Main Street

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Opening Remarks
Equity Markets Conference
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As Prepared for Delivery

Good morning, and welcome to the Investment Company Institute’s Equity Markets Conference. I’m Karrie McMillan, ICI’s general counsel.

As we begin the day, I want to set the tone by getting everyone to focus on one number: 90 million.

That’s the number of investors who are saving for their futures through our funds.

Now think about the people behind that number.

A young couple investing for the down payment on their first home.

Workers putting part of their paychecks into 401(k) accounts.

Grandparents setting up a 529 college savings plan for a newborn who’ll graduate—hopefully!—in the Class of 2032.

Those and others in that 90 million come to our financial markets through funds.

They are the connection that takes Wall Street from here in Lower Manhattan, to Manhattan, Illinois…Manhattan, Kansas…Manhattan, Montana…and, with the best weather of all—Manhattan Beach, California.

And they are the reason why ICI holds this conference, and advocates so fiercely on the issues of market structure, trading practices, and transparency.

Our speakers and panelists will go far down into the weeds as they explore today’s complex trading mechanisms—how they operate and how best they can be regulated.

But no matter how difficult the issues, we need to keep our eye on this one number—90 million—and the interests of the investors whom we serve.

As ICI’s president, Paul Stevens, wrote earlier this year, “Mutual funds’ sole interest in the debate is to ensure that America’s markets operate efficiently, transparently, and fairly for the benefit of all market participants, including funds, and”—here it comes again—“the 90 million American shareholders they serve.”

Now, is it easy to figure out how to structure markets so they operate to the benefit of funds and their shareholders?

No. I can assure you—it is not.

At ICI, market structure and trading systems present some of the thorniest issues we face. Even our member funds see some of these issues from very different perspectives.

The good news is that our equity markets function better than they ever have before. Yes, you heard me right.

Trading costs are lower, and technology has made trading more efficient.

Investors have more tools available to make trades.

The bad news is—hardly anyone believes that today's markets are better.

What you're more likely to hear is that America's markets are broken.

With the rapid changes in technology and the tangle of incentives that today's market centers and market participants face, it's not hard for some to reach that conclusion. And the events of May 6 only reinforced that belief.

It's hard to figure out who's up and who's down in today's fragmented markets.

New trading systems seem to spring up overnight, and it's difficult to tell which innovations will prove to be useful.

And it's impossible to predict the structural and competitive changes in markets that a rule change or shift in regulatory emphasis can unleash.

Just ask the authors of Reg NMS.

Under these circumstances, it's little wonder that retail investors in particular seem to be losing confidence in the equity markets.

It's clear from ICI's research that Americans' appetite for investment risk is falling.

The willingness to take above-average or substantial risks for the prospect of above-average or substantial returns has fallen dramatically among younger shareholders—those aged 35 or younger.

Can you blame 'em?

Their investing lifetimes have been dominated by the two great bear markets of the past decade.

How can we ensure the integrity in our markets—the integrity that we all used to take for granted?

At ICI, we try to address these issues by getting beyond the labels and the rhetoric. Instead, we focus on the behavior of market centers and market participants—and the consequences of those behaviors for investors.

What is the impact on funds—and their 90 million investors—when they are trading in markets with other participants who cancel 95 percent of the orders they enter?

What is the effect on funds' trading when brokers route trades to one venue over another based on rebates and other payments for order flow?

What opportunities could today's market structure create for abuses of funds' order flow, exposing funds' orders and allowing other market participants to front-run those orders at the expense of funds and their shareholders?

We don't have all the answers to those questions—but we hope to move closer to those answers today.

Because everyone here today has a stake in these issues.

Regulators face the challenge of crafting new rules for the markets that will encourage innovations to make trading more efficient and transparent—while stopping abuses that help intermediaries as the expense of investors.

Sell-side participants are challenged to restore confidence that their systems are serving the markets' core functions—efficient transactions and accurate price discovery—rather than just their own interests.

In particular, we in the fund industry challenge you to provide the information on trade routing and execution that we need to ensure that our orders are getting the best possible treatment, at the lowest possible costs.

And for the mutual fund advisers represented here—well, I've made it pretty clear what our interests are.

But our industry must be challenged, too.

We need to accept that the markets today are vastly different than they were even a couple of years ago. Funds need to press their brokers and market centers for disclosure on routing and execution—and use that information to serve their investors.

Funds also need to educate themselves about the technological advances in the markets—and use that knowledge to the benefit of their shareholders.

Because our funds represent 90 million shareholders, and we are fiduciaries to those funds. We have a duty to engage fully and to work vigorously on these issues.

Our investors want us to step up our involvement. They deserve no less.

Thank you.
