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A Year of Advocacy: IDC's 2018 Annual Review

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The following appeared as the "Letter from the Managing Director" in IDC's 2018 Annual Review.

IDC is well known for its education and outreach programs—and it's not hard to see why. Year after year, they provide fund directors with opportunities to hone their craft and connect with one another, equipping them with the tools they need to thrive in their oversight role for the benefit of fund shareholders.

Our advocacy work might be less visible, but it's no less important. That held especially true in 2018, when a highly productive SEC issued numerous requests for comment, regulatory proposals, and rule amendments affecting the registered fund industry. Where the debates on these initiatives called for the perspective of fund directors, IDC responded with informed commentary and constructive recommendations.

One takeaway from our recent work with the SEC and staff is a marked shift in how they think about fund boards. For years, new tasks piled up with what sometimes felt like little thought about whether they would help directors serve shareholders. Now, the Commission and staff appear to be thinking more deeply about this—and establishing that a task would indeed be a valuable use of directors' oversight before imposing it on them.

This shift is showing in the SEC's regulatory work. In 2016, for example, the SEC revised its proposed liquidity risk management rule, seeking to ensure that no responsibilities assigned to boards fell outside their conventional oversight role. And in 2018, the Commission chose not to require boards to take on new responsibilities as a condition for fund sponsors to rely on its proposed ETF rule—rightly noting that an ETF's compliance program and board oversight of the program is enough to ensure compliance with the ETF's policies and procedures governing custom baskets.

We saw even more evidence at our 2018 Fund Directors Conference—where Dalia Blass, the director of the SEC's Division of Investment Management, outlined a framework for the division to follow when it considers recommending board involvement as part of a new rulemaking and when it reevaluates existing board responsibilities.

This framework is a major development. Derived from what the division has learned through its board outreach initiative, the framework consists of factors to consider, including the policy goal of involving boards in a regulatory action, the level of involvement a board should have, and consistency with boards' oversight role. The division's recent no-action letter on board oversight of certain affiliated transactions reflects the principles of the framework.

Credit the SEC and staff for their commitment to modernizing the responsibilities imposed on fund boards. IDC has long engaged in dialogue with them about how best to tackle this enormous undertaking, and I'm pleased that we're beginning to see the fruits of our labor.

The fund director community can feel good about the progress we've seen here—and the regulatory outlook for the near term. Still, as those who've served on fund boards long enough know, outlooks are by no means guarantees—so IDC will be working hard to build on this progress in 2019. Thanks to the enduring support of directors throughout the country, I have every confidence we'll be able to do just that.

Amy Lancellotta was Managing Director of the Independent Directors Council (IDC).
