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Chairman's Address
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As prepared for delivery.

Thank you, Tom, and good afternoon, everyone. It's wonderful to be with you today.

I had the honor of being here on this stage last year to help celebrate the 75th anniversary of ICI. It was fun to look back and recount some of the greatest hits for this organization and for the investors we all serve.

The World Is Flat

Today I'm going to turn the focus to the future. My message is simple. What we do must be *global* in scope. Why?

- What we are doing as individual firms is growing more global by the day.
- The actions and perspectives that we adopt as a trade association must be global as well.

The nature of our business is changing. This is not a new concept, of course. I'm sure many of you have read *The World is Flat*, by Thomas Freidman. He wrote the book 11 years ago, and revived an idea that had been put to rest some 500 years ago. The world *is* flat. Friedman describes forces that have flattened the world over the past few decades—forces like:

- outsourcing
- insourcing
- open-sourcing
- offshoring
- supply-chaining
- Googling

International borders are becoming less significant in almost every business, and that's certainly the case for investment companies. Today, the 10 largest U.S. fund firms derive an average of about 25 percent of their revenues from outside the United States. [1]

But it's not just about the large, multinational firms that have UCITS businesses and clients in many different countries. Now it's about all of us.

For us to be successful as businesses, we'll need to commit to having a much higher level of knowledge and sophistication about the jurisdictions, transnational entities, and regulatory bodies that oversee our funds.

Global, Then and Now

It's more important today than ever before. When I joined the mutual fund industry 30 years ago, there was still a very U.S.-centric mindset in place.

Let's use, for example, a 24-year old opening up his first retirement account in 1986. And let's place him in Peoria, Illinois, which—fairly or unfairly—is often used as stand-in for "Typical Middle America." If this person is like the typical American retirement investor in 1986, he has about 5 percent of his portfolio invested outside of the U.S. [2]

Let's fast-forward one generation, to 2016. The son of our Peoria investor is opening his own first 401(k) account. And, if he is like the typical American retirement investor, he has 32 percent of his portfolio invested outside the U.S. That's the average allocation of a target-date fund with a retirement date of 2055. [3]

And now, all of a sudden, even the most basic and standard retirement fund comes with an alphabet soup of international regulatory agencies. The soup is crowded! It includes:

- provincial bodies (like the Ontario Securities Commission)
- national agencies (like the Bank of Russia)
- regional authorities (like the European Commission)
- global entities (like the Financial Stability Board)

And many new agencies have formed in the years since the financial crisis. Now, the world is not only flat—it's inverted. It's top-heavy. And this can have a profound impact for every firm and every client represented in this room today.

ICI Global Will Meet the Challenge

The flattened world of 2016 is exponentially more challenging to navigate than the world of 1986—or 2006, for that matter. That's true for our businesses, and it's true for our trade association. And to navigate that world, ICI is going to need to grow and evolve.

The good news is that no organization anywhere is better equipped to lead the effort than ICI. I'll give you three reasons.

- First, ICI has a 75-year track record of working collaboratively with regulators to ensure that the rules that govern our funds represent the best interests of mutual fund investors.
- Second is the ICI approach. ICI has a well-earned reputation among regulators and policymakers for the breadth and depth of its research, for its fact-based policy analysis, and for addressing challenges with a proactive, solution-focused mindset.
- And third, ICI Global is already doing very important work. We began the journey with ICI Global in 2011 under the leadership of former ICI Chairman Greg Johnson. I've always said that Greg and ICI President and CEO Paul Stevens launched ICI Global at just the right time.

A Flat World for Policy Leadership

Increasingly, global and national regulators around the world are looking at many of the same issues. And they are issues that matter to every ICI member:

- advice
- derivatives
- liquidity
- taxes
- oversight by central banks, under the guise of "financial stability"

These are all issues that are being discussed and influenced by global policymakers, including the Financial Stability Board, the International Organization of Securities Commissions, and the International Monetary Fund. In turn, national regulators, through their participation in these global policymaking bodies, are being introduced to new ideas and approaches—ideas and approaches that sometimes do not appreciate the unique features of asset management or the unique features of regulated funds, particularly under the U.S. fund regime.

There is great power in our global expertise. Let me give you some recent examples.

DOL rule. When the Department of Labor crafted its "conflict of interest" fiduciary rule, the DOL drew heavily on the experiences of other countries in regulating financial adviser conflicts, including the Retail Distribution Review in the United Kingdom and the Future of Financial Advice legislation in Australia.

Liquidity management. ICI brought its global expertise to bear on the Securities and Exchange Commission's proposed liquidity risk management rule in two ways:

- First, we pointed out that the SEC's highly prescriptive scheme for classifying assets by liquidity is out of step with international norms. Neither Europe's UCITS rules nor the principles proposed by IOSCO for fund liquidity programs call for such prescriptive standards.
- Second, ICI was able to analyze the SEC's proposal to allow U.S. funds to use swing pricing in light of the significant operational and legal differences between the U.S. and European fund industries. The Institute pointed out that U.S. law and practice would make it difficult to implement swing pricing in the United States, particularly for smaller fund complexes—an analysis grounded in ICI's growing experience in Europe.

Financial transaction taxes. As U.S. lawmakers—and presidential candidates—advocate for new taxes on financial transactions, they point to other countries' experience with these taxes. In fact, efforts to implement a uniform financial transaction tax throughout Europe have been delayed for years, in part because of ICI's strong research-based advocacy against them. By stalling the momentum of Europe's FTT plan, ICI's international operations have helped take the steam out of efforts to impose an FTT in the United States.

In this environment, where global regulators increasingly shape the direction of national policymaking, and national regulators follow and react to developments in other parts of the world, it is critical that funds have an effective advocate at the global level. In short, it is critical that funds have access to the global resources that ICI has developed—a team of experts in London, Hong Kong, and Washington who can quickly grasp regional and international policy developments, help funds assess how those policies could affect them, and advocate on behalf of them early in the regulatory process.

ICI has prospered—and helped its members—for 75 years by staying ahead of the curve. Now, that curve goes around the world—and ICI must, too.

Now it's my great pleasure to welcome Paul Stevens, ICI's president and CEO, who will lead a very engaging and interesting Policy Forum conversation with Mayor Michael Bloomberg.

ENDNOTES

[1] Source: Vanguard and Factset. Based on information available for the 10 largest U.S. public asset managers.

[2] Source: ICI 1987 Mutual Fund Fact Book, page 41. Based on assets in Individual Retirement Accounts.

[3] Source: Vanguard and Morningstar.
