Oral Statement on Empowering a Pro-Growth Economy by Cutting Taxes and Regulatory Red Tape

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Statement of Paul Schott Stevens

President and CEO

Investment Company Institute

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Thank you, Chairman Hensarling and Ranking Member Waters, for the opportunity to testify at this hearing.

ICI has a long history of supporting well-conceived regulation. It is a critical ingredient in preserving the confidence that 100 million US shareholders place in ICI members to manage almost $22 trillion in assets.

I'll focus on three areas that the Institute believes are critical to striking the right balance between protecting investors and markets on the one hand, while preserving efficiency, promoting capital formation, and spurring economic growth on the other.

First and foremost, we must avoid regulation that is unnecessary or inappropriate, or based on faulty analysis.

Two recent examples illustrate how harmful this type of regulation can be.

The first involves the Financial Stability Oversight Council, or FSOC, and its authority to designate nonbank financial companies as systemically important financial institutions, or SIFIs. The second relates to the Department of Labor fiduciary rulemaking.

We commend the Committee for its leadership, helping H.R. 4061—the FSOC Improvement Act—pass the House with strong bipartisan support.

We repeatedly have cautioned that FSOC could seek to exercise this SIFI designation authority in a manner broader than Congress intended.

It is vitally important that Congress act now to reform FSOC's SIFI designation authority and—in doing so—enhance its ability to mitigate systemic risk.

The DOL fiduciary rulemaking also provides a cautionary tale of how not to make sound regulation.

ICI strongly supports the principle that financial intermediaries should act in the best interest of their clients when they offer personalized investment advice.

Throughout the DOL rulemaking process, however, it was clear that the rule was premised on a deeply flawed regulatory impact analysis that ignored key facts on the retirement advice marketplace.

The final rule was so misguided that the mere prospect of its application caused disruption that left hundreds of thousands of retirement savers without investment advice.

We are pleased that the Securities and Exchange Commission is now taking the lead on this important issue, coordinating with the DOL.

The second point I'd like to make focuses on the need to avoid overly broad, or overly prescriptive regulations that can impose inefficiencies, burden competition, and ultimately retard economic growth.

A good example of this is the SEC's liquidity risk management rule.

Daily redeemability is a defining feature of mutual funds, and ICI supports requiring funds to have a formal liquidity risk management program.

But the SEC goes too far by requiring that funds classify the liquidity of each portfolio holding and report on the liquidity at least monthly. This bucketing of portfolio holdings is too prescriptive, turning an otherwise useful rule into one that has proven to be costly and vexing to implement.

ICI believes a more "principles-based" approach—as recommended by a recent report from the Treasury Department—could better serve funds and their shareholders.

The SEC and Chairman Clayton deserve commendation for their willingness to reexamine aspects of this rulemaking framework. We hope that the Commission will remain open to the possibility of future changes.

This brings me to my third—and final—point: the cumulative costs of regulation.

The registered fund industry is highly competitive. Thanks to an array of diverse players, US shareholders pay lower costs than ever before and thus enjoy higher returns on their investments.

We cannot take this competition—and the benefits it provides for investors—for granted.

The associated costs and burdens of new regulatory requirements threaten to bring our industry to a tipping point, where it is no longer economically viable for smaller or midsized firms to stay in—or enter—the mutual fund business.

Exercising close oversight and considering the cumulative costs of regulation affecting registered funds will help ensure that the industry can continue serving the interests of fund investors—and a growing economy.

I'll close by offering brief recommendations where additional action is warranted.

Over the past two decades, the number of public companies has dwindled from more than 7,300 to approximately 3,500.

This hampers individual investors trying to build wealth and meet financial goals because most cannot participate directly in private markets—and few mutual funds invest in private companies.

Consequently, we urge the Committee to support regulatory efforts to increase the attractiveness of public capital markets.

Finally, in my testimony I suggest a sensible change to the tax code that would increase US mutual funds' ability to compete for foreign investment dollars and help spur further innovation and job growth in our industry.

Thank you for your attention, and I look forward to your questions.
