

November 16, 2009

Mr. Kenneth A. Johnson  
Management and Program Analyst  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549-2521



Re: Draft 2010-2015 Strategic Plan for Securities and Exchange Commission

Dear Mr. Johnson:

The Independent Directors Council<sup>1</sup> appreciates the opportunity to comment on the Securities and Exchange Commission's draft Strategic Plan for Fiscal Years 2010-2015 ("Draft Plan").<sup>2</sup> IDC commends the SEC for developing strategic goals and outcomes that are focused on protecting investors, including fund shareholders.

In particular, IDC strongly supports the SEC's plan to institute extensive reforms of its programs to foster and enforce compliance with the federal securities laws. In this regard, IDC urges the SEC to improve the examination process by, among other things, consistently conducting exit interviews at the conclusion of examinations and seeking feedback from registrants regarding the examination process. IDC also strongly supports adequate funding for the SEC to enable it to implement the important goals of its strategic plan.

In the Draft Plan, the SEC identifies several initiatives that it proposes to undertake to accomplish its goals. Below, we highlight one important initiative that is not expressly mentioned in the Draft Plan and comment on three other initiatives of interest to fund directors.

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<sup>1</sup> IDC serves the fund independent director community by advancing the education, interaction, communication, and policy positions of fund independent directors. IDC's activities are led by a Governing Council of independent directors of Investment Company Institute member funds. ICI is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds, and unit investment trusts. Members of ICI manage total assets of \$11.45 trillion and serve almost 90 million shareholders, and there are approximately 2,000 independent directors of ICI member funds. The views expressed by IDC in this letter do not purport to reflect the views of all fund independent directors.

<sup>2</sup> Draft 2010-2015 Strategic Plan for Securities and Exchange Commission, SEC Release No. 34-60799 (October 8, 2009) (available at <http://www.sec.gov/about/secstratplan1015.pdf>).

### Director Outreach Initiative

The initiative that is not expressly mentioned but that IDC believes should be pursued by the SEC is modernizing the requirements relating to fund directors. The responsibilities of fund directors have increased substantially over time as the industry has grown and evolved. These increasing responsibilities, however, have not, until recently, been subject to a top-to-bottom evaluation to determine their continued relevance and effectiveness. The staff of the Division of Investment Management has been evaluating the full range of director responsibilities with the intent of putting together recommendations for the SEC, which may include a formal recognition of situations in which independent directors may delegate certain responsibilities consistent with the valid exercise of their business judgment. We understand that the staff has already completed a fair amount of work on this project. We strongly encourage the SEC to be supportive of and move forward with this Director Outreach Initiative.

We also urge the SEC to be mindful of the appropriate role of fund directors in connection with any future regulatory actions. The board's role is to provide oversight and not to be involved in the management of a fund, and the SEC's regulatory actions should reflect this important distinction.

### Draft Plan Initiatives

IDC generally supports the SEC's attention to the three matters discussed below and offers the following comments.

*Money market fund reform.* The SEC states that it plans to enhance the regulatory regime for money market mutual funds to better position them to meet the demands from investors who want to redeem their shares on a short-term basis. We applaud the SEC's prompt review of market events and consideration of reforms that would strengthen money market funds, as reflected by its recent money market fund reform proposal.<sup>3</sup> IDC supports the SEC's objective to increase money market funds' resilience to short-term market risks and provide greater shareholder protection with appropriate oversight by fund directors. In its comment letter on the SEC's proposal, IDC noted its objections to certain provisions of the proposed amendments that would require boards to "micro-manage" certain operational matters.<sup>4</sup> As noted above, IDC urges that SEC regulatory actions reflect that the appropriate role of fund boards is one of oversight, and not management. IDC also stated its strong opposition to moving to a floating NAV, which we believe would have a negative impact on fund shareholders.

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<sup>3</sup> Money Market Fund Reform, SEC Release No. IC-28807 (June 30, 2009) (available at <http://www.sec.gov/rules/proposed/2009/ic-28807.pdf>).

<sup>4</sup> Letter from Michael S. Scofield, Chair, IDC, to Elizabeth M. Murphy, Secretary, U.S. Securities and Exchange Commission regarding Money Market Fund Reform; File No. S7-11-09 (Sept. 8, 2009) (available at <http://www.sec.gov/comments/s7-11-09/s71109-105.pdf>).

*Rule 12b-1.* The Draft Plan states that, given the evolution in the investment management industry and in the uses of investment company distribution fees, the SEC plans to reconsider the rule permitting these fees and the factors that fund boards consider when approving or renewing them. IDC previously has provided its views regarding reform of Rule 12b-1 under the Investment Company Act of 1940.<sup>5</sup> IDC recommended that the SEC modify the role of directors in overseeing 12b-1 plans to reflect the activities financed by 12b-1 plans; clarify the standard for board approval of 12b-1 plans; and enhance shareholder disclosure about the amount and use of 12b-1 fees. In light of competing priorities, IDC recommends that, if the SEC does not intend to address wholesale changes to Rule 12b-1 in the immediate future, that it consider addressing the board's role separately and in a faster time frame.

*Revise disclosure and reporting requirements.* The SEC states that it will undertake a number of initiatives to enhance disclosure requirements for the benefit of investors and that the staff will seek to modernize disclosure requirements and eliminate redundant reporting requirements. The SEC states that it also will consider changes requiring broker-dealers that sell securities, such as mutual funds, variable insurance products and 529 plan interests, to disclose information relating to their compensation and conflicts of interest and key product features at the "point of sale" and on the Internet.

IDC agrees that modernizing disclosure requirements for the benefit of investors should be pursued. In this regard, IDC encourages the SEC to extend the approach it took with respect to the summary prospectus to other documents, such as shareholder reports. As we have previously stated, shareholder reports, like prospectuses, typically are lengthy, difficult to understand, and not often read by investors.<sup>6</sup> We think investors would benefit from receiving the information they value the most in an executive summary format and having access to other, more detailed information that may only be of interest to a more limited number of shareholders in a more detailed document on the Internet.

Regarding point of sale disclosure, IDC recommends that any such required disclosure be applicable to *all* investment products and services sold to retail investors. As IDC previously stated, we believe that such disclosure requirements would benefit all investors, not just mutual fund investors.<sup>7</sup>

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<sup>5</sup> Letter from Robert W. Uek, Chair, IDC, to Nancy M. Morris, Secretary, U.S. Securities and Exchange Commission on Roundtable Discussion Regarding Rule 12b-1; File No. 4-538 (July 19, 2007) (available at <http://www.sec.gov/comments/4-538/4538-277.pdf>) ("12b-1 Comment Letter").

<sup>6</sup> Letter from Robert W. Uek, Chair, IDC, to Nancy M. Morris, Secretary, U.S. Securities and Exchange Commission regarding Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Investment Companies; File No. S7-28-07 (February 15, 2008) (available at <http://www.sec.gov/comments/s7-28-07/s72807-51.pdf>).

<sup>7</sup> See 12b-1 Comment Letter, *supra* n. 5.

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Moreover, a point of sale disclosure requirement applicable to the sale of mutual funds but not other investments, such as separately managed accounts or hedge funds, could discourage brokers and other intermediaries from selling funds. This outcome would be detrimental to both investors and the fund industry.

If you have any questions about our comments, please contact Amy B.R. Lancellotta, Managing Director, Independent Directors Council, at 202-326-5824.

Sincerely,



Michael S. Scofield  
Chair, IDC Governing Council

cc: The Honorable Mary L. Schapiro  
The Honorable Kathleen L. Casey  
The Honorable Elisse B. Walter  
The Honorable Luis A. Aguilar  
The Honorable Troy A. Paredes

Andrew J. Donohue, Director  
Division of Investment Management