



1401 H Street, NW, Suite 1200
Washington, DC 20005-2148
Phone 202/326-8300
Fax 202/326-5828
www.idc.org

December 18, 2013

Ms. Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: Proposed Interagency Policy Statement Establishing Joint Standards for Assessing the Diversity Policies and Practices of Entities Regulated by the Agencies and Request for Comment; File Number S7-08-13

Dear Ms. Murphy:

The Independent Directors Council¹ appreciates the opportunity to comment on the Securities and Exchange Commission's and other regulators' proposed joint standards for assessing the diversity policies and practices of the entities they regulate.² The proposal is intended to implement Section 342 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which requires each agency's Office of Minority and Women Inclusion to develop standards for "assessing the diversity policies and practices of entities regulated by the agency." Registered investment companies (funds) are regulated by the SEC and might utilize the proposed standards. Although funds typically do not have employees, they do have a board of directors. Thus, the proposed standard that an entity take "proactive steps to promote a diverse pool of candidates, including women and minorities...in its selection of board members" may be used by funds.

¹ IDC serves the U.S. registered fund independent director community by advancing the education, communication, and policy positions of fund independent directors, and promoting public understanding of their role. 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 \$16.1 trillion and serve over 90 million shareholders, and there are approximately 1,900 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.

² *Proposed Interagency Policy Statement Establishing Joint Standards for Assessing the Diversity Policies and Practices of Entities Regulated by the Agencies and Request for Comment*, SEC Release No. 34-70731 (October 23, 2013), available at <http://www.sec.gov/rules/policy/2013/34-70731.pdf>.

IDC supports the measured approach reflected in the proposal. Diversity is an important element of a strong organization. Fund directors are keenly aware of its importance and promote diversity and inclusion on their boards through various means. Each year, a fund board must conduct a self assessment that evaluates the performance of the board and its committees,³ and many boards consider the board's composition and diversity as part of that self assessment.⁴ This practice allows a board to consider diversity in the context of its own circumstances. In addition, SEC rules require a fund to disclose in proxy statements to shareholders whether and how the fund's board considers diversity in identifying director nominees.⁵

Diversity is just one of several important factors a board may consider when determining the type of experience and background it is seeking in new directors. In almost every instance, the independent directors of a fund's board—not the adviser or interested directors—select and nominate other independent directors.⁶ Many boards take an expansive view of diversity and seek to construct a “well-rounded” board with members representing a mix of viewpoints, education, skills, and experiences and with fitting interpersonal dynamics so crucial to an effectively functioning board.⁷ Boards also place varying levels of emphasis on the different factors, depending on the circumstances and needs of the board. For example, a board seeking a director with a specific professional background, such as portfolio management or accounting, may focus more on candidates' professional expertise and experience than other factors. Directors' overall goal is to compose a board that can most effectively represent the interests of the fund's shareholders.

The proposal appropriately makes the standards voluntary and matters for self-assessments, rather than a mandate subject to an agency's examination or supervision process. This approach also takes into account Congress's admonition in Section 342 that nothing in the requirement may be construed “to require any specific action based on the findings of the assessment.”

³ Rule 0-1(a)(7) under the Investment Company Act of 1940 (1940 Act). While the SEC mandated this and other requirements only as a condition of reliance on certain exemptive rules, substantially all funds rely on one or more of these rules, and thus the requirement applies to virtually all funds.

⁴ See also IDC Task Force Report, Board Self-Assessments: Seeking to Improve Mutual Fund Board Effectiveness (2005), available at http://www.idc.org/pdf/ppr_idc_self-assessments.pdf.

⁵ See Item 407(c)(2)(vi) of Regulation S-K (made applicable to funds by Item 22(b)(15)(ii)(A) of Schedule 14A).

⁶ Rule 0-1(a)(7) under the 1940 Act.

⁷ In adopting the proxy disclosure rules, the SEC declined to define diversity and recognized that boards may define diversity in various ways, reflecting different perspectives. See *Proxy Disclosure Enhancements*, SEC Rel. Nos. 33-9089; 34-61175; IC-29092 (December 16, 2009), available at www.secc.gov/rules/final/2009/33-9089.pdf.

We share the concerns SEC Chair White raised in a recent speech about the use of the federal securities laws to promote social policy matters.⁸ She observed that the promotion of certain social policy matters may be laudable but questioned “using the federal securities laws and the SEC’s powers of mandatory disclosure to accomplish these goals.” We agree. While the promotion of diversity and inclusion at SEC-regulated entities is unquestionably a laudable goal, it is not within the core mission of the SEC.

We, therefore, do not believe that the SEC should use other types of assessment methodologies, such as surveys, or utilize site visits or its examination and supervisory powers in connection with the standards and assessments, as Commissioner Aguilar suggests in the questions he raised concerning the proposal.⁹ We are concerned that potential second-guessing by examiners undermines the considered judgment of regulated entities and their boards regarding the recruitment or promotion of the most qualified candidates for their specific situations.

We urge the SEC to focus its limited resources to advancing its core mission of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation.

If you have any questions about our comments, please contact Amy Lancellotta, Managing Director, at [REDACTED]

Sincerely,



Susan B. Kerley
Chair
IDC Governing Council

cc: The Honorable Mary Jo White
The Honorable Luis A. Aguilar

⁸ See “The Importance of Independence,” remarks by SEC Chair Mary Jo White (October 3, 2013), available at: <http://www.sec.gov/servlet/Satellite/News/Speech/Detail/Speech/1370539864016>.

⁹ See “Statement on the Proposed Interagency Policy Statement to Establish Standards to Assess the Diversity Policies and Practices of Regulated Entities,” by Commissioner Luis A. Aguilar (October 23, 2013), available at <http://www.sec.gov/News/Speech/Detail/Speech/1370540026835#.Up-REaz8v6o>.

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The Honorable Daniel M. Gallagher

The Honorable Kara M. Stein

The Honorable Michael S. Piwowar

Pamela A. Gibbs, Director

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