MEMORANDUM

To: File No. S7-16-15

From: David P. Bartels
Advisor to Commissioner Kara Stein
U.S. Securities and Exchange Commission

Date: February 23, 2016

Re: Meeting with representatives from the Investment Company Institute and Vanguard

On February 23, 2016, Commissioner Stein, David Bartels and Robert Peak met with Paul Stevens, David Blass and Sean Collins of the Investment Company Institute and Bill McNabb of Vanguard. The parties discussed the Commission's proposal on liquidity risk management programs and swing pricing.

February 23, 2016

Summary of ICI's Views on SEC's Liquidity Risk Management Proposal

ICI's Views on Proposal—Areas of Support

- Risk-focused liquidity risk management program
  - Bolster discipline, rigor, and formal processes throughout industry
- Require funds to classify and monitor liquidity of portfolio assets (per fund's policies) / examples provided
- Require funds to adopt policies reasonably designed to ensure sufficient liquidity to meet redemptions (per fund's policies)
- Codify and enhance 15% limit on illiquid assets

ICI’s Views on Proposal—Areas of Concern

» Definition of “liquidity risk” – undue focus on “material impact to NAV” and throughout proposal on material impact to price of securities

» 6-category asset classification scheme and related public reporting

» 3-day liquid asset minimum

ICI's Views on Proposal—Swing Pricing

» SEC should carefully explore potential benefits, disadvantages, and operational challenges

» Operational and legal impediments to swing pricing in U.S. are substantial

ICI Research

- Funds manage liquidity in ways beneficial to shareholders
- No support for theory of funds meeting redemptions by selling most liquid assets first
- DERA's bond fund assessment is limited (municipal funds only); findings are consistent with their maintaining sufficient liquidity
- DERA study does not evaluate proposal (*e.g.*, 6-category classification scheme and 3-day liquid asset minimum)