INVESTMENT COMPANY INSTITUTE

1401 H Street, NW, Washington, DC 20005-2148, USA
202/326-5800 www.ici.org

January 15, 2019

Mr. Donald S. Clark
Secretary
Federal Trade Commission
Office of the Secretary
600 Pennsylvania Avenue NW
Suite CC–5610 (Annex C)
Washington, DC 20580

Re: *Competition and Consumer Protection in the 21st Century Hearings, Hearing Number Eight (Docket ID: FTC-2018-0107)*

Dear Mr. Clark:

The Investment Company Institute (ICI)[1] appreciates this opportunity to comment on the eighth session of the Federal Trade Commission's Hearings on Competition and Consumer Protection in the 21st Century, which focused on the "common ownership hypothesis"—the notion that institutional investors holding non-controlling stakes in competing companies in concentrated industries can decrease competition among those companies, leading to price effects (*e.g.*, higher prices to consumers) or other competitive harms. We commend the Federal Trade Commission (FTC) for convening a wide range of antitrust professionals to testify on all aspects of this hypothesis. The hearing confirmed that:

- the academic debate over the common ownership hypothesis remains unsettled;
- the hypothesis rests on misunderstandings and incorrect assumptions about the asset management industry;[2] and

[1] ICI is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds, closed-end funds, and unit investment trusts in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI's members manage total assets of US$21.5 trillion in the United States, serving more than 100 million US shareholders, and US$7.0 trillion in assets in other jurisdictions. ICI carries out its international work through ICI Global, with offices in London, Hong Kong, and Washington, DC.

[2] ICI addressed the most salient misunderstandings and assumptions in our prior comment letter on the Commission's Hearings on Competition and Consumer Protection in the 21st Century. *See* Letter from Sean Collins, Chief Economist,

- it would be inappropriate for policymakers to rely on the common ownership hypothesis as the basis for an enforcement action or a change in competition policy.

The FTC should take no action based on the common ownership hypothesis. Below in more detail, we review the research on the common ownership hypothesis and demonstrate that there is not even a consensus on whether there is a *correlation*—let alone any *causation*—between increased common ownership and higher prices. We show that proponents of the common ownership hypothesis have not proven that common owners would have an incentive or mechanism to influence competition. There is no single body of research arguing that common ownership leads to competitive harm; in fact, significant questions exist about the theoretical basis of the common ownership hypothesis and the empirical findings of papers advancing it. We conclude by explaining why the FTC should not adopt any policy proposals based on the common ownership hypothesis.

I. There Is No Consensus on Even the Existence of a Correlation Between Common Ownership and Price Effects

Any discussion of the common ownership hypothesis invites a fundamental question: Does the empirical research conclusively show that common ownership raises the price of goods or services? The answer to this question is plainly "no." We are unaware of a single paper that claims to provide conclusive empirical evidence that common ownership causes reduced competition. In fact, only a handful of studies even purport to show a statistically significant positive *correlation* between common ownership and price effects, and even this correlation has been resoundingly challenged by other researchers.

To date, the academic debate has focused almost entirely on a single study, a paper by Azar, Schmalz, and Tecu, which purports to find evidence that common ownership correlates with higher airline ticket prices (the "Airline Paper").[3] A second paper—by Azar, Schmalz, and Raina— examines the banking industry (the "Banking Paper") but has received considerably less attention.[4] A third unpublished working paper studies correlation between common ownership and price effects in ready-to-eat

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ICI, and Susan Olson, General Counsel, ICI, to Donald Clark, Secretary, FTC, dated August 20, 2018, *available at* https://www.ici.org/pdf/18_ici_common_ownership_ltr.pdf.

[3] José Azar, Martin C. Schmalz, and Isabel Tecu, *Anticompetitive Effects of Common Ownership*, 73 Journal of Finance 1513 (2018), *available at* https://ssrn.com/abstract=2427345.

[4] José Azar, Sahil Raina, and Martin C. Schmalz, *Ultimate Ownership and Bank Competition* (July 23, 2016), *available at* https://ssrn.com/abstract=2710252.

breakfast cereals (the "Cereals Paper").[5] These papers appear to be the full extent of the empirical work purporting to show a correlation in real-world industries.[6]

In contrast, there are a number of careful papers pointing to serious flaws in either the data or the methodology employed in the Airline and Banking Papers.[7] Interestingly, the unpublished Cereals Paper, which is too new to have yet been critiqued, includes its own critique of the Airline Paper, finding that an application of that methodology in the ready-to-eat cereal industry produces correlations with price *reductions* as well as correlations with price increases, indicating that any correlation is spurious and that the Airline Paper's methodology is thus flawed.[8]

Other expert critiques of the Airline and Banking papers raise critical theoretical problems with those studies. For example, O'Brien and Waehrer explain that the methodology employed in the Airline and Banking Papers is untethered to the underlying theory of harm. In particular, rather than measuring the relationship between the ability and incentives of common owners to impact how companies compete ("common ownership incentive terms") and price effects, the Airline and Banking papers try

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[5] Matthew Backus, Christopher Conlon, and Michael Silkinson, *Common Ownership and Competition in the Ready-To-Eat Cereal Industry* (September 6, 2018), *available at* http://www.law.northwestern.edu/research-faculty/searlecenter/events/antitrust/documents/sinkinson_cereal.pdf.

[6] Other papers cited by proponents of the hypothesis as "cross-industry" studies do not actually study the threshold question of whether there is a correlation. Rather, they address only the extent to which executive compensation in various industries is influenced by industry performance instead of by single firm performance relative to rivals. *See* Anton *et al.*, *Common Ownership, Competition, and Top Management Incentives* (August 15, 2016), at 4, 14–17, *available at* https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2802332; Lantian (Max) Liang, *Common Ownership and Executive Compensation* (October 2016), *available at* https://acfr.aut.ac.nz/__data/assets/pdf_file/0008/58085/43082-L-Liang-Common_ownership_V2.pdf.

[7] *See, e.g.*, Daniel P. O'Brien and Keith Waehrer, *The Competitive Effects of Common Ownership: We Know Less than We Think*, 81 Antitrust Law Journal 729 (2017), *available at* https://ssrn.com/abstract=2922677; Pauline Kennedy, Daniel P. O'Brien, Minjae Song, and Keith Waehrer, *The Competitive Effects of Common Ownership: Economic Foundations and Empirical Evidence* (July 24, 2017), *available at* https://ssrn.com/abstract=3008331; Jacob Gramlich, and Serafin Grundl, *Testing for Competitive Effects of Common Ownership*, Finance and Economics Discussion Series 2017-29, Division of Research & Statistics and Monetary Affairs, Board of Governors of the Federal Reserve System, *available at* https://doi.org/10.17016/FEDS.2017.029; Edward B. Rock and Daniel L. Rubinfeld, *Antitrust for Institutional Investors* (July 2017), *available at* https://ssrn.com/abstract=2998296; Thomas Andrew Lambert and Michael E. Sykuta, *The Case for Doing Nothing About Institutional Investors' Common Ownership of Small Stakes in Competing Firms* (May 4, 2018), University of Missouri School of Law Legal Studies Research Paper No. 2018-21, *available at* https://ssrn.com/abstract=3173787; Patrick Dennis, Kristopher Gerardi, and Carola Schenone, *Common Ownership Does Not Have Anti-Competitive Effects in the Airline Industry* (February 5, 2018), *available at* https://ssrn.com/abstract=3063465.

[8] Backus, *supra* note 5 at 32-33, 47.

to measure the relationship between price effects and certain measures of industry concentration.[9] Although those measurements of industry concentration are adjusted for common ownership, they are also influenced by industry market shares, which are often correlated with price,[10] thus creating spurious correlations with price effects even if common owners had zero impact on how the companies compete or set prices.[11] This fundamental flaw "creates serious problems of interpretation."[12]

Significantly, when correcting for such errors, other studies find that the correlation disappears. For example, one group of economists analyzed the airline industry and found no statistically significant correlation when applying methodologies that focus properly on the relationship between price effects and "common ownership incentive terms," rather than correlation with measures of concentration.[13] Another paper found that there was no significant correlation when controlling for the potential impact of market shares on the results.[14] This paper further found that the Airline Paper correlations were significantly diminished or statistically insignificant when correcting for certain errors in core assumptions in the paper, thus revealing empirical flaws in the study in addition to theoretical flaws.[15]

Similarly, a pair of Federal Reserve economists analyzing the banking industry found much more muted price effects than estimated by the Banking Paper after adjusting their model to comport more directly with the underlying theory of harm. Instead of looking at the correlation between price effects and market concentration figures, the Federal Reserve economists analyzed the correlation between price effects and the weights that companies might place on their rivals' profits due to common ownership.[16]

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[9] O'Brien and Waehrer *supra* note 7 at 744. ICI provided financial support for this paper, but neither ICI nor any of its members provided any input into the paper's analysis or conclusions.

[10] It is generally accepted that pricing strategies can increase or reduce market shares and that greater concentration in an industry can be correlated with higher prices. These relationships can exist independently of any effect of common ownership. *See generally* William N. Evans, Luke M. Froeb, and Gregory J.Werden, *Endogeneity in the concentration price relationship: Causes, consequences, and cures*, 41 Journal of Industrial Economics 431–38 (1993).

[11] O'Brien and Waehrer, *supra* note 7 at 744.

[12] *Id.*

[13] Pauline Kennedy, Daniel P. O'Brien, Minjae Song, and Keith Waehrer, *The Competitive Effects of Common Ownership: Economic Foundations and Empirical Evidence* (July 2017), *available at* https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3008331 ("Contrary to recent empirical research…we find no evidence that common ownership raises airline prices"). ICI provided financial support for the Kennedy paper, but neither ICI nor any of its members provided any input into the paper's analysis or conclusions.

[14] Dennis, Gerardi, and Schenone, *supra* note 7 at 4–5. ("In sharp contrast to the findings [of the Airline Paper], we find no evidence" of a relationship "between ticket prices and common ownership in the airline industry").

[15] *See id.* (finding diminished or no correlations when correcting for heterogeneity of tickets by applying filters more consistent with prior literature on the industry, controlling for effects of airline bankruptcies, and applying alternative definitions of control rights based on 13F filings).

[16] Gramlich and Grundl, *supra* note 7 at 3.

Applying this model, the economists found that the correlations to price are small, and that an increase in common ownership often has zero effect or even positive effects on another competition-related metric, output.[17] In sum, no empirical work demonstrates that common ownership *causes* any price effect and some studies indicate it does not. Indeed, there is not even a consensus that common ownership is *correlated* with prices.

II. Proponents of the Common Ownership Hypothesis Have Not Proven that Common Owners Would Have an Incentive or Mechanism to Influence Competition

The common ownership hypothesis relies on the assumption that common owners have both the incentive and the ability to influence competition among the companies in which they have minority non-controlling interests. Even the proponents of the common ownership hypothesis, however, admit that the empirical research does not adequately address the mechanisms by which the common owners would control the competitive behavior of those companies.[18] Proponents have suggested potential mechanisms concerning the use of executive compensation, exercise of voting rights, or meetings with management,[19] but the plausibility of these proposed mechanisms is vigorously disputed.

For example, Hemphill and Kahan examine the proposed mechanisms and conclude that "for most proposed mechanisms, there is no strong theoretical basis for believing that institutional [common concentrated owners] would want to employ them, no significant evidence suggesting that they do employ them, or both."[20] Rock and Rubinfeld likewise find the proposed mechanisms to be inconsistent with actual practices, and these authors raise substantial questions about how corporate executives could manage their companies to optimize the divergent interests of multiple common owners given that, as exemplified in the Airline Paper, the common owners had heterogenous investment portfolios.[21] Rock and Rubinfeld further observe that contrary to the assumption in the Airline Paper that control of a company is proportional to share, the "debate about the relationship between ownership and control is an extensive and complicated one."[22]

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[17] *Id.*

[18] Fiona M. Scott Morton and Herbert Hovenkamp, *Horizontal Shareholding and Antitrust Policy*, 127 Yale Law Journal 2026, 2031 (2018), *available at* https://ssrn.com/abstract=3046203 (noting that the "theoretical literature to date does not identify what mechanism funds may use to soften competition").

[19] Azar *et al.*, supra note 3 at 45 (asserting that investors might "use voice to communicate their preferred product market strategies," "use management incentive (*i.e.*, pay) structures that implicitly reward executives for less aggressive competition," or "use the power of their vote to thwart efforts of undiversified shareholders that push for more competition").

[20] C. Scott Hemphill and Marcel Kahan, *The Strategies of Anticompetitive Common Ownership* (August 1, 2018), NYU Law and Economics Research Paper No. 18-29, at 5, *available at* https://ssrn.com/abstract=3210373.

[21] Rock and Rubinfeld, *supra* note 7 at 9-17.

[22] *Id.* at 16.

A recent paper by Gilje *et al.* further questions the assumption that common ownership changes the incentives of company management, arguing that the impact should not be assumed automatically as in the Airline Paper. Instead, its authors argue, common ownership's effect on incentives should be assessed on a consideration of three factors: (1) the extent to which management cares about investors' preferences; (2) the importance the investor places in its investments in the company's rivals; and (3) the likelihood that the investor is informed about whether management's actions affect portfolio returns.[23] When accounting for these factors, the authors find empirically that even large historical increases in common ownership have only minor impacts on managerial incentives.[24] The authors thus conclude that "these findings cast doubt on the possibility that the growth of common ownership in recent years has had a significant impact on managerial motives."[25]

Nevertheless, some proponents of the hypothesis have cited as proof of causation certain papers suggesting that executive compensation models that favor industry performance over own-firm performance are correlated with the degree of common ownership in the industry as measured by concentration metrics. But these conclusions also have been challenged on the basis that such observations can be explained by factors other than common ownership, that the focus on correlation with concentration metrics is not consistent with the underlying theory of harm, and by the fact that some of these studies reach opposite conclusions[26] about the direction of the correlation.[27]

The lack of empirical work showing the existence of a mechanism by which common ownership could result in price effects is accompanied by the lack of empirical work showing that institutional investors have the incentives to influence firms to reduce competitive activity. Nor have proponents of the common ownership hypothesis addressed or how asset managers could act on such incentives, if they exist, given their fiduciary duties to their diverse client bases, which have differing investment objectives.[28]

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[23] Erik Gilje, Todd Gormley, and Doron Levit, Who's Paying Attention? Measuring Common Ownership and its Impact on Managerial Incentives (August 24, 2018), *available at* https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3165574.

[24] See *id.* at 3, 18–24.

[25] *Id.* at 25 ("A focus on trends with respect to ownership overlap [ ] significantly overstates the potential impact of common ownership on managerial incentives once one accounts for potential shifts in investor attention [ ]").

[26] *See, e.g.*, Heung Jin Kwon, Executive Compensation Under Common Ownership (November 2016), *available at* http://fmaconferences.org/Boston/ExecutiveCompensationunderCommonOwnership.pdf (finding that common ownership is correlated with compensation that rewards executives for company performance relative to industry and undermining the theory that executive compensation might be a mechanism to soften competition).

[27] *See* O'Brien and Waehrer, *supra* note 7 at 762–763.

[28] *See id.* at 764–765; *see also* ICI comment letter, *supra* note 2.

III. Papers Critiquing the Airline Paper Clearly Do Not Support the Findings of that Paper

Notwithstanding the mixed findings on whether a statistically significant correlation exists between higher prices and increases in common ownership and the growing body of research questioning whether common owners could or would want to influence competition, a handful of proponents of the common ownership hypothesis, including some academics who spoke at the FTC hearing, have already jumped to the conclusion that remedial actions are warranted. In an attempt to dismiss the critiques of the Airline and Banking Papers and build a case for urgent regulatory action, these proponents have asserted that even papers critical of the common ownership hypothesis have *confirmed* the Airline Paper.[29]

These statements are disingenuous and grossly misconstrue the critiques. The words "confirming" and "confirms" imply the critics of the Airline Paper agree with its conclusions. It would be far more accurate to recognize that the papers critical of the common ownership hypothesis begin by *replicating* the findings in the Airline Paper. This is a necessary and appropriate first step to *critique* the paper, because it establishes that all the researchers on both sides of the debate are working from virtually identical databases.[30] Next, the papers critical of the Airline Paper show that, under sensible changes to the data set or the statistical approach, the results in the Airline Paper fall apart. Because the critiquing papers demonstrated that they are using a virtually identical database to the one used in the Airline Paper, the ultimately divergent conclusions are driven by corrections to the Airline Paper's erroneous assumptions and methodology, not data differences.[31]

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[29] José Azar, Martin C. Schmalz, and Isabel Tecu, *The Competitive Effects of Common Ownership: Economic Foundations and Empirical Evidence: Reply* (September 20, 2018), at 3, *available at* https://ssrn.com/abstract=3044908 ("AST Reply to Kennedy") ("Estimating their model via OLS, they [i.e., Kennedy *et al.*, *supra* note 13] find that their measure of common ownership has a positive effect on airline prices, confirming the findings of AST."); Einer Elhauge, *New Evidence, Proofs, and Legal Theories on Horizontal Shareholding*, Working Paper (2018), at 19–20 (stating that the critique by Kennedy et al. *supra* note 13 "first reconstructs the data from scratch and replicates the results of the airline study. This part of the critique thus affirmatively confirms that the results of the airline study are not an artifact of any data errors").

[30] An audience member submitted a question about this issue at the FTC's hearing on common ownership. In response, Dr. Dan O'Brien, the primary author of a leading paper critiquing the Airline Paper, stated that he does not agree that his analysis confirms the results of that paper at all. To the contrary, he explained, "the whole point" of the critique was to say that the Airline Paper followed an incorrect methodology and Dr. O'Brien and his coauthors "adopted two other methodologies that…yield the answer that common ownership did not raise airfares." *See* Transcript of the Public Hearing on Competition and Consumer Protection in the 21st Century on December 6, 2018 at 347, *available at* https://www.ftc.gov/system/files/documents/public_events/1422929/ftc_hearings_session_8_transcript_12-6-18.pdf.

[31] *See, e.g.*, Kennedy *et al.*, *supra* note 7, at 14 ("Given the similarity of these results, it seems likely that the differences between [the Airline Paper's] results and those we obtain below are driven largely by differences in specification rather than differences in data"); *id.* at 23 ("Because the datasets match reasonably well and we largely replicate [the Airline Paper's] results when using their method, the difference in results is likely due to differences in methodology").

For example, in the critique by Kennedy, O'Brien, Song, and Waehrer, the authors closely replicate the data set from the Airline Paper and do initially find a positive and statistically significant correlation based on their ordinary least squares regressions. But they then build and apply what economists call a "structural model," an approach that in essence allows researchers to determine whether in a given market, prices and quantities are varying because of demand or because of supply. This structural model is superior to the Airline Paper's approach because it controls for potential correlations between price and measures of industry concentration, even if common ownership has no effect on market prices. Using this structural model, the authors find that the estimated effect of common ownership on airfares is *negative* and statistically significant.[32] The authors appropriately interpret this result as showing that the data are inconsistent with the common ownership hypothesis and thus the hypothesis must be discarded as incorrect.[33]

Put simply, the critiquing papers demonstrate that the academic community disagrees over whether prices have risen at the same time that common ownership has increased.[34] Even if a correlation were proven, the debate over the common ownership hypothesis would continue because correlation is not causation. Just as the rooster's crow does not cause the sun to rise, policymakers cannot assume that common ownership causes price effects even if later empirical work eventually identifies some correlation between the two.

IV. The FTC Should Not Adopt Policy Proposals Based on the Common Ownership Hypothesis

In sum, there is no evidence that common ownership raises consumer prices and there is a raging dispute over whether these two factors are related at all. This academic debate is not surprising because the underlying theory of how common ownership could result in anticompetitive harm requires (1) an incentive for institutional investors to reduce competition among the companies in which their diverse

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[32] *See id.* at 16.

[33] This result has subsequently been mischaracterized by the authors of the Airline Paper. Those authors contend that the negative sign result in Kennedy *et al.* should be ignored because, in their view, it suggests that common ownership *lowers* prices, a result at odds with the theory of common ownership. *See* AST Reply to Kennedy, *supra* note 29 at 4. This contention, however, is tantamount to suggesting that because the empirical results in Kennedy *et al.* do not agree with the theory, we should throw out those results. Standard approaches to statistical tests, which are universally accepted, work the other way: if one's theory is inconsistent with the empirical results, the theory must be thrown out.

[34] *See* Lambert and Sykuta, *supra* note 7 at 33–34 (discussing subsequent research and concluding that it "thus seems that the airline and banking studies suffer from intractable endogeneity problems and that the airline study, the more influential of the two, is subject to a number of other methodological difficulties that render its results far from robust. Empirical evidence is not, then, the trump card that proponents of common ownership restrictions believe it to be."); Keith Klovers and Douglas H. Ginsburg, *Common Ownership: Solutions in Search of a Problem* (November 6, 2018), George Mason Law & Economics Research Paper No. 18-42, *available at* https://ssrn.com/abstract=3279612 (noting that initial findings on common ownership are "hardly a consensus view" and "to date, seven other economic papers challenge these findings on theoretical or both theoretical and empirical grounds").

clients hold minority interests, (2) a mechanism by which institutional investors can use small non-controlling stakes to influence the competitive actions of those companies, and (3) incentives and ability among a company's managers to operate in a way that maximizes the combined profits of the company and its competitors.

We have previously explained that investment advisers that manage assets for a diverse base of clients with varied investment objectives simply do not have incentives to encourage reduced competition among portfolio companies. Indeed, an adviser's fiduciary duty to its clients and the various laws and regulations affecting investors, advisers and portfolio companies circumscribe the potential for small, non-controlling shareholders to influence competition.[35]

As we noted in our prior letter, regulated funds provide very significant and tangible benefits to their shareholders and the economy. Approximately 56 million US households across all income levels own mutual funds.[36] These funds provide their shareholders with professionally-managed, diversified portfolios at low cost, effectively democratizing investing. They also supply capital to companies to grow their businesses, create jobs, and innovate. A sound regulatory structure and competitive market dynamics have benefitted regulated funds, their shareholders, and the companies in which they invest. Imprudent policy could undermine these achievements.

Sound policy suggests that no action even should be proposed or considered absent proof that common ownership harms competition. Moreover, policymakers must consider the likely consequences of any potential action to curtail common ownership or to address the speculative harms alleged by the common ownership hypothesis. The FTC's December 8 hearing elicited broad agreement that any such action would necessitate very difficult tradeoffs that are not justified.[37]

The proposed policy measures entail limiting common ownership outright or forcing shareholders that exceed a *de minimis* level of common ownership to forfeit fundamental rights, such as the ability to vote in corporate elections. As described in our prior comment letter, these measures would harm retail investors, the asset management industry, businesses, and the economy. Limiting the ability of institutional investors to hold stock in competing firms would make investing more complicated, fragmented, and expensive for retail investors and could distort capital markets by making it more difficult and costly for some firms to attract investment. Similarly, measures that restrict voting would

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[35] For greater detail on the factual implausibility of the theory given the realities of the asset management industry, *see* ICI comment letter, *supra* note 2.

[36] *See* Sarah Holden, "Mutual Funds: Rated E for Everyone," *ICI Viewpoints* (December 12, 2018), *available at* https://www.ici.org/viewpoints/view_18_mf_ownership. The appendix to this letter includes the full text of this *Viewpoints*. Nearly 50 million US households own shares in equity mutual funds. *See* 2018 Investment Company Factbook at 143, *available at* https://www.ici.org/pdf/2018_factbook.pdf.

[37] *See* Transcript, *supra* note 30. The first session of the hearing focused, in part, on these policy measures, and speakers with a broad spectrum of views agreed that it would be inappropriate to implement policy measures to address the common ownership hypothesis.

limit the ability of institutional investors to engage with companies, which could result in less effective corporate stewardship and a decline in the quality of corporate governance. Such measures also could conflict with advisers' fiduciary duty to monitor portfolio companies on behalf of clients and take a principled approach to engaging with these firms. In sum, the common ownership hypothesis provides no justification for policymakers to assume this high risk of harm to our markets and economy and to undermine the obvious and sizable benefits regulated funds provide to US investors of all ages and income levels.

* * *

We appreciate the opportunity to comment on the state of the research on the common ownership hypothesis following the Commission's hearing on this subject. If you have any questions on our comment letter, please feel free to contact Sean Collins, Chief Economist, at sean.collins@ici.org or (202) 326-5882; Susan Olson, General Counsel, at (202) 326-5813 or susan.olson@ici.org; or George Gilbert, Assistant General Counsel, at (202) 326-5810 or george.gilbert@ici.org.

Sincerely,

/s/ Sean S. Collins

Sean S. Collins
Chief Economist

/s/ Susan M. Olson

Susan M. Olson
General Counsel

cc: The Honorable Joseph J. Simons
The Honorable Noah Joshua Phillips
The Honorable Rohit Chopra
The Honorable Rebecca Kelly Slaughter
The Honorable Christine S. Wilson

Mr. Bruce Hoffman, Director, Bureau of Competition
Mr. Bilal Sayyed, Director, Office of Policy Planning

Appendix: Mutual Funds: Rated E for Everyone

ICI Viewpoints

DECEMBER 12, 2018

Mutual Funds: Rated E for Everyone

BY SARAH HOLDEN

Investing is subject to many misconceptions, including the notion that only wealthy households own mutual funds. As US households' ownership of mutual funds has grown over the past four decades, the need to correct myths about who owns mutual funds has also grown.
In 1980, far fewer than one in 10 US households owned mutual funds. Now, more than four in 10 do. This expansion of mutual fund ownership has occurred across households hailing from all income and age groups, as they find diversified and cost-effective mutual fund investing can help them realize a wide array of important financial goals.

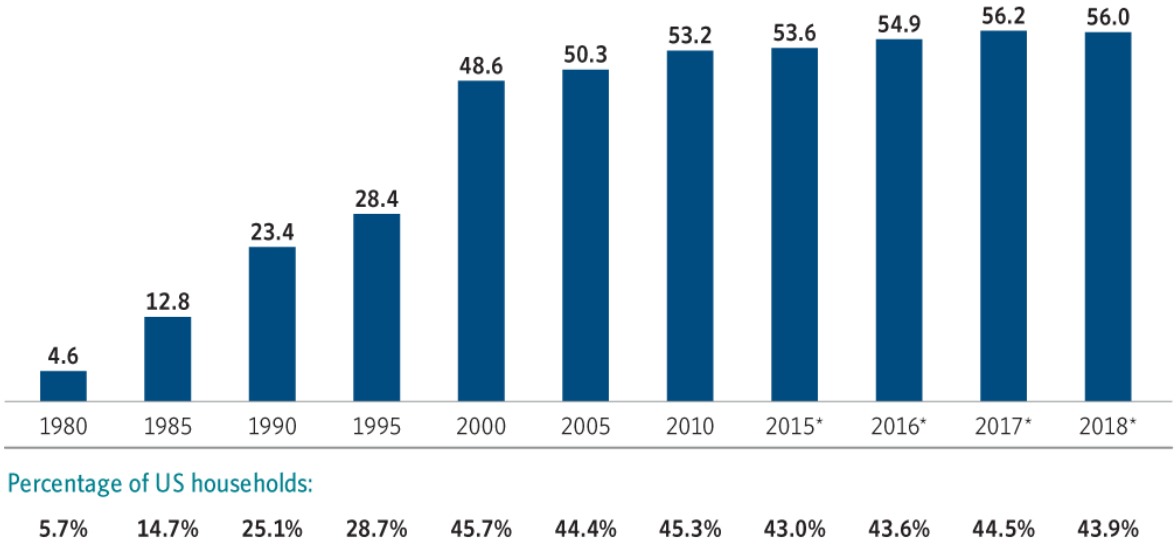
Mutual Fund Ownership Has Gone Mainstream

Results from a nationally representative survey of US households find that about 44 percent of US households owned mutual funds in mid-2018, up from about 6 percent in 1980 (Figure 1). This means that 56.0 million US households, or nearly 100 million individual investors, owned mutual funds in mid-2018.

FIGURE 1

Reach of Mutual Fund Ownership Has Dramatically Expanded in the United States

Millions of US households owning mutual funds, selected years



*Starting in 2014, the Annual Mutual Fund Shareholder Tracking Survey was revised to include cell phones as well as landlines.
Sources: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey and US Census Bureau

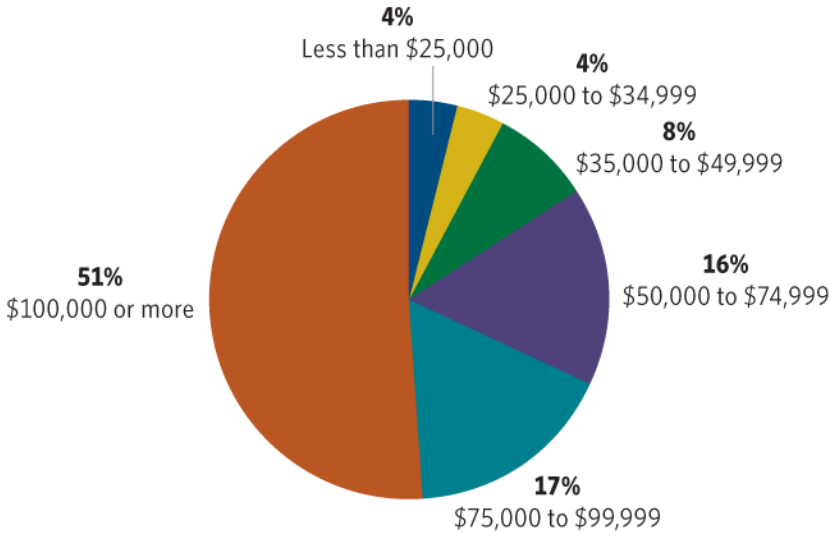
Every Income Group…

Households across all income levels own mutual funds. In mid-2018, 63 percent of US households with household income of $50,000 or more owned mutual funds and 17 percent of US households with household income less than $50,000 owned mutual funds. About half of mutual fund–owning households had household incomes of less than $100,000, and 16 percent had incomes less than $50,000 (Figure 2).

FIGURE 2

About Half of Households Owning Mutual Funds Have Moderate or Lower Incomes

Percentage of mutual fund–owning households by household income, 2018*



* Total reported is household income before taxes in 2017.

Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

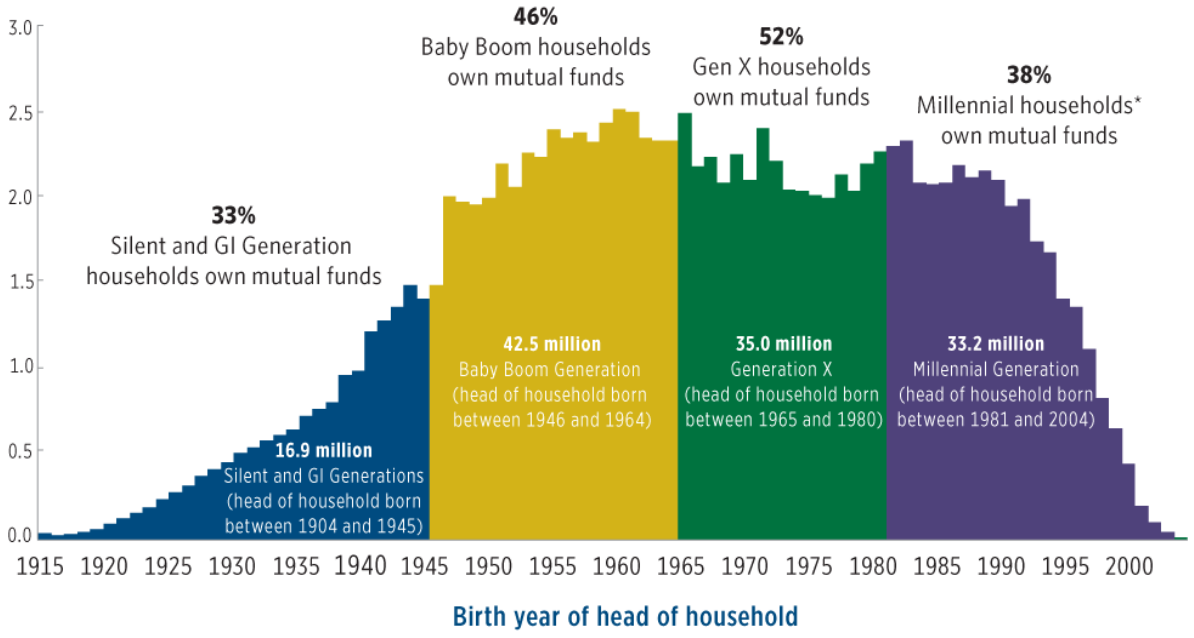
Every Generation…

Mutual fund ownership spans all generations but is the highest among the Baby Boom Generation and Generation X—groups now in their peak earning and saving years. In 2018, 46 percent of the 42.5 million households headed by a Baby Boomer owned mutual funds (Figure 3), and Baby Boom households were 34 percent of households owning mutual funds. A little more than half of the 35.0 million households headed by a member of Generation X owned mutual funds in 2018, and Generation X households were 32 percent of households owning mutual funds. Thirty-eight percent of the 33.2 million households headed by Millennials owned mutual funds and Millennial households were 23 percent of all mutual fund–owning households. Among households headed by the Silent and GI Generations, 33 percent owned mutual funds; they made up the remaining 11 percent of mutual fund–owning households.

FIGURE 3

Mutual Fund Ownership Occurs Across All Generations of Households

Millions of US households by birth year of head of household, 2018



* The Millennial Generation is aged 14 to 37 in 2018; however, survey respondents must be 18 or older.

Note: In 2018, there were 127.6 million US households.

Sources: ICI tabulations of the US Census Bureau's Current Population Survey and Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

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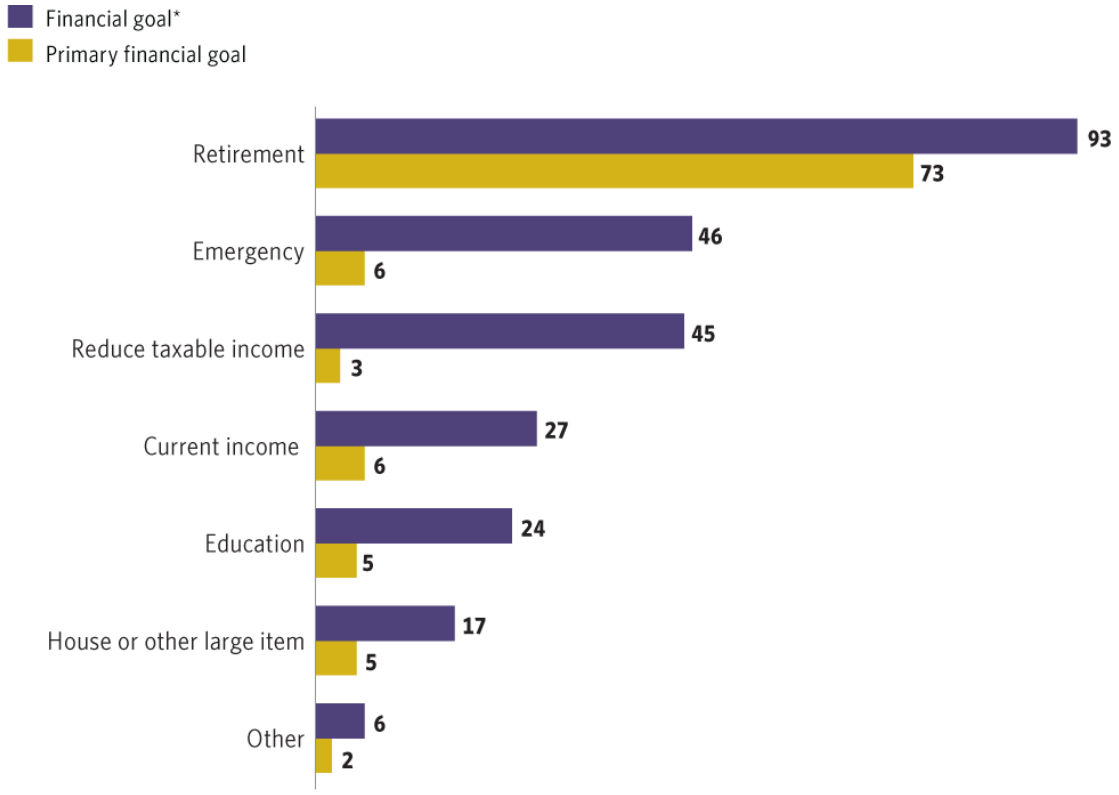
Every Financial Goal…

The reasons behind the growth in mutual funds is as varied as the people who own them. Easy access to employer-sponsored retirement plans has been a significant factor; the majority of first-time mutual fund purchases occur through such plans. Households also often invest in mutual funds through their individual retirement accounts (IRAs). In fact, in mid-2018, 59 percent of defined contribution plan assets were invested in mutual funds, as were 47 percent of IRA assets. Ninety-three percent of mutual fund–owning households indicated that saving for retirement was one of their financial goals, with 73 percent indicating retirement saving was their primary financial goal (Figure 4). But mutual funds address investment goals across investors' lifecycles: 46 percent of mutual fund–owning households indicated they were saving for emergencies, 24 percent were saving for education expenses, and 17 percent were saving to buy a house or other large item.

FIGURE 4

Mutual Funds Help Investors Save for a Variety of Financial Goals

Percentage of mutual fund–owning households, 2018



*Multiple responses are included.

Source: Investment Company Institute Annual Mutual Fund Shareholder Tracking Survey

Mutual fund–owning households reach for diversification, often investing in the stock market through stock funds—both domestic and international, both indexed and actively managed—and through balanced funds, including target date funds. Stock funds are the most commonly owned type of mutual fund (held by 88 percent of mutual fund–owning households), followed by money market funds (held by 57 percent), bond funds (held by 44 percent), and balanced funds (held by 36 percent).

Fund owners have a high level of confidence in mutual funds, with nearly nine out of 10 mutual fund–owning households indicating they are confident mutual funds can help them meet their investment goals.

Mutual Fund Ownership Is for Everyone

The rapid growth and spread of mutual funds—now serving almost 100 million Americans and their families—should come as no surprise. These funds provide what savers need: professionally managed, diversified, well-regulated, cost-effective tools to realize a wide range of financial goals. Those goals are shared by Americans of all incomes and ages—and mutual funds work well for them all.

Sarah Holden is senior director of retirement and investor research at ICI.