

Insights to Impact - Episode 3 - Conversation with Eric Pan - Transcript

Andy Mitchell:

Good afternoon, everybody, and welcome to another Insights to Impact podcast. Today I'm joined by my colleague and friend, Eric Pan, President and CEO of the Investment Company Institute, or ICI, the leading association representing the global asset management industry straight from Washington to our podcast. He also chairs the International Investment Funds Association, or IIFA, which brings together national and regional fund associations from around the world. Eric, it's great to have you here in Toronto for IIFA's annual meeting. And thank you for joining me today for our first in-person podcast interview.

Eric Pan:

Well, Andy, it's a pleasure being here. Thank you for having me.

Andy Mitchell:

Before we dive in, I always like to give a little bit of context for our listeners. As everyone knows, around the world, regulators and industry are exploring ways to improve competitiveness, expand investor access, increase savings, and modernize disclosure and governance frameworks. While approaches may differ across markets and jurisdictions, the goals are often similar. Ensuring regulation is proportionate, broadening access to investment opportunity, and delivering information in ways that are more effective for all investors. Given ICI's leadership role in these discussions globally and your role as chair of the IIFA, I'm looking forward to hearing your perspective on all these topics.

Eric Pan:

Looking forward to the conversation.

Andy Mitchell:

Big one for us in Canada, and I know you're leading the way in the US, is e-delivery and the regulatory modernization projects. ICI has been a strong advocate for making electronic delivery the default for investors. E-delivery seems like a relatively straightforward modernization, yet we've spent years talking about it. Why has something so technologically simple proved to be so difficult from a regulatory perspective? And what should regulators be thinking about and doing differently than they are today?

Eric Pan:

So it's a great question because this should be a no-brainer. We're living in a world today where most of the information we get is electronic. Who reads a newspaper today anymore? Who gets a bank statement by paper anymore? Yet in the United States, we are required to provide notices, prospectuses, annual meeting reports, all by paper.

And we're arguing at ICI that we should move to default e-delivery. If people want paper, they can get paper, but not everyone should need to get paper. Why hasn't this happened earlier? Well, politics. Like a lot of things, politics always enters into it. For a while, there was concern that this was going to be tough for elderly investors. People who may not be so used to using a computer, they like the security of having paper. We've also encountered in the past, the paper lobby itself. Not surprisingly, paper mills don't want to lose the business. A lot of trees get knocked down in order to print all this stuff. It's 2026. You know, we did a survey at ICI of investors. 87% of them said that they would prefer to get paper. And we also surveyed people over the age of 65, and 86% of them said they too want to get paper. So investors want to get paper.

We've estimated investment funds in the United States will save 3 to 4 billion US dollars over the course of five years if they didn't have to print and mail paper. And that's only in the investment funds context. You know, the SEC proposal would also affect other areas of the financial markets. So the actual savings to the markets will be much higher than 3 to \$4 billion. So this is common sense. And this is something that we very much hope the SEC will act on right away.

Andy Mitchell:

Fantastic. I think it gives us a little bit of optimism for our Canadian discussions as well. Our listeners may not know much about the Growth Act. They may have heard about it, seen it in headlines. Well, let's talk a little bit about it. Just for clarity, the Growth Act stands for Generating Retirement Ownership Through Long-Term Holding Act, one of President Trump's initiatives. And the ICI has been advocating for this for some time now. What do you think is the biggest obstacle to getting the Growth Act finally across the finish line?

Eric Pan:

Well, maybe let me provide some background, because this really pertains to how mutual funds are taxed in the United States.

I think most of your listeners are used to paying taxes on things that they buy and sell. And the normal way is, take, for example, a house. I buy a house, maybe I paid \$100,000 for this house. And then 10 years later, when I leave, I sell my house and maybe the value of the house has doubled to \$200,000. And at that time when I sell the house, I pay a tax on that \$100,000 in profit that I've made. That is how normally we tax things. For some reason, the US tax code treats mutual funds very differently. They say you own a mutual fund and we are actually going to tax you every single year, even if you haven't touched your mutual fund. And it's important to talk about touching your mutual fund because we tell investors all the time, buy and hold, long-term investing. So we encourage people to invest and then don't look at your investment statement for years. Let it grow over time. You know, if you're saving for your kids' education, you know, you're talking about 18 years later, you're going to need the money.

And yet our tax code in the United States will send you a tax bill every year. And the reason why is a technical tax reason, but it's really confusing for the average investor because they don't understand why they get this tax bill. It's also, I think this is the more dangerous part. It's a disincentive to them because they say to themselves, I'm trying to save money for retirement, but I'm getting taxed. And it's not as if they've got money hanging around to pay the tax. They often have to find extra money to cover this tax bill that they get.

ICI has done some research. And we've looked at a hypothetical \$10,000 investment. And we've looked at what would happen over 10 years with that \$10,000 investment. And because of this tax that gets charged every year, it actually hurts returns by as much as 13%. So we are punishing American families for using mutual funds to save for the long term. And this is our message to Congress and to the current White House, is we want investment. Everybody wants investment. We want people to save for the long term. We want them to be able to afford life goals. And we all know that this money that people put away, this goes to companies, it goes to businesses, it leads to R&D, it leads to employment. And so why would you have a tax system that actually hurts people from engaging in this activity? And we're arguing for a return to common-sense tax policy. And I'll just say that Congress agrees. We have 128 members of Congress, both Republicans and Democrats. So this is bipartisan. They're not only saying they support the bill. They're saying, I want my name on the bill because I think the bill is this important. And, you know, with American politics, you know, there are other things that have to be debated. So we're hoping this is going to get the time and attention in the Senate, but this is really, really important. It's a fundamental part of investing, and we really hope Congress acts soon.

Andy Mitchell:

Just to be clear for our listeners, when the unit holder eventually redeems that account and sells those funds, they would pay tax then but not during the holding periods that you talk about.

Eric Pan:

Well, so you mean after the Growth Act has passed?

Andy Mitchell:

Yes.

Eric Pan:

Yes, that's right. It would be mutual funds would be taxed just like I think other things are taxed. And I think many of your listeners are probably very familiar with ETFs. ETFs are not taxed like mutual funds. In fact, that's one selling point that a lot of ETF distributors say to investors is, don't buy a mutual fund, buy an ETF. Because with an ETF, you pay one price when you enter, and then you only pay tax when you exit the ETF.

All we're saying is let mutual funds be treated the same way. The government gets its money at the end of the day. The government does not, I mean, you don't escape taxes. It's just a question of when you have to pay the tax. And we just think it's fair to have people pay the tax when they actually leave the investment.

Andy Mitchell:

I think some investor advocates over the years have called the power of compounding the eighth wonder of the world. So that's where you're proving out.

Eric Pan:

Definitely. And that's where the 13% hurts because that's the loss of the compounding effect.

Andy Mitchell:

Let's take this a little bit further. Private market access. Very interesting topic here as well. The Canadian government is looking at all types of capital formation ideas, as you are well aware. It's becoming a major policy issue in the US as well, and every jurisdiction is approaching this from retail access differently. What do you think international regulators and fund associations like ours should be learning from one

another as we consider how to open up private markets to individual, and let's say individual retail investors?

Eric Pan:

So, I think we all have to recognize that the introduction of private assets to retail investors is a new development. Maybe sometime in the future, historians will write about this time period, but right now, this is a brand new idea. And I think there is a lot of, there are a lot of practices, a lot of kind of sales standards, valuation standards that we need to still develop in order to ensure that retail investors can buy private assets, but also earn good returns from it. And there are certain markets like the United States where I think this market is developing faster. And I think where international regulators come in is as other jurisdictions move in this direction, we need to learn from each other.

We will make mistakes in the United States. The US has made mistakes in the past. And people should learn from our mistakes. And there will be things that the US does that will work well. And that too, other jurisdictions should learn. And likewise, there are going to be developments here in Canada, in Europe, in Asia, where you're going to get certain things right, and we need to learn from you. So that's the role of international regulators is to understand why this is an important development, but let's also work together to make sure that it develops in a way that protects investors, encourages long-term investing, and at the end of the day, help investors get better returns.

Andy Mitchell:

Let's talk about the regulators. We've heard this term forever, regulatory burden. I've asked various regulators over the last six months or so to help us define that to a little more definitive criteria. And we're seeing a major push towards deregulation right now in the US. You've been pretty outspoken about our industry being overregulated, but you've also said the core framework governing investment funds in particular is fundamentally sound.

My question is, how do you distinguish between regulation that generally protects investors and regulations that are simply outdated or overly burdensome?

Eric Pan:

So this is the biggest challenge for any regulator. And I say this as someone who actually spent a number of years as a regulator at both the SEC and at the Commodity Futures Trading Commission. So I am very sympathetic to the challenge that regulators have. But I think what regulators need to do is to understand that

regulation should be based upon data. It should be based upon an understanding of how the regulation actually impacts the market. So we already talked about e-delivery. And to me, this is an easy case. Right.

The regulation that says you must put everything into a piece of paper and stick it into the mail so that someone gets it three, four days later is overregulation. It is costly. It is unnecessary. It is burdensome on both the receiver and the sender. So, this is a clear case of where we can say, maybe in the past, the regulation had a good purpose. But today, it's unnecessary and it's over-regulation. So that's an easy case. There may be other cases where it's going to be a little closer call. And here, I think this is where the regulator has a responsibility to really say just because this is the way we've always done it, that cannot be the right answer. We need to constantly be looking at a regulatory regime, talk to the markets, talk to the industry, and ask ourselves, is the regulation still fit for purpose? Is it still doing what we want it to do? or is it actually creating the wrong incentives, the wrong barriers? Is it actually defeating the goals that we have with our regulation? And so I know that right now we talk about deregulation and, you know, we have a Republican administration in Washington and there are people who would love to frame this as an ideological issue. Republicans don't like regulation, so we're talking about deregulation. In my opinion, that's not the case. It's all about whether you are right, left, or center. Regulation serves a purpose, but that doesn't mean all regulation is good. It doesn't mean all regulation is bad. And regulators have a responsibility to make sure the regulation actually helps. And if it doesn't, they have a responsibility to do something about it.

Andy Mitchell:

Well said. Let's go a little more global here, Eric, and talk about your role as the chair of the International Investment Funds Association. What do you think the global investment fund industry, and I know you do travel quite extensively to both Asia and Europe, what do you think we can accomplish together over the next two years that individual national associations like ours can't accomplish on their own?

Eric Pan:

So anytime you have an organization which pulls together different people from different parts of the world, it's all about being a force multiplier. It's amazing that the issues that we're all confronting in our national jurisdictions are actually not that different from each other. And the conference that you're hosting here, Andy, here in Toronto is a case in point. We're talking about technology. We're talking about retirement. We're talking about influencers. We're talking about regulation. And the fact that we can have people from Asia, South America, Europe, North America, and

we can all talk about these issues because we're all confronting them, tells you these are common challenges. So an organization like IIFA, by bringing people together, can make us, all of us more effective. I've already mentioned the value of information sharing. So clearly that's important.

I think another is we as trade associations have a responsibility to explain what we're fighting for. Why is it important to have retirement savings where people are putting their money into investment funds rather than into a bank account? Why is it important that we need people to watch out what's happening on social media? And developing the narratives, the arguments, the messages, is also something that collectively is very powerful when we can do it as a group. Because you're going to go and speak to your authorities here in Toronto, in Ottawa, and the other provinces. I'm going to go back to Washington. We should be saying consistent things with each other. And that's where groups like IIFA really can bring value.

Andy Mitchell:

Agreed. Thank you for that. So as many of our listeners know, we tend to finish these podcasts with five quick hits, as we call them. So quick questions, your first thought that may come to mind, and just a couple of comments on each, if you don't mind.

First one, as you know, we shared the paper with you that we put together on finfluencers, and we held a great roundtable event here with many stakeholders around our boardroom table. And we recently conducted that research into the use of finfluencers in Canada and how they can complement traditional forms of advice. Any quick thoughts on the finfluencer phenomenon, let's call it.

Eric Pan:

Look, financial education, information about investing, is critical to get out there. The idea that there's generations of people in both Canada and the United States who get their information through social media means we shouldn't view finfluencers as a bad thing, but they are, they can be a very effective and powerful tool to really reach an important part of our population. And so let's see how we can turn them into a positive force and curb some of the negative aspects of finfluencers.

Andy Mitchell:

Another question related to, I guess, technology would be the AI phenomenon, new news every day, good, bad, and indifferent. In the very short term of thinking about this aspect right now, are you concerned or excited in the immediate term of where changes may happen potentially and bring to our industry through AI?

Eric Pan:

So I'm excited about AI because AI is going to impact so many different parts of our economy. And I see it as a powerful tool to help people comprehend and analyze information. And in the area of investing, a lot of people are intimidated from investing because it seems very complicated. So many choices. So many terms and concepts. And if AI can make people feel like they can take greater control over their investing future, that's a good thing. But with that said, you know, AI also means that we have to make sure AI doesn't mislead us, that it's based upon facts, we're not getting hallucinations. And all of that are practical problems that we're going to need to deal with.

Andy Mitchell:

Great. What about tokenization? I think a little bit early days on that as well. You featured some of this at your ETF conference in June. I was fascinated by some of the panels you held.

What do you think of is the biggest regulatory hurdle or bottleneck that may be holding back asset managers today as we scale tokenization more broadly?

Eric Pan:

There's a lot of, there still is regulatory uncertainty about how to do tokenization. Is it permitted under a current regulatory regime? And this, of course, is a big current topic of debate in the United States. The failure of the Clarity Act to get passed in Congress has resulted in, just in the past week, the SEC taking a number of regulatory steps to try to provide more certainty in the space. Regulation creates an environment where then the business people can talk about do they want to make the investment into this area. So to me, that is really kind of the primary hurdle at the moment. I envision down the road there will be operational hurdles that we will encounter, but we're not going to know until we start spending the money and doing the development that's necessary.

Andy Mitchell:

Early days but fascinating times for sure. I'm going to send you a real quick one and see what's your most important trend asset managers should be watching right now.

Eric Pan:

I think it's generations. We have aging populations in developed countries. So here we're moving from an accumulation stage to decumulation. And I think asset management has a role to play in decumulation. But also, as we were talking about

the influencers, the world belongs to the young. In order to be a successful investor, you don't need a lot of skill. You just need time. And the fact that we have young people who are just starting off, how do we get them interested in investing? Because they're the ones who are going to be the future of this industry, the future of the market. And we need to really make sure that both at the beginning and at the end, we are serving both types of populations.

Andy Mitchell:

Well said.

Eric, if you could set the record straight on one thing about the global asset management industry, what would that be?

Eric Pan:

One reason why I really enjoy the role that I'm in right now and enjoy talking about the topics we've been talking about is asset managers exist in order to make people better off. Our success is measured by how much we ensure that our clients, the investors, do well. And so global asset managers sometimes get put into the broader bucket of big finance, and I know in the United States, for example, we have people from different parts of the political spectrum who sometimes think that big finance is very self-centered, very focused on making money. And I feel like global asset managers sort of get painted with a brush that's unfair because, as I often tell policymakers, if we're successful, your citizens probably have done very well. Your citizens would have a bigger retirement account. Your citizens will have a bigger nest egg. And that's why global asset management is something that we want policymakers to try to support.

Andy Mitchell:

Excellent. Eric, as always, it's been a real pleasure speaking with you. Thank you so much for joining me today. And let's get back over to the IFIC conference next door.

Eric Pan:

Thanks for having me, Andy. This was fun.