pwc

August 15, 2022

Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

RE: File No. S7-18-22

Dear Ms. Countryman:

We appreciate the opportunity to comment on the Securities and Exchange Commission's (the SEC or the "Commission") Request for Comment on Certain Information Providers Acting as Investment Advisers.

We commend the SEC for its efforts to seek insights on the roles of index providers, model portfolio providers, and pricing services, which have evolved over the years. We also commend the effort of the Commission to enhance investor protection in the capital markets while fostering innovation.

As a leading provider of trust and professional services to investors and the financial services industry, we have significant experience providing services to both Index Providers and the users of their services and information. We audit more than 53% of exchange-traded funds (ETFs) and 48% of mutual funds based on the number of portfolios, as well as provide audit and non-audit services to Index Providers of all sizes. Investors are now, more than ever, impacted by index-based investment products. Our observations confirm that passive investment strategies and index-based products, as well as the number of organizations offering such products, have grown significantly and have become much more important in the overall functioning of the capital markets.[1] For example, in 2010, passive investments accounted for approximately 20% of total US mutual fund/ETF industry assets. Passive investments comprised approximately 50% of these assets in 2022. Passive investment strategies and index-based products have also become similarly prominent in non-public investment vehicles.

At the same time, we have observed growing demand by investors for index-based products that are customized and/or tailored, and that are potentially more complex than standard broad-based index products. Additionally, the data and information that is disseminated by index providers have also become more widely used and increasingly more prominent, including as reference data for other bespoke products.

With the increased importance and complexities of index-based investing and reliance on third-party index and related data by market participants, errors can have a broad and potentially severe impact on investment managers and shareholders. For example, we have observed errors related to the timeliness and operation of the rebalancing of indices, as well as with regard to the determination of applicable

[1] See PwC authored content on the topic: The continued rise of index investing and the market's growing need for clarity and Why trust has become a core pillar for such growth

constituents for inclusion in certain indices, including relating to the application of ESG screening criteria and operations.

With the exceptional growth and increased importance of passive investment strategies and index-based products, many institutions and regulators have recognized how more formal structure and internal controls, governance, and transparency are essential to the efficient and effective operation of the capital markets. For example, the European Union has established Benchmark (Index) Regulation to focus on:

> (i) improving the governance and controls over the benchmark process, in particular to ensure that administrators avoid conflicts of interest, or at least manage them adequately; (ii) improving the quality of input data and methodologies of benchmarks; (iii) ensuring that contributors to benchmarks and the data they provide are subject to adequate controls, in particular to avoid conflicts of interest; (iv) protecting consumers and investors through greater transparency and adequate rights of redress; and (v) ensuring that supervised entities have robust written plans in case of cessation or material changes of benchmarks.[2]

Additionally, the International Organization of Securities Commissions has provided policy guidance and principles for benchmark-related activities to enable benchmark/index providers to assess and report on benchmark/index based operations. The adoption of the requirements of these frameworks has served to bolster trust in the financial markets.

As the Commission continues to focus on investor protection and the role that certain information providers play in the index investing ecosystem, we think it is important to adopt an approach that takes into consideration regulations already in place in the US as well as globally. An approach that minimizes inefficiency and fragmentation between regulatory environments would increase fairness and the efficiency of the markets and benefit investors. We support the Commission's goal of instilling trust to support the growth of index-based products.

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If you have any questions regarding our comments, please contact Wes Bricker at wesley.bricker@pwc.com, Kathryn Kaminsky at kathryn.s.kaminsky@pwc.com, or Beth Savino at elizabeth.a.savino@pwc.com.

Sincerely,

PricewaterhouseCoopers LLP

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[2] European Union has established Benchmark (Index) Regulation