

MEMO# 27953

March 13, 2014

Update on Institute's Activities Regarding Target Date Funds

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TO: ADVERTISING COMPLIANCE ADVISORY COMMITTEE No. 2-14

PENSION COMMITTEE No. 5-14

PENSION OPERATIONS ADVISORY COMMITTEE No. 3-14

SEC RULES COMMITTEE No. 10-14

SMALL FUNDS COMMITTEE No. 3-14 RE: UPDATE ON INSTITUTE'S ACTIVITIES REGARDING
TARGET DATE FUNDS

The purpose of this memorandum is to inform you of various activities Institute staff has undertaken recently in connection with possible future regulatory actions affecting target date funds. As you may recall, the Securities and Exchange Commission proposed amendments to its advertising rules to enhance the information provided to target date fund investors in 2010 (the "Proposal"). [\[1\]](#) The Institute filed a letter with the Commission strongly supporting the spirit and core of the Commission's Proposal and making several recommendations. [\[2\]](#) Following the submission of that letter, a group of Institute members and staff met with Commission staff to discuss providing funds additional flexibility regarding presentation of the glide path in print marketing materials and making it easier for target date funds to satisfy their disclosure requirements in connection with retirement plan communications.

In April 2013, the Commission's Investor Advisory Committee (the "Committee") submitted a number of recommendations to the Commission related to target date funds, most of which involved requiring these funds to include certain standardized risk information (including a "risk-based" glide path, to replace or supplement the asset allocation glide path contemplated by the Commission in its 2010 Proposal) in their marketing materials and/or prospectuses. [\[3\]](#) Institute staff met with Commissioner Gallagher (who attended the Committee meeting at which the recommendations were discussed) and then later with Division of Investment Management staff in response to the Committee's recommendations. Among other things, we pointed out that if the Commission were to mandate a risk measure and specify how to calculate this measure, it would unduly elevate its importance. [\[4\]](#)

We also met with Department of Labor staff regarding the Committee's recommendations on risk disclosure. We made virtually the same points to them, and they seemed to

understand our concerns with the Committee's recommendations. [\[5\]](#)

On November 20, 2013, Chair White sent a letter to the Committee, notifying it that the Commission would be seeking additional comment on standardized risk-based glide path illustrations for target date funds in connection with the Commission's original Proposal. [\[6\]](#)

In response to this latest development, Institute staff has had two subsequent meetings with Commission staff. At the most recent meeting, Institute staff and a group of members met with Division of Investment Management and Division of Economic and Risk Analysis staff to further explain the industry's concerns with a mandatory single risk metric, the flaws with managing towards a risk metric, and how investment management firms take various forms of risk into account in designing asset allocation glide paths. We impressed upon the staff that risk is a multi-faceted concept that is analyzed differently by different firms. We also reemphasized that the asset allocation glide path is a very powerful indicator of risk. The staff seems to be contemplating recommending that the Commission publish a broad request for comment that would seek views on a number of alternative ways for target date funds to depict risk, including providing: (i) narrative disclosure of the capital market assumptions that firms take into account in designing glide paths (e.g., expected returns, interest rate risk, volatility risk, longevity risk, and inflation risk); (ii) a more detailed asset allocation glide path that would depict asset classes beyond equity/fixed income/cash (e.g., high yield bonds, alternative investments); (iii) disclosure of a summary of a fund's portfolio holdings; or (iv) disclosure of one or more risk measures (e.g., Sharpe ratio, standard deviation, R-Squared, VaR). The staff also indicated that the Commission might request comment on the appropriateness of any such enhanced disclosure appearing in marketing materials, prospectuses, or other fund communications.

In light of these meetings and the likelihood of a Commission release seeking additional comment on this subject, the Institute submitted the attached letter to the Commission staff recommending a number of questions for inclusion in such a request for comment. [\[7\]](#) In submitting this letter, the Institute's aim is to ensure that any request for comment incorporates a comprehensive discussion of all facets of this issue, so that commenters are provided an opportunity to fully address (and the staff has adequate information to fully consider) the difficulties and complexities that would be involved with requiring a standardized risk-based glide path as part of any final rule amendments.

Matthew Thornton
Assistant Counsel

David M. Abbey
Senior Counsel Pension Regulation

[Attachment](#)

endnotes

[\[1\]](#) See Institute Memorandum No. [24389](#), dated June 25, 2010 (describing the Proposal).

[\[2\]](#) See Institute Memorandum No. [24508](#), dated August 23, 2010 (summarizing the comment letter).

[\[3\]](#) The Committee's recommendations are available at

<http://www.sec.gov/spotlight/investor-advisory-committee-2012/iac-recommendation-target-date-fund.pdf>. Section 911 of the Dodd Frank Wall Street Reform and Consumer Protection Act (codified as Section 39 of the Securities Exchange Act of 1934) established this committee to advise the Commission on various matters, including the effectiveness of disclosure, and authorizes it to submit recommendations for Commission review and consideration.

[4] See Institute Memorandum No. [27715](#) dated November 22, 2013 for a summary of these discussions and a link to the materials produced by the Institute in response to the Committee's recommendations.

[5] While the Department of Labor had previously announced its intent to finalize its target date fund disclosure proposal by fall of 2013, consideration by Department of Labor staff as to what actions, if any, should be taken in response to the Committee's recommendations has clearly delayed issuance of a final rule. We have heard from Department of Labor staff that these developments will likely prompt the Department to re-open the comment period on its proposal as well.

[6] Chair White's letter is available at <http://www.sec.gov/spotlight/investor-advisory-committee-2012/chair-white-letter-target-date-funds.pdf>.

[7] The Institute's letter is attached and also is available at <http://www.sec.gov/comments/s7-12-10/s71210-90.pdf>.