

MEMO# 31993

October 4, 2019

ICI Letter on Member Firms' Preferences and Costs Associated with SEC Staff's Options for Potential Disclosure Reform

[31993]

October 4, 2019 TO: ICI Members
Investment Company Directors
ICI Global Members SUBJECTS: Disclosure
Exchange-Traded Funds (ETFs)
Money Market Funds
Transfer Agency

Variable Insurance Products RE: ICI Letter on Member Firms' Preferences and Costs Associated with SEC Staff's Options for Potential Disclosure Reform

We sent to the SEC staff a letter and member survey results on four possible options for reforming fund disclosure earlier this week.[\[1\]](#) As you know, the SEC previously issued a request for comment on the fund retail investor experience and disclosure, on which the ICI provided comments.[\[2\]](#) More recently, the SEC staff discussed with the ICI four possible disclosure reform options. Importantly, it should be noted that these options are under consideration and there is no assurance that the SEC staff will recommend them to the SEC nor that the SEC will propose or adopt any of them.

To provide the SEC staff with data to evaluate each of the options, ICI conducted a member survey in July 2019. Ninety-four fund complexes, managing approximately \$18 trillion of mutual fund assets and representing about 90 percent of industrywide mutual fund assets, responded to the survey.[\[3\]](#)

The survey requested feedback on preferences and costs associated with modifying fund disclosure in accordance with the following options:

1. Single Streamlined Shareholder Report and Summary Prospectus Annually
2. Single Annual Disclosure Document with Delivery Timed to Fund's Fiscal Year-End
3. Single Annual Disclosure Document with Delivery Timed to Calendar Year-End
4. Streamlined Digital Disclosure: Summary Prospectus Delivered to New Investors, All Shareholders Have Online Access to Single Streamlined Shareholder Report and Summary Prospectus, and Annual Prospectus Supplement with Material Changes Delivered to Existing Shareholders.[\[4\]](#)

Survey respondents' most preferred options, meaning that the option placed either first or second, were as follows:

- Option 2 was most frequently chosen by respondents; 80 percent ranked it first or second.
- Option 1 was the second-most frequently preferred; 62 percent ranked it first or second.
- Option 4 was the third-most frequently preferred; 44 percent ranked it first or second.
- Option 3 was the least frequently preferred; 15 percent ranked it first or second.

The letter and report describe additional key survey findings as well as estimated potential cost savings by reform option, members' expected reliance on Rule 30e-3, and reasons that funds mail stickers.

Dorothy M. Donohue
Deputy General Counsel - Securities Regulation

Joanne Kane
Director, Operations & Transfer Agency

endnotes

[1] Letter to Dalia O. Blass, Director, Division of Investment Management, SEC from Dorothy Donohue, Deputy General Counsel – Securities Regulation, Sarah Holden, Senior Director, Retirement and Investor Research, Joanne Kane, Director, Operations and Transfer Agency, and Jason Seligman, Senior Economist, Retirement and Investor Research, dated October 1, 2019, regarding ICI Report on *Preferences and Costs Associated with Disclosure Reform Options* (October 2019), available at https://www.ici.org/pdf/19_ltr_disclosure.pdf

[2] See Letter to Brent J. Fields, Secretary, SEC from Susan Olson, General Counsel, ICI, dated October 24, 2018, available at <https://www.sec.gov/comments/s7-12-18/s71218-4932121-178430.pdf>

[3] *Preferences and Costs Associated with Disclosure Reform Options* (October 2019), available at https://www.ici.org/pdf/19_ppr_disclosure_reform_survey.pdf.

[4] For the first three options, respondents assumed that the disclosure documents would be delivered via email or in paper, as permitted under current requirements. In contrast, under the fourth option, respondents assumed that after year one, for existing shareholders, the fund would no longer mail a summary (or statutory) prospectus or annual shareholder report. Rather, the fund would deliver a prospectus supplement annually only in years when the fund experienced material changes such as certain material changes to the fund's investment objectives or strategies, material changes to the portfolio manager, or material increases in fees. They further assumed that, under this option, the SEC could require funds to develop a digital prospectus and annual shareholder report that would use web tools, such as "one click away" or "hovers," that would make it easier for shareholders to access content.

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