

**MEMO# 32096**

December 11, 2019

## **New FINRA FAQ Permits "Adjusted Expense Ratios" in Ads**

[32096]

December 11, 2019 TO: ICI Members SUBJECTS: Advertising  
Compliance  
Disclosure  
Distribution  
Fees and Expenses  
Fund Accounting & Financial Reporting  
Investment Advisers RE: New FINRA FAQ Permits "Adjusted Expense Ratios" in Ads

Last week, FINRA issued a new FAQ that permits mutual funds to include “adjusted expense ratios” in retail communications and correspondence, alongside their gross and net expense ratios.[\[1\]](#)

FINRA Rule 2210(d)(5) requires retail communications and correspondence that present performance data for certain registered investment companies (funds) to include the fund’s total annual fund operating expense ratio, gross of any fee waivers or expense reimbursements, as stated in the fee table of the fund’s current prospectus (the “gross expense ratio”). FINRA also permits funds to include subsidized, or net, expense ratio information in these materials (the “net expense ratio”), subject to certain conditions.

New FAQ D.1.2 states:

**“Q. May a retail communication or correspondence concerning a mutual fund also include an “adjusted expense ratio” that illustrates the impact of interest and dividend expenses incurred by the fund from borrowings, repurchase agreements or investments in short sales?**

**A.** Yes. Because interest and dividend expenses incurred from borrowings, repurchase agreements or investments in short sales (whether directly or through investments in underlying funds) are considered fund expenses under generally accepted accounting principles, they must be included in a fund’s gross and net expense ratios disclosed in the prospectus fee table. Provided that the communication includes the fund’s gross and net expense ratios, it also may include an ‘adjusted expense ratio’ that is the fund’s gross expense ratio reduced by any amounts contractually waived or reimbursed, and further reduced by interest and dividend expenses resulting from borrowings,

repurchase agreements or investments in short sales. The communication should clearly label, and include a prominent plain English explanation of, the adjusted expense ratio, which should be presented separately from, and with no greater prominence than, the fund's gross and net expense ratios."

Previously, ICI has recommended that the SEC require funds to disclose investing related expenses (*i.e.*, interest expense and dividends paid on short sales) in the fund's Statement of Additional Information (SAI) (similar to information about brokerage costs) and financial statements rather than in the prospectus fee table.<sup>[2]</sup>

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#### **endnotes**

<sup>[1]</sup> FINRA's FAQs on advertising regulation are available at:  
[www.finra.org/rules-guidance/guidance/faqs/advertising-regulation#d1](http://www.finra.org/rules-guidance/guidance/faqs/advertising-regulation#d1).

<sup>[2]</sup> ICI's October 2018 comment letter on the SEC's "retail investor experience" initiative is available at: [www.sec.gov/comments/s7-12-18/s71218-4932121-178430.pdf](http://www.sec.gov/comments/s7-12-18/s71218-4932121-178430.pdf). We maintain that these expenses can be viewed as the cost of a specific investing strategy, and that funds already fold other costs of investing into their net returns without explicitly recognizing them as expenses (*e.g.*, brokerage commissions). Excluding these expenses also would provide investors a more stable measure of ongoing operating expenses, because interest and dividend expenses can vary significantly over time, depending on market conditions.