

**MEMO# 31427**

October 9, 2018

## **Your Views Requested by Oct 17th: ICI Draft Letter to SEC on Fund Retail Investor Experience**

[31427]

October 9, 2018 TO: Accounting/Treasurers Committee

Advertising Compliance Advisory Committee

Closed-End Investment Company Committee

SEC Rules Committee

Small Funds Committee RE: Your Views Requested by Oct 17th: ICI Draft Letter to SEC on Fund Retail Investor Experience

As you know the SEC issued a request for comment seeking feedback on how to improve fund disclosure. The SEC described this request for comment as the first major step in a long-term initiative to improve the investor experience by updating the design, delivery, and content of fund disclosure for the benefit of individual investors. Provided below is a summary of ICI's draft letter.

**Please provide any comments on the draft letter by emailing me a marked draft with your edits at [ddonohue@ici.org](mailto:ddonohue@ici.org) no later than October 17. We will be filing the final letter with the SEC on October 24.**

*Summary Shareholder Report.* We recommend that the Commission propose a summary shareholder report. This summary should include critical information from the full-length shareholder report provided in a specific order, mirroring the Commission's design of the summary prospectus and similarly facilitating comparison of funds. In particular, the summary shareholder report for a fund should include:

- performance highlights;
- total return;
- expenses;
- portfolio holdings;
- operation and effectiveness of its liquidity risk management program over the past year; and
- instructions on how to access the full shareholder report online.

We recommend that the Commission propose a summary shareholder report tailored for closed-end funds requiring the same information as that which appears in the mutual fund

summary shareholder report and, additionally:

- total return based on the market prices of fund shares;
- material changes in any of the following -- the fund's investment objectives or policies, the fund's principal risk factors, and portfolio managers;
- structural leverage;
- managed distribution policies;
- dividend reinvestment plans; and
- share repurchases.

*Modernizing Delivery of Fund Prospectuses.* We strongly recommend that the Commission provide firms with the flexibility to choose to send investors a notice informing investors that a summary prospectus or full-length prospectus is available. Doing so will result in significant cost savings for fund shareholders, align much more effectively with shareholder preferences, and be consistent with Rule 30e-3.

*New One-Page Sheet.* We do not believe that a one-page sheet at the beginning of each prospectus or summary prospectus is necessary for investors. Both the summary and statutory prospectuses provide investors with key information and funds already produce one-page fact sheets. As a result, there is no information gap to fill because fund shareholders already have access to this information.

*User-Friendly Display of Information.* We recommend that the Commission: (i) allow funds to satisfy federal securities law obligations by providing access to additional information through smartphone applications; (ii) not dictate the content or placement of information on fund websites and more generally strive to maintain technology-neutral requirements; and (iii) consider initiating a pilot program to allow funds to develop more creative approaches/interactive disclosure.

*Customized Expense Disclosure.* We do not support a requirement to provide customized calculations of fund expenses. Along with the fee table in the prospectus, there are fund fee examples in both the prospectus and shareholder report. In addition, there are fund comparison tools, including fee calculators, readily available to investors. We believe a requirement for individualized expense information would have exceptionally high costs, logistical complexity, and questionable benefits.

*Transaction Cost Disclosure.* We believe there is sufficient information about transaction costs and soft dollars in fund disclosure and therefore do not recommend any changes. An appendix to the letter describes experiences in the European Union with confusing transaction cost disclosure.

*Acquired Fund Fees and Expenses.* We recommend that the Commission permit funds to exclude business development companies, or BDCs, from "acquired fund" for purposes of the fee table presentation. This would allow funds to treat BDCs in the same manner as investments in operating companies for expense presentation purposes.

*Interest Expense Disclosure.* The draft letter recommends that the Commission modify the existing disclosure requirements relating to the calculation of the "other expenses" line item in the fee table to remove interest as a component of "other expenses." Instead, disclosure regarding a fund's interest expense should be included in the fund's Statement of Additional Information (similar to specified information about brokerage costs) and would continue to appear in the fund's financial statements.

*Performance.* We recommend that: (i) funds continue to be required to provide short-term performance along with medium-term and long-term performance; (ii) funds not be required to disclose how they determined that their benchmark is an appropriate broad-based benchmark; (iii) the Commission/staff consider providing more clarity around what constitutes an appropriate broad-based index; and (iv) the Commission retain the current disclosure requirements related to portfolio managers.

We adamantly oppose any proposal which would require funds to compare their fees or performance to other unaffiliated funds.

*Management's Discussion of Fund Performance.* We recommend that: (i) funds be permitted, but not required, to link the management's discussion of fund performance (MDFP) to an on-line video presentation; (ii) funds be required to include in semi-annual shareholder reports' MDFP the 1-, 5-, and 10-year average annual return for the fund and its benchmark; and be permitted, but *not* required, to include the portfolio manager commentary and line graph to in the semi-annual shareholder report; and (iii) the Commission continue to provide funds with flexibility to explain factors that materially affected their performance.

*Fund Advertisements.* The Commission's current regulatory framework for advertisements works well and strikes an appropriate balance. This framework allows funds to provide useful information that is not misleading, yet is abbreviated, as compared to other fund regulatory documents. It is not necessary to: (i) enhance disclosure to better distinguish advertisements and prospectuses; (ii) change requirements for risk and return disclosure; or (iii) require new disclosures depending on fund type.

We urge the Commission to: (i) encourage FINRA to permit broker-dealers to provide retail investors with "related performance information;" (ii) eliminate the testimonial rule under the Investment Advisers Act to facilitate advisers' and funds' use of social media to communicate with investors or provide guidance similar to FINRA's; and (iii) allow funds and advisers to calibrate the information provided in advertisements depending on the audience, recognizing that the information needs of retail and institutional investors differ. These three initiatives should further promote an enhanced investor experience and more informed decision-making.

*Closed-End Funds.* We recommend that: (i) the Commission not develop a summary prospectus for closed-end funds; (ii) the Commission consider requiring closed-end funds to provide an MDFP and improve the presentation of performance in shareholder reports; and (iii) the Commission modernize delivery of Section 19(a) notices.

*Future Commission Initiatives.* We support the Commission exploring enhanced investor testing, pilot programs to test potential disclosure alternatives, and the use of roundtables or committees to engage investors and market participants on fund disclosure matters. We however caution that such a non-representative exercise not be given the same weight as a nationally representative survey.

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[Attachment](#)

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