

MEMO# 22362

March 24, 2008

ICI Investor Research and Supplemental Letter on SEC Summary Prospectus Proposal

[22362]

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TO: BANK, TRUST AND RECORDKEEPER ADVISORY COMMITTEE No. 9-08
BOARD OF GOVERNORS No. 4-08
BROKER/DEALER ADVISORY COMMITTEE No. 9-08
OPERATIONS MEMBERS No. 3-08
SEC RULES MEMBERS No. 26-08
SMALL FUNDS MEMBERS No. 16-08
TECHNOLOGY COMMITTEE No. 8-08
TRANSFER AGENT ADVISORY COMMITTEE No. 16-08 RE: ICI INVESTOR RESEARCH AND
SUPPLEMENTAL LETTER ON SEC SUMMARY PROSPECTUS PROPOSAL

The Institute recently conducted investor research on the SEC's proposal to permit mutual funds to provide investors with a summary of key information ("Summary Prospectus"), provided that additional information is available online and in paper or by email upon request. In response to the SEC's request for investor input on the proposal, the Institute conducted a survey of about 500 mutual fund investors. On March 14, the Institute filed a white paper discussing the survey results and a related letter with the SEC. The white paper and letter, which supplement the Institute's February 28, 2008 comment letter on mutual fund disclosure reform, [\[1\]](#) are attached and briefly summarized below.

Investor Views on the SEC's Proposed Summary Prospectus

As discussed in the white paper, the Institute's investor survey focused on three broad questions: 1) How do investors react overall to the Summary Prospectus proposal? 2) How

do investors view specific aspects of the proposed Summary Prospectus? and 3) How do mutual fund investors use the Internet?

Overall Reaction. The survey results indicated a strong positive overall reaction to the Summary Prospectus proposal. Respondents overwhelmingly (more than 90 percent) agreed that the Summary Prospectus is about the right length, makes it easier to compare funds, contains enough information (as long as more detailed information is available online or upon request), and is a document they would be more likely to use than the current, long-form prospectus. Between 65 and 83 percent strongly agreed with these statements.

Specific Aspects. Respondents generally agreed that every section of the proposed Summary Prospectus is either “very important, need to keep in summary document” or “somewhat important, keep if space available.” The strength of these sentiments varied noticeably, however, across different elements of the document.

- At least two thirds of respondents agreed that each of the following is “very important, need to keep in summary document”: investment objectives; fees and expenses; and annual total returns.
- Half or more agreed that investment strategy, principal risks, and the proposed statement on dividends, capital gains, and taxes are also “very important” and should stay in the summary document.
- Fewer than half of respondents placed the remaining disclosure items in the “very important, need to keep” category. Those items are: portfolio turnover; top 10 portfolio holdings; name of investment adviser; name of portfolio manager; information about purchasing and selling fund shares; and the statement on payments to broker-dealers.

When provided with alternative approaches to the presentation of particular elements of the Summary Prospectus, respondents expressed distinct preferences.

- More than half of respondents (54 percent) preferred an alternative presentation of the first page of the proposed Summary Prospectus in which the principal investment strategies and risks are moved above the fees and expenses of the fund.
- The majority of respondents (58 percent) preferred the detailed fee table in the proposed Summary Prospectus over an alternative presentation showing less detail.
- Sixty-two percent of respondents preferred an alternative presentation in which a graphical display of fund holdings by sector was substituted for the proposed table showing top 10 portfolio holdings.
- More than half of respondents (56 percent) favored the SEC-proposed version of the average annual total return table that includes hypothetical after-tax returns and related explanatory text rather than a version that excludes the after-tax information.

Internet Use. As to Internet use, the survey results confirmed earlier ICI research. Almost

all respondents (95 percent) reported that they access the Internet and 73 percent access it daily. Among people 60 and older, 85 percent use the Internet and 55 percent use it daily. Among those who access the Internet, 90 percent overall and 80 percent of people age 60 or older use it to gather financial information. And 90 percent of all respondents agreed with the statement that “getting investment information online is the wave of the future.”

Supplemental Comment Letter

The Institute’s letter notes that the survey findings with respect to both overall reaction to the Summary Prospectus and Internet use confirm earlier research by the SEC, the Institute and others that investors would be best served by simplified, streamlined disclosure of essential fund information and that the vast majority of mutual fund investors have access to and frequently use the Internet. The letter states that the survey findings regarding specific aspects of the proposed Summary Prospectus provide insight into how the document might be refined to be most useful to investors. It urges the SEC to consider those results in light of the clear preference by survey respondents and other commenters for a shorter document, as well as the concerns expressed by fund companies that, if adopted as proposed, actual Summary Prospectuses will be significantly longer than 3 to 4 pages.

The letter indicates that the widespread agreement that 3 to 4 pages is about the right length, taken together with the data showing that respondents by and large are accustomed to using the Internet to gather financial information, both urge the SEC to limit the contents of the Summary Prospectus to keep it reasonably short and provide assurance that investors are fully capable of finding information they desire if it is not included in the Summary Prospectus. The letter reiterates the Institute’s recommendations that the SEC not require top 10 portfolio holdings or portfolio manager disclosure in the Summary Prospectus. It encourages the SEC to carefully consider which other information proposed to be required in the Summary Prospectus could be made available to investors through other means, in order to keep the summary document at a reasonable length.

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[Attachment](#)

endnotes

[1] See Memorandum to Board of Governors No. 2-08, Broker/Dealer Advisory Committee No. 7-08, Operations Members No. 2-08, SEC Rules Members No. 20-08, Small Funds Members No. 12-08, Technology Committee No. 4-08, Transfer Agent Advisory Committee No. 11-08 [22290], dated March 3, 2008; Memorandum to Bank, Trust and Recordkeeper Advisory Committee No. 8-08 [22294], dated March 4, 2008.

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