

MEMO# 28016

April 7, 2014

SEC Reopens Comment Period for 2010 Target Date Funds Rule Proposal

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TO: ADVERTISING COMPLIANCE ADVISORY COMMITTEE No. 5-14
PENSION COMMITTEE No. 9-14
PENSION OPERATIONS ADVISORY COMMITTEE No. 7-14
SEC RULES COMMITTEE No. 13-14
SMALL FUNDS COMMITTEE No. 5-14 RE: SEC REOPENS COMMENT PERIOD FOR 2010
TARGET DATE FUNDS RULE PROPOSAL

In its April 3, 2014 release, [\[1\]](#) the Securities and Exchange Commission (SEC) has reopened the comment period on amendments to its advertising rules to enhance the information provided to target date fund investors first proposed in 2010 (the “2010 Proposal”). [\[2\]](#)

The SEC issued the Release in response to target date fund-related recommendations made in April, 2013 by the SEC’s Investor Advisory Committee (the “Committee”). As previously reported, [\[3\]](#) the Committee recommended that the SEC require target date 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 SEC in its 2010 Proposal) in their marketing materials and/or prospectuses. [\[4\]](#) The Committee’s recommendations were followed by a November 20, 2013 letter from Chair White notifying the Committee that the SEC would be seeking additional comment on standardized risk-based glide path illustrations for target date funds in connection with the SEC’s 2010 Proposal. [\[5\]](#) In response to Chair White’s letter, the ICI submitted a letter to the SEC staff recommending a number of questions for inclusion in such a request for comment. [\[6\]](#) In submitting this letter, the ICI’s aim was to ensure that the request for comment incorporated a comprehensive discussion of all facets of this issue, so that commenters would be provided an opportunity to fully address (and the staff would have 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.

The majority of the Release is dedicated to soliciting comments on whether the SEC should develop a glide path illustration for target date funds that is based on a standardized measure of risk as either a replacement for, or supplement to, the asset allocation glide path proposed in 2010. The SEC poses a long list of questions, designed to assist it in its

consideration of the Committee's risk-based glide path recommendation. Many of the ICI's proposed questions, or variations thereof, have been included in the Release. Among the general topics asked about are the following:

- Management of target date funds according to risk (For example, whether target date fund strategies are primarily based on a changing target risk level, a changing target asset allocation over time, or some combination);
- Usefulness and understandability of risk measures (For example, whether there is a particular quantitative risk measure, or group of risk measures, that are helpful in evaluating the risks of target date funds, and whether fund investors would be likely to understand these risk measures and effectively use them);
- Illustration of risk measures (For example, questions focused on the relative advantages and disadvantages of asset allocation glide paths and risk-based glide paths, and how a risk-based glide path should be constructed and presented);
- Placement of risk-based glide path illustrations (Whether the appropriate location for such illustrations is in marketing materials or other fund documents (e.g., prospectuses or shareholder reports));
- Calculation of risk measures (For example, whether any required risk measures should be based on a standardized methodology developed by the SEC, and if so, what the methodology should consist of);
- Impact on investors (For example, questions focused on whether investors would place undue emphasis on risk information);
- Effects on portfolio management (For example, whether, and how, disclosure of a quantitative risk measure or risk-based glide path for target date funds might influence portfolio management); and
- Benefits and costs (For example, questions focused on the benefits and costs of requiring a glide path illustration for target date funds based on a standardized measure of fund risk and adopting a standard methodology or methodologies to be used in the illustration).

Comments are due within sixty days of publication of the Release in the Federal Register (as of this date, the Release has not been published in the Federal Register). The ICI will be submitting a comment letter. In the coming days, we will send another Memorandum to members, providing notice of a call to discuss the Release and the ICI's response.

Matthew Thornton
Assistant Counsel

David M. Abbey
Senior Counsel Pension Regulation

endnotes

[1] "Investment Company Advertising: Target Date Retirement Fund Names and Marketing," Release Nos. 33-9570; 34-71861; IC-31004 (April 3, 2014) (the "Release"), available at: <http://www.sec.gov/rules/proposed/2014/33-9570.pdf>.

[2] See Institute [Memorandum](#) No. 24389, dated June 25, 2010 (describing the 2010 Proposal). The Institute filed a letter with the Commission strongly supporting the spirit and

core of the Commission's 2010 Proposal and making several recommendations. See Institute [Memorandum](#) No. 24508, dated August 23, 2010 (summarizing the comment letter).

[3] See, e.g., Institute [Memorandum](#) No. 27715, dated November 22, 2013.

[4] 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 SEC on various matters, including the effectiveness of disclosure, and authorizes it to submit recommendations for SEC review and consideration.

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

[6] The ICI's letter is available at <http://www.sec.gov/comments/s7-12-10/s71210-90.pdf>. See also Institute Memorandum No. 27953, dated March 13, 2014, for further discussion of the ICI's engagement with the SEC and Department of Labor on this topic.