

**MEMO# 20111**

June 15, 2006

## **SEC Interactive Data Roundtable, June 12, 2006; Institute Submission**

©2006 Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice. [20111] June 15, 2006 TO:

ACCOUNTING/TREASURERS MEMBERS No. 13-06 BOARD OF GOVERNORS No. 19-06  
CLOSED-END INVESTMENT COMPANY MEMBERS No. 24-06 INVESTMENT COMPANY  
DIRECTORS No. 9-06 OPERATIONS COMMITTEE No. 14-06 PRIMARY CONTACTS - MEMBER  
COMPLEX No. 12-06 PUBLIC COMMUNICATIONS COMMITTEE No. 5-06 SEC RULES MEMBERS  
No. 52-06 SMALL FUNDS MEMBERS No. 44-06 TECHNOLOGY ADVISORY COMMITTEE No.  
11-06 UNIT INVESTMENT TRUST MEMBERS No. 18-06 RE: SEC INTERACTIVE DATA  
ROUNDTABLE, JUNE 12, 2006; INSTITUTE SUBMISSION On June 12, 2006, the SEC hosted an  
Interactive Data Roundtable. The morning session consisted of two panels focused on  
mutual fund disclosure. The session brought together representatives of consumer  
organizations, the mutual fund industry, academia, research organizations, and regulators  
to examine the types of information most useful to mutual fund investors, and how the  
power of the Internet can be leveraged to provide investors with better information. The  
afternoon session focused on operating company reporting.<sup>1</sup> The ICI submitted a written  
statement in advance of the roundtable, and President Paul Stevens participated in one of  
the roundtable panels.<sup>2</sup> The Institute's written submission and the roundtable discussions  
are briefly summarized below. THE INSTITUTE'S WRITTEN SUBMISSION The Institute's  
written submission reviews ICI research demonstrating the widespread use of the Internet  
among mutual fund investors, and describes the Institute's initiative to create a framework

1 A copy of the roundtable agenda can be found at

<http://www.sec.gov/spotlight/xbrl/xbrlroundagenda.htm>, and statements of several  
panelists are available at <http://www.sec.gov/spotlight/xbrl/xbrlround-parts.htm>. 2 The  
statement can be found at [http://www.ici.org/home/06\\_sec\\_rdtbl\\_tmny.html#TopOfPage](http://www.ici.org/home/06_sec_rdtbl_tmny.html#TopOfPage).  
2 for mutual funds to file the information contained in the risk/return summary in eXtensible  
Business Reporting Language (XBRL). The statement then outlines the Institute's proposal  
for leveraging the Internet to improve mutual fund disclosure. Under the Institute's  
proposal, a fund would provide a clear, concise disclosure document, similar to a fund  
profile, to investors in paper form or, at the investor's election, electronically. The summary  
document would include a prominent statement that additional information, including the  
prospectus and statement of additional information, is available on the Internet, and that  
paper copies are available free of charge upon request. The Institute's written statement  
also recommends that the Commission clarify its position on the permissibility of Internet-  
only mutual funds or fund share classes, and consider the Internet as a medium for point-  
of-sale disclosures to brokerage customers, not just for mutual funds but for ETFs,  
separately managed accounts, and annuities. MORNING SESSION: IMPROVING THE QUALITY

OF MUTUAL FUND DISCLOSURE SEC CHAIRMAN COX'S OPENING REMARKS Chairman Cox opened the roundtable by announcing that the SEC has launched a beta version of a full-text searching capability for EDGAR filings, as well as a search tool to allow mutual fund investors to find information on their fund and share class.<sup>3</sup> He stated that the SEC hoped to "lead by example" in working to harness the power of the Internet to deliver the maximum benefits to participants in American capital markets. Chairman Cox suggested that mutual fund prospectuses are well-suited to electronic delivery, because they are dense documents that few people read in full, but they contain a wealth of information that investors and others want to know. He said that the Internet will allow us to present a summary of important information, while allowing those who want more information to drill down more deeply. He noted, however, that the choice to receive information in paper form will always remain.

PANEL 1: WHAT TYPES OF INFORMATION ARE MOST USEFUL TO MUTUAL FUND INVESTORS? The first panel was moderated by Andrew J. (Buddy) Donohue, Director of the Division of Investment Management, and Susan Ferris Wyderko, Director of the Office of Investor Education and Assistance at the SEC. Director Donohue opened the panel by pointing out that while there is no shortage of mutual fund disclosure, it is hard for investors to find the "nuggets" they are looking for among all of the available data. He posed two questions to the panel: 1) Is there a better way to highlight key information that is important to investors? 2) How can we tame the mass of information and make it useful for investors and intermediaries? Each panelist was then invited to offer short introductory remarks.

<sup>3</sup> An SEC press release on this announcement is available at <http://www.sec.gov/news/press/2006/2006-93.htm>.

<sup>3</sup> Barbara Roper, Director of Investor Protection at the Consumer Federation of America, described recent research by the CFA that found near unanimity on the question of what information is most useful to investors. That information closely tracks the information found in the fund profile, including objectives/strategies, risks, costs, and past performance of a fund. She noted that this information is already widely available to investors in a variety of formats. Ms. Roper offered two areas for improvement. First, the narrative risk disclosures are boilerplate, making it difficult for investors to distinguish one fund from another. Second, the fee table is too cluttered; investors cannot easily ascertain and distinguish the costs to them of buying or holding a fund. CFA's research also showed that there is a gap between the information considerations recommended by experts and investors' actual purchase practices. Ms. Roper suggested that expert recommendations are too time-consuming for investors, most of whom purchase funds either through intermediaries or defined contribution plans with limited fund choices. These investors do not need as much information as experts suggest. Based on this research, CFA no longer opposes mutual fund sales based on a summary document. The industry and its regulators need to make it easy for investors to get the information they really want and need. For investors who work with financial professionals, many of whom do not review information on funds recommended to them, the most important information might be information about their advisers. Ms. Roper suggested that the SEC consider requiring a disclosure document from financial advisers, which would include, for example, fees and conflicts of interest. Finally, Ms. Roper noted that there is some resistance among investors to using the Internet for certain types of information, and also general resistance to the Internet from older investors. The industry needs to understand the reasons for this resistance.

Don Phillips, Managing Director of Morningstar, Inc., began by emphasizing that something in the system must be working well: fees in US mutual funds are lower than anywhere else in the world, and the assets appear to flow, on the whole, toward lower-cost, higher-performing funds. Mr. Phillips then stated that fund prospectuses currently serve two audiences with different needs, and therefore serve neither very well. The first audience is individual investors, for whom a prospectus provides too much information, and is not helpful in making investment

decisions. A simplified disclosure document would serve investors better. The second audience is professional investment advisers. Mr. Phillips suggested that the entire market benefits from providing professionals with more in-depth disclosure. He cited as an example the fact that after funds were required to disclose portfolio manager compensation, compensation structures began to create incentives for managers to create long-term value rather than short-term results. Although in-depth disclosure benefits the market, the current prospectus is not an ideal tool. Mr. Phillips stated that providing the information electronically and in tagged format would help advisers spend more time analyzing data and less time looking for and entering it. Henry Hopkins, Chief Legal Counsel at T. Rowe Price Associates, Inc., began by outlining ICI research showing that most shareholders prefer receiving a concise summary of fund information, that very few consult fund prospectuses before making purchases, and that fund investors use the Internet regularly. Based on these findings, Mr. Hopkins summarized that "less is best." He noted that the fund profile initiative was based on similar research, and it resulted in an excellent disclosure document. The disappointing use of the profile is directly attributable to the fact that it did not replace the full statutory prospectus and incorporation by reference was not permitted, thereby creating liability concerns. Mr. Hopkins proposed that the Commission permit the fund profile to be used as a fund's primary selling document, provided that investors have the option to access the full prospectus via the Internet or request a hard copy. The profile should be permitted to incorporate by reference the full prospectus. Mr. Hopkins also suggested that the profile be amended to require disclosure of a fund's top ten, quarter-end holdings, and that funds be permitted to use different versions of the profile to reflect the availability of different services for different investors. Bill Dwyer, Managing Director of National Sales at Linsco/Private Ledger Corp., began by explaining that LPL is an independent brokerage firm, with over 6,000 financial advisers throughout the country, many of whom work in small communities and whose clients represent a cross-section of the investing public, from the working class to the wealthy. Mutual funds are the preferred investment vehicle for most of these investors. Mr. Dwyer outlined three unintended consequences of providing too much disclosure. First, investors could become frustrated with the process or feel overloaded. Second, advisers may decide that the disclosure requirements make selling mutual funds too burdensome compared to other investment products. Third, advisers may give up their securities brokerage licenses and move to fee-based services. Mr. Dwyer summarized that to avoid these consequences, the Commission should focus on getting disclosure right, and should also require similar disclosures for other investment products. Finally, Mr. Dwyer described the information investors want – performance, risk, investment objectives, and cost of doing business – and noted that the profile seems to be exactly what investors are looking for. Elisse Walter, Senior Executive Vice President of NASD, observed that the consensus among the panel regarding disclosure was striking. Disclosure should not be just a liability protection; it should inform investors and help them to make investment decisions. The fund profile is a step in the right direction, but it can be improved upon. The Profile Plus, a point-of-sale disclosure document developed by NASD's Mutual Fund Task Force and subsequently endorsed by NASD, builds on the profile and the SEC's point-of-sale disclosure proposal. It is important as much for what it includes as what it doesn't include – redemption information and a breakdown of the expense ratio – information that investors do not need when they purchase funds. In addition, it links to the full prospectus, which should resolve liability concerns. Ms. Walter closed with several additional suggestions: the SEC should not let resistance to the Internet by a few preclude others from benefiting from its capabilities; oral disclosure should not be the primary mode of providing point-of-sale disclosure, because it could be confusing and is difficult to document; the Commission should work with the Department of Labor to address investor information needs in the context of retirement

plans; and finally, disclosure requirements should be established for other investment vehicles so that investors are not steered away from mutual funds simply because they bear additional burdens. Questions The Commissioners and moderators were then invited to ask questions. Noting Mr. Hopkins' proposal to make the profile a statutory prospectus, Commissioner Atkins requested additional suggestions to address liability concerns. Ms. Walter suggested the Commission resolve, as an interpretive matter, that if a short-form document is delivered to an investor, and that document links to a long-form document, the investor can be deemed to have received the long-form document. Ms. Roper agreed with this suggestion, noting that just like with a paper copy, if a link is provided the investor has a choice whether to read the document or not. Mr. Hopkins reiterated his suggestion that incorporation by reference be allowed. Commissioners Nazareth, Glassman, and Campos next solicited recommendations for point- of-sale disclosure. Ms. Walter restated her position that disclosure via the Internet, at least for those who are comfortable with the Internet, is preferable to oral disclosure, both because an investor has something to look at while talking to the adviser, and because it will be easier for brokers to document that the disclosure was provided. For investors who are not comfortable with the Internet, however, an abbreviated oral disclosure, followed by a written disclosure after sale, is preferable to requiring paper delivery of a disclosure document prior to purchase because of the inconvenience to investors in having to delay purchase. Responding to a question to Commissioner Glassman, Ms. Walter observed that with the higher reported use of high-speed Internet connections there are fewer investors now who cannot be on the Internet and telephone at the same time. She also noted other solutions to this problem, such as downloading a disclosure and calling the adviser back. Finally, she noted that sending a written disclosure with a trade confirmation adds an expense that would be borne by the investor, and therefore should not be the default policy. Referring to Mr. Phillips' comment that many professionals study prospectus information that investors ignore, Chairman Cox inquired as to the benefits of data tagging. Mr. Phillips reiterated that tagging would allow his company to spend much less time developing and maintaining a clean database, and more time on the value-added services they provide, such as analyzing data, developing new interpretive devices, and offering judgment. Ms. Walter observed that real benefits would also accrue to retail investors, who would be able to more easily seek the information that interests them and compare funds. Ms. Roper disagreed that individual investors would compare information themselves, but agreed that tools enabling investors to find funds matching the characteristics they sought would be useful. Responding to a request by Mr. Hopkins for more guidance on disclosure in the retirement sector, Commissioner Campos asked whether some disclosure should be required. Ms. Roper emphatically agreed that retirement investors should receive some disclosure, noting that for many individuals, this is their first experience with investing. Mr. Hopkins agreed that some information should be offered, but noted that in the 401(k) context an employer has already conducted some research and limited the options an investor can choose, so the investor may need less information. Director Wyderko asked panelists how the SEC should ascertain which information is most important to investors. Ms. Walter responded that ample research has already been done. Mr. Hopkins concurred, stating that the profile is an excellent document, and that the SEC should just confirm that the findings of research conducted while developing the profile in the late 1990s are still valid. Ms. Roper, while agreeing that the profile contains the right categories of information, suggested that research be conducted to determine how that information can best be presented so that investors understand it.

**PANEL 2: HOW CAN THE COMMISSION LEVERAGE THE POWER OF THE INTERNET TO PROVIDE MUTUAL FUND INVESTORS WITH BETTER INFORMATION?** The second panel was moderated by Buddy Donohue and Susan Nash, an Associate Director of the Division of Investment Management. Ms. Nash introduced the panelists and invited them to

offer short introductory remarks. Paul Stevens, President of the Institute, began by announcing the launch of the Institute's XBRL initiative. Mr. Stevens expressed support for the Commission's efforts to encourage companies to submit the financial data components of EDGAR filings in XBRL. He noted, however, that financial statement information is of secondary importance to mutual fund investors, who rely much more heavily on the information found in the fund profile, including the risk/return summary. The Institute has engaged PricewaterhouseCoopers to help develop an XBRL taxonomy to cover the risk/return summary. The Institute expects to complete this project by the first quarter of 2007, at which time it will launch an educational program to encourage mutual funds to use this tagging in their EDGAR filings. Mr. Stevens then briefly summarized three Institute recommendations for the Commission to take advantage of the benefits of the Internet, all of which are described in the written submission and summarized above. Tim Buckley, Chief Information Officer at Vanguard, described the substantial increase in Internet usage among Vanguard investors over the past several years, noting that 80 percent of Vanguard's contacts now come in through the Internet. In this respect, he observed, the Internet revolution has already come to the mutual fund industry. Mr. Buckley expressed support for data tagging, but cautioned that the industry should not rush to tag the entire universe of mutual fund data. Rather, it is critical to prioritize for tagging those types of information that people would and should use – he estimated 10 to 12 pieces of information – and assess the resulting benefits before going further.

7 Paul Haaga, Jr., Executive Vice President of Capital Research and Management Co., noted that many points in his prepared statement had already been made, and referred the audience to his written submission. He then addressed several additional points. First, the analysts at Capital Research appreciate the ability of data tagging to help them conduct their jobs. Second, Mr. Haaga suggested that, while it is important to consider what information investors need at point of sale, this is only the third most important point at which they need information; information is more critical to investors when they sell funds and while they own them. Finally, Mr. Haaga observed that, while the goals of disclosure reform should not stop at migrating paper documents to the Internet, there are very immediate gains to be had by doing so. Mr. Haaga explained that a single shareholder report for his company's largest fund fills 17 tractor-trailers, and the financial statements alone weigh 600,000 pounds. He urged the Commission to consider these cost and resource savings in the near term while contemplating longer-term reforms. Bill Lutz, a professor of English at Rutgers University, stressed the power of the Internet to revolutionize how individuals obtain information. He stated that "information is that which reduces uncertainty," explaining that while the current statutory prospectus has plenty of data, it has no information because investors do not know how to use the data to answer their questions. If the Internet is properly utilized, an individual will be able to take data and create the information he or she seeks.

Questions The Commissioners and moderators were then invited to ask questions. Commissioner Glassman began by asking how difficult the taxonomy development process is expected to be. Mr. Stevens described the project, which consists of developing a "straw man" set of tags for approximately 157 data elements, and then inviting a large and diverse working group to review and refine it. He explained that even after the tag set is developed, individual funds will have further work to ensure that they apply the tags accurately; additionally, someone will need to maintain the taxonomy over time. Mr. Buckley added that while tagging common information should not be particularly difficult for funds, tagging exotic data could be much more complicated. Commissioner Campos asked the panel whether the Commission should think about an analytical component to make the tagged data more useful. Professor Lutz observed that with the Internet, investors will be able to create their own useful information based upon the data made available; he stressed that the Internet should not be viewed as a pipeline, but rather as a medium for

creating information. He expressed confidence that third parties will develop tools to enable investors to obtain answers to their questions. Mr. Stevens added that a great deal of thought had already been given to presenting the risk/return summary in a useful and usable manner when it was developed in the late 1990s. Director Donohue next asked how the Commission can facilitate disclosure reform efforts. Mr. Haaga suggested that the Commission specify some minimal amounts of information that are required to be disclosed, along with some standardized placement and organization of that information, and relax certain other requirements such as those regarding delivery of advertising materials. Continuing this discussion, Ms. Nash inquired whether the Commission should be more or less prescriptive regarding how information is presented. Mr. Buckley pointed out that while information architecture is important, different constituencies have different needs. He recommended that the Commission focus its attention on which information to require, but not on how it is presented. Mr. Stevens agreed that some flexibility is appropriate, but that some standardization is also possible because some types of information serve all constituencies. Mr. Stevens added that once the Commission identifies the required information, it should be wary of adding new disclosure requirements. Professor Lutz recommended that the Commission encourage creativity in expressing information, so long as it is not misleading. He noted that corporations demonstrate extreme conservatism in displaying information based on fears of liability, and the public suffers. Chairman Cox next asked the panel how the Commission should address the liability issue. Professor Lutz advised that if a company provides disclosure that is accessible, informative and easily understandable, it should have no liability concerns. Mr. Stevens encouraged the Commission to focus on interpreting the securities laws in a way that make sense in the modern environment. He pointed out that today, putting a prospectus on the Internet makes it as available to most investors as mailing them a copy, and that this should be construed as a "delivery." Director Donohue asked what steps the SEC can take as the taxonomy development progresses. Mr. Stevens invited the Commission to take part in the working group that will review the taxonomy, and also recommended that the Commission offer incentives to funds to use the tags once they are available. Asked for specific suggestions, Mr. Stevens proposed allowing funds that file in XBRL to use a fund profile as their primary disclosure document. Mr. Haaga and Professor Lutz agreed, and Mr. Buckley added that the fund profile confers not only a financial benefit on funds, but also the benefit of knowing that shareholders are receiving useful information. Ms. Nash asked the panel whether using the Internet for disclosure offers an opportunity to integrate investor education. Mr. Haaga advised against conflating disclosure and education. Mr. Buckley added that Vanguard's investor education tools are rarely used, and that making disclosure easy to understand may render separate educational tools unnecessary. Mr. Stevens agreed, noting that investor education will be advanced by focusing on providing the information that is important to investors. In conclusion, Professor Lutz observed that the Internet can serve these basic needs while at the same time providing more complex information to analysts and others who seek it.

**AFTERNOON SESSION: GETTING ANALYSTS AND INVESTORS SIGNIFICANTLY BETTER INFORMATION** The afternoon session addressed the benefits and opportunities interactive data can provide to analysts and investors, focusing primarily on XBRL reporting by operating companies. Participants included representatives of public companies who have made XBRL filings, business newswires, and 9 financial analysts, among others. After a series of opening remarks, Scott Taub, Acting Chief Accountant, and James Daly, Associate Director of Corporation Finance at the SEC, moderated a panel discussion. Several themes emerged from the afternoon session. First, XBRL filings will directly benefit financial analysts of all types, and indirectly benefit the clients they serve. They will do so both by improving data quality and by rendering data re-entry and normalization unnecessary, thereby allowing

more time for value-added analytical services. Second, smaller and mid-size companies that do not currently receive sell-side coverage will likely get more attention from analysts, because XBRL-tagged data will enable analysts to automatically screen hundreds of additional companies. Third, XBRL will level the playing field between institutional and individual investors. To date, institutional investors have had an advantage because they maintain capacity to enter and verify data or to purchase it from a third party. With XBRL, any investor who wants to conduct his or her own analysis will be able to do so without collecting or purchasing data. Finally, many panelists agreed that while non-proprietary tools for analyzing XBRL data have not yet been built, once more data becomes available such tools will be developed. Mara Shreck Assistant Counsel

---

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.