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The SEC's Online-Delivery Gift to Fund Shareholders

A recent SEC rulemaking proposal presages good news for America's 90 million mutual fund shareholders. Proposed Rule 30e-3 under the Investment Company Act of 1940, introduced last year as part of a larger initiative to enhance and modernize fund data reporting, would give funds the option of flipping their default mechanism for delivering shareholder reports from U.S. mail to online access.

Why is this so important? In permitting the move to an online-delivery default, the rule would offer fund shareholders two enormous benefits: tremendous cost savings and delivery in a way that aligns with their preferences. It also would reduce our industry's environmental footprint, all while preserving shareholder choice in how to receive these reports.

Let's look at the benefits in more detail.

Saving Shareholders Money. Shareholders, through their funds, ultimately pay to print and mail shareholder reports. Under the proposed rule, a fund would no longer have to mail shareholders a full paper report, and instead would mail them a notice showing the website where the report is available. The notice would provide ample information enabling a shareholder to receive a paper copy, if that is the shareholder's preference.

Our analysis finds that, by reducing the number of printed and mailed paper reports, the rule would save shareholders $140 million over its first three years, and about $89 million per year after that. Yet shareholders could save even more. If the SEC adopts ICI's recommendation for changes to the mailed notice, shareholders would save nearly $2 billion over the rule's first 10 years alone.

In an era of intense regulatory scrutiny of the costs of investment, it makes every sense for the SEC to reduce paper and mailing costs effectively mandated by its regulations and to give fund shareholders the ability to save billions by eliminating those costs. The SEC should go further still—and extend an online-delivery default to summary prospectuses and other communications, such as notices about the source of fund distributions (so-called 19(a) notices). All of this would only benefit fund shareholders.

Aligning with Shareholder Preferences. Moving to an online-delivery default aligns with how most Americans—and nearly all fund shareholders—access financial information: online. Research shows that about 85 percent of Americans have access to the Internet. For mutual fund shareholders, the figure exceeds 90 percent, with more and more of them using the Internet to manage their finances. Across many demographics, fund shareholders are more Internet-ready than the population at large.

And any shareholder who prefers a paper copy will get it—all that shareholder needs to do is express that preference. So despite what opponents of the rule say, it would not keep shareholders with less access to the Internet in the dark—it would preserve shareholder choice.

Reducing Our Industry’s Environmental Footprint. The rule also would go a long way toward mitigating the fund industry’s impact on the environment—reducing the amount of waste we produce, saving energy and raw materials, and contributing to cleaner air.

Under existing requirements, the fund industry produces 240 million shareholder reports each year. Moving to an online delivery default under Rule 30e-3 would limit our need for paper manufacturing, which emits a range of harmful compounds and contributes to acid rain and greenhouse gas effects. And it would pare back our reliance on paper mills, which discharge wastewater that can contain heavy metals, chlorine, alcohols, and other materials that ravage the health of our waterways.

Further, an online-delivery default would save nearly two million trees each year. Each of these trees supplies two people with about a day’s worth of oxygen, while absorbing an estimated 48 pounds of carbon dioxide each year, improving air quality and reducing greenhouse gas emissions.

A Smart Set of Balanced Reforms

The SEC clearly is on the right track here. ICI applauds the Commission for advancing Rule 30e-3—a smart set of balanced reforms that will modernize the shareholder-report delivery regime. It will extend massive cost savings to investors and help preserve the environment, while ensuring that shareholders can choose to get fund reports in the form they prefer.

Even so, some groups remain staunchly opposed to the rule. The SEC must take that opposition for exactly what it is—nothing more than an effort to protect these groups’ own business interests. It also must stay true to its investor-protection mandate, and not be swayed by the groups’ self-interested views. A rule with such wide-ranging, irrefutable benefits doesn’t come along that often. The time for the SEC to adopt it is now.