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ICI Proposes to "Greatly Enhance Disclosure of Transaction Cost Information to Mutual Fund Investors," February 2004

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“Multiple Improvements” to Disclosure Requirements Proposed in Response to SEC

Washington, DC, February 23, 2004 - Investment Company Institute President Matthew Fink said today that the ICI had written to the SEC and “suggested multiple improvements” that would “greatly enhance disclosure of transaction cost information to mutual fund investors.” ICI’s letter responded to the SEC’s earlier concept release that asked for ideas about how to help fund investors by strengthening their understanding of the impact of transaction costs on fund performance. Fink noted that the Institute “enthusiastically supports thorough investor understanding of mutual fund fees, and recognizes the importance of enhanced disclosure of transaction costs in achieving that objective.”

ICI Senior Counsel Amy Lancellotta indicated that “the enhanced disclosure requirements the Institute strongly supports” include the following:

- Require specific brokerage commission information in the financial highlights table in annual reports. Lancellotta said this would include disclosing brokerage commissions paid by a fund (1) as a percent of average net assets and (2) as a percent of the principal amount of transactions. Narrative disclosure would also be required stating the portion of trades that were executed on a commission basis, spread basis, or some other basis.
- Require disclosure of a fund’s gross inflows and outflows as a percent of average net assets. The ICI recommended that this also appear in the financial highlights table.
- Require expanded and more prominent disclosure of a fund’s “portfolio turnover rate” in the fund’s prospectus. While not a perfect proxy for fund trading costs, Lancellotta noted that the portfolio turnover rate is “generally viewed as being highly correlated with transaction costs.” Lancellotta also noted that the turnover rate “can be easily calculated by funds, easily understood by investor and readily compared among different funds.”

- Require fund boards to approve the fund’s policies and procedures for monitoring brokerage allocation and portfolio transaction costs, and require boards to receive reports of the fund’s transaction costs on a periodic basis (e.g., annually).

Lancellotta said that considered along with other improvements proposed in ICI’s letter, “these new requirements would both significantly improve investor understanding of a fund’s transaction costs while simultaneously bolstering investor protection.”

Lancellotta said that “while the Institute strongly supports enhanced disclosure of commission costs, we do not believe an “all-in” measure should be required, in part because there is currently no single, agreed-upon way to measure of such costs that doesn’t suffer from significant shortcomings.” Lancellotta added that the Institute also did not believe that the disclosure of brokerage cost information should be included in fund fee tables or expense ratios, as doing so would diminish the ability of investors to use this information to compare the costs of different funds.

Lancellotta said the letter to the SEC points out that “all fund transaction costs are reflected in a fund’s total return.” Lancellotta said that because the performance information included in fund prospectuses and advertisements is calculated pursuant to a standard SEC formula which requires that it be net of all fees and expenses, “investors who view this data are indirectly taking a fund’s fees and expenses, including transaction costs, into account.”