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Spending Bill Rider Will Trap Investors Under Piles of Paper

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By Paul Schott Stevens

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Most Americans today go online to get news, shop for a wide range of items, book travel, connect with far-flung friends and family, and manage their finances.

But when it comes to mutual funds, 100 million mutual fund shareholders are stuck in a pre-internet world of thick paper shareholder reports, which land with a thud in mailboxes twice a year.

Is there a better way to inform shareholders? Yes. Rule 30e-3, proposed by the Securities and Exchange Commission (SEC), would allow funds to mail investors a notice—instead of a full shareholder report—telling them how to access their shareholder reports online.

It would also provide a toll-free number that shareholders can call if they want to keep getting paper reports. Rule 30e-3 would require funds to mail this notice each time a report is issued, reminding investors twice each year that they can switch back to paper.

Replacing default delivery of an unwieldy and wasteful paper report with this simple mailing would save investors close to $2 billion over the next decade—while fully preserving shareholders' right to choose to continue to receive paper reports.

While shareholder reports contain lots of information, they don't contain any personal information, and shareholders know from other fund documents how their fund will invest (from the prospectus) and what their accounts are worth (from the account statement).

Unfortunately, an array of special-interest lobbyists representing those who profit from paper reports are working to block the modernization of fund disclosure delivery. They're aided by self-styled investor advocates who believe that Americans who use the internet for banking, shopping, and booking travel will somehow be left totally uninformed if mutual fund reports arrive via the web.

Working with Senator Susan Collins (R-ME), these opponents of the future have persuaded the Senate Appropriations Committee to include a provision blocking the SEC from spending any money to advance this small, commonsense step into the digital age.

This rider on a government spending bill will perpetuate an archaic system while denying investors the cost savings, improved access to information, and innovation that online delivery can provide.

The irony here is that even government agencies have already recognized the speed, reliability, and savings of online delivery. For example, the Social Security Administration no longer mails beneficiary statements.

For federal employees, paperless delivery is the default for their Thrift Savings Plan quarterly statements and health benefits brochures. Of course, they can receive paper if they request it—just as fund shareholders could under Rule 30e-3.

America's 100 million mutual fund shareholders have long participated in the country's move toward online communications. In 2017, 95 percent of US mutual fund–owning households had internet access and that number continues to increase.

The fund industry is always ready to ensure that shareholders receive and understand crucial information about their investments, while protecting their ability to choose how to receive it. But fund disclosure can be improved only if the SEC is allowed to pursue regulatory changes that embrace innovation.

None of this will occur if special interests use Congress to block reform and trap investors under piles of paper. Congress must stop this attempt to keep fund investors stuck in the paper past while costing those investors money.

This rider should end up where today's paper reports all too often land—in the recycling bin.

Paul Schott Stevens is the president and CEO of the Investment Company Institute.
