SPEECH

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Welcoming Remarks, 2018 ICI Securities Law Developments Conference

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As prepared for delivery.

Good morning, everyone!

I'm Susan Olson—ICI's general counsel—and I'm pleased to welcome you to our 2018 Securities Law Developments Conference.

We're holding this conference about six weeks earlier than we usually do, so we really appreciate that you were able to make it today. Thank you so much for joining us.

We also appreciate those who've worked so hard to put this conference together for us. How about a big round of applause for our sponsors, our speakers and panelists, and ICI's Law and Conferences teams?

Every year, we hold this conference to take stock of the regulatory landscape for funds and their shareholders. We talk about how things have changed since we last met—and how they haven't. What's working at the moment—and what's not. What we'd like to see in the months ahead—and what we're watching out for.

Reflecting on this year, it's amazing just how much we have to talk about. Since we last held this conference in December, we've seen a remarkable number of developments emerge from the SEC and its staff.

In just over 10 months, they've managed to get through what feels like several years of work—and nothing suggests they'll be slowing down anytime soon. So keep your seatbelts on!

All to say, we've got a lot to cover today—and not a lot of time to cover it. But before we kick things off, I'd like to talk briefly about one of the SEC's most important initiatives—enhancing fund disclosure.

Enhancing fund disclosure. Why is that so important?

Because—for most of us, anyway—extraordinary technological advances have totally transformed how we gather and consume information.

Not so long ago, most of us thought nothing of combing through pages and pages of text to find the information we wanted.

Remember when we used to rely on libraries?

If the information in a book was a bit more complex than we felt comfortable with, we really just had to dig in and do our best to understand it. And if we had to wait a little while to get the information—like when someone else had checked out the book we wanted—well, that was just business as usual.

Of course today, most of us want only the most essential information. We want it in the form and style we prefer. We want it now—and not later. And with technology, we can access information anytime, from any place, and in many ways.

This is true for fund shareholders, too. These days, most of them don't want to receive information on their investments in a long, unwieldy document laden with technical jargon. No—they want information that's easy to understand. They want more control over how they get it—and how much of it they get.

But even as some of our industry's disclosure regime has kept up with these evolving preferences, more can be done. The good news is, the SEC has the same mindset.

In June, the Commission issued a request for comment on this very topic—asking more than 100 questions. The request is the first step in a long-term effort to improve the experience of retail investors and help them make more informed investment decisions—and it couldn't have come at a more crucial time.

Yesterday, we delivered a comprehensive comment letter in response, and we're very much looking forward to talking through it with the Commission. You'll hear more about our letter during our panel on disclosure this afternoon.

At a high level though, we believe that modern fund disclosure must have two fundamental qualities. It must be flexible, and it must embrace a digital environment.

Let's talk about the first one.

Flexible disclosure gives our shareholders a way to get the most important information about their investments—clearly and concisely, while enabling them to get more information if they want to—quickly and easily.

It also ensures that shareholders never need to worry about having ready access to any of this information—no matter whether they prefer it on paper or a screen. In other words, it provides shareholders with the information they want—in the form they want it in.

This is the thinking behind one of our letter's main recommendations—that the SEC propose a summary shareholder report.

Over the summer, we worked with members to develop a prototype for such a report. Our prototype mirrors the design of the summary prospectus. It includes the most important information from the full shareholder report. And it explains how to access the full report.

In our view, this approach grounds the design in a proven success. It's detailed enough for shareholders to glean key information about their funds and compare them with others, but short enough for shareholders to be likely to read it. And it enables shareholders to get more information if they want to.

But don't take my word for it. We actually tested the prototype with more than 1,200 fund shareholders.

For all age and income groups, we found that about 90 percent of the shareholders in our sample agreed that our summary report included enough detail for them to stay informed, that they'd be more likely to read it than they would the full report, and that it made comparing funds easier.

And just to make sure that these shareholders understood our summary report, we asked them questions about the material in it. On each question, a majority answered correctly.

So there you have it. Not only did fund shareholders find our summary report appealing, they showed a good grasp of its content as well.

And it's not just shareholders already in a fund who stand to benefit, but prospective investors, too—who could use it to evaluate and compare funds as they decide which ones would best help them reach their financial goals.

A shareholder report is issued twice a year, so this is a document that can be highly helpful to both shareholders and prospective investors.

Okay, we know now that flexibility is fundamental. But it's just one part of the equation.

Nearly all US households owning mutual funds report having internet access, and more fund shareholders than ever are getting their financial information online. This won't be reversing, so modern fund disclosure must also be allowed to fully embrace a digital environment.

In a digital environment:

- Disclosure can be interactive, simpler to use, and easier to navigate.
- Information can be displayed in a more appealing way, and tailored to shareholders' needs. For example, do you want tables or charts—lines or bars?
- Shareholders can get every bit of information they want, home in on a specific detail, and move more quickly through information they're less interested in.

To its credit, the SEC is looking closely at ways to realize these types of benefits. But as the Commission considers new rules toward that end, it must be careful to take a technology-neutral approach.

So what's a technology-neutral approach?

Think of it this way: Technology moves so fast—and where it will go next is anyone's guess—so new rules will work only if they enable funds to continually innovate.

To do the opposite—to tie new rules to any one technological structure or scheme—would be to unduly restrict funds' ability to serve their shareholders as technology advances.

Could you imagine, for example, if in the late 1990s a regulator had written a rule tied to the technology in the Palm Pilot?

Today, an overly prescriptive approach to rulemaking would needlessly force many to revamp their online infrastructure—infrastructure they've meticulously designed to respond to shareholders' needs, infrastructure in which they've invested massive resources to develop and maintain.

Complicating things further, that kind of approach would require the SEC to frequently amend its rules, just to keep up with technology.

Let's not forget the stakes here: More than 100 million shareholders trust and need our funds to help them save for the financial goals of their lifetimes—like higher education, a down payment on a home, and retirement.

It's on us to ensure they can get useful, actionable information about their investments—in the form that's most helpful to them.

Because the more fund shareholders find disclosure appealing, the more likely they will engage with it. The more they engage with it, the more informed they will become. And the more informed they become, the better their investment decisions will be.

So it stands to reason, then, doesn't it—that when disclosure works for our shareholders, it will help them toward their goals. It will make a lasting, positive difference. That's what we all need to keep top of mind as we work with the SEC on this effort in the years ahead.

Thank you so much.