

## COMMENT LETTER

October 1, 2019

# ICI Comment Letter on Preferences and Costs Associated with Disclosure Reform Options (pdf)

October 1, 2019 Ms. Dalia O. Blass, Director Division of Investment Management US Securities and Exchange Commission 100 F Street NW Washington, DC 20549 Re: ICI Report on Preferences and Costs Associated with Disclosure Reform Options Dear Ms. Blass: The Investment Company Institute<sup>1</sup> welcomes the SEC staff's interest in streamlining fund disclosure to improve communications with shareholders and allow fund shareholders to realize cost savings. Toward that end, we are submitting the results of an ICI member survey on four possible options for reforming fund disclosure.<sup>2</sup> ICI conducted the survey in July 2019. Ninety-four fund complexes, managing approximately \$18 trillion of mutual fund assets and representing about 90 percent of industrywide mutual fund assets, responded to the survey.<sup>3</sup> Respondent firms varied in size. More than half of the respondents manage less than \$75 billion in mutual fund assets, 21 percent manage \$75 billion to \$175 billion, and 21 percent manage more than \$175 billion. Respondents reported that they used a variety of distribution channels. Eighty-four percent of respondents stated that their funds largely were distributed through independent broker-dealers, 43 percent through affiliated broker-dealers, 39 percent through direct sale, and 42 percent through 1 The Investment Company Institute (ICI) is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI's members manage total assets of US\$23.4 trillion in the United States, serving more than 100 million US shareholders, and US\$7.1 trillion in assets in other jurisdictions. ICI carries out its international work through ICI Global, with offices in London, Hong Kong, and Washington, DC. 2 Preferences and Costs Associated with Disclosure Reform Options (October 2019), available at [https://www.ici.org/pdf/19\\_ppr\\_disclosure\\_reform\\_survey.pdf](https://www.ici.org/pdf/19_ppr_disclosure_reform_survey.pdf). 3 At the time the survey was in the field (late June through early July 2019), industrywide mutual fund assets totaled \$19.9 trillion; see ICI Trends in Mutual Fund Investing, available at [www.ici.org/research/stats/trends/trends\\_07\\_19](http://www.ici.org/research/stats/trends/trends_07_19). Dalia O. Blass October 1, 2019 Page 2 of 7 defined contribution investment only (DCIO); 9 percent have other means by which their funds are primarily distributed.<sup>4</sup> The survey requested feedback on preferences and costs associated with modifying fund disclosure in accordance with the following options: 1. Single Streamlined Shareholder Report and Summary Prospectus Annually 2. Single Annual Disclosure Document with Delivery Timed to Fund's Fiscal Year-End 3. Single Annual

Disclosure Document with Delivery Timed to Calendar Year-End 4. Streamlined Digital Disclosure: Summary Prospectus Delivered to New Investors, All Shareholders Have Online Access to Single Streamlined Shareholder Report and Summary Prospectus, and Annual Prospectus Supplement with Material Changes Delivered to Existing Shareholders.<sup>5</sup> Survey respondents' most preferred options, meaning that the option placed either first or second, were as follows: • Option 2 was most frequently chosen by respondents; 80 percent ranked it first or second. • Option 1 was the second-most frequently preferred; 62 percent ranked it first or second. • Option 4 was the third-most frequently preferred; 44 percent ranked it first or second. • Option 3 was the least frequently preferred; 15 percent ranked it first or second. Figure 1 offers added information on the ranking of preferences across all options.

4 For the purposes of this letter, we define distribution channels as follows. Independent broker-dealer means that investors purchase shares through intermediaries (e.g., financial advisers, broker-dealers, platforms, third-party administrators) independent from the fund sponsor. Affiliated broker-dealer means that investors purchase fund shares through an intermediary that is either an affiliated or captive sales force of the fund sponsor. Direct sold means that investors purchase shares directly from the fund's transfer agent. DCIO means arrangements where investor shares are held in qualified retirement plan accounts, such as 401(k) plans; a third-party administrator maintains investor (or participant) data and performs plan recordkeeping. The 9 percent of survey respondents that selected other generally indicated that they distribute their funds through a combination of variable life and variable annuity products, banks, and registered investment advisers. 5 For the first three options, respondents assumed that the disclosure documents would be delivered via email or in paper, as permitted under current requirements. In contrast, under the fourth option, respondents assumed that after year one, for existing shareholders, the fund would no longer mail a summary (or statutory) prospectus or annual shareholder report. Rather, the fund would deliver a prospectus supplement annually only in years when the fund experienced material changes such as certain material changes to the fund's investment objectives or strategies, material changes to the portfolio manager, or material increases in fees. They further assumed that, under this option, the SEC could require funds to develop a digital prospectus and annual shareholder report that would use web tools, such as "one click away" or "hovers," that would make it easier for shareholders to access content.

Dalia O. Blass October 1, 2019 Page 3 of 7 Figure 1 Reform Options Ranked in Order of Preference Rankings and percentages of respondents expressing various degrees of preference

Degree of preference	Percentage of respondents ranking between:	Average ranking	Most common ranking
1 and 2	80%	2.2	2
3 and 4	20%	2.5	1
Highest	15%	3.4	4
Lowest	85%	2.2	2

Source: Preferences and Costs Associated with Disclosure Reform Options Key Survey Findings

Option 1: Single Streamlined Shareholder Report and Summary Prospectus Annually • Fifty-five percent of respondents estimated annual potential savings of at least 25 percent, with 27 percent of respondents estimating annual potential savings of 40 percent or more (see Figure 2).<sup>6</sup> • Cost savings primarily were expected to be generated from lower printing and postage costs and lower processing fees. In addition, a few respondents noted project management, preparation time and effort, operational costs, and auditor and other third-party fees (e.g., custodian and administrator fees) as additional elements that may provide cost savings opportunities. • Challenges identified included: o developing the initial template for the new streamlined shareholder report;<sup>7</sup> o developing the new streamlined shareholder report itself;<sup>8</sup> o resources, including personnel, to develop the new streamlined shareholder report; and o communication to shareholders regarding the new streamlined shareholder report.<sup>9</sup>

6 For purposes of this letter and the accompanying report, cost savings estimates are for calendar year 2018 and aggregated across all funds in the complex. 7 More specifically, challenges include designing the layout and format of the template from

scratch; determining how the template will be populated; identifying any differentials by product type (e.g., equity, money market); and working with vendors as appropriate to print/post to the web and deliver to shareholders. 8 Particular challenges include: developing a process to create, populate, conduct quality control, audit, and produce the annual streamlined report; assigning appropriate resources/personnel to the process; and coordinating production, print, mail, and web posting with appropriate vendors. 9 The challenges include identifying the appropriate personnel for each stage of the process (e.g., marketing and design personnel for development of master template, fund administration personnel for populating appropriate data annually); Dalia O. Blass October 1, 2019 Page 4 of 7

**Option 2: Single Annual Disclosure Document with Delivery Timed to Fund's Fiscal Year-End**

- Sixty-three percent of respondents estimated annual potential savings of at least 25 percent, with 37 percent of respondents estimating annual potential savings of 40 percent or more (see Figure 2).
- Cost savings were primarily expected to be generated from lower printing and postage costs and lower processing fees.
- Similar to Option 1, challenges identified with Option 2 included:
  - o developing the initial template for the new annual disclosure document;
  - o developing the new annual disclosure document itself;
  - o resources, including personnel to develop the document; and
  - o communication to shareholders regarding the document.

**Option 3: Single Annual Disclosure Document with Delivery Timed to Calendar Year-End**

- Twenty-eight respondents indicated that this option would not be viable due to resource constraints.
- Fifty-one percent of respondents estimated annual potential savings of at least 25 percent, with 35 percent of respondents estimating annual potential savings of 40 percent or more (see Figure 2).
- Cost savings were primarily expected to be generated from lower printing and postage costs and lower processing fees.
- As with the other options, challenges identified included:
  - o developing the initial template for the new annual disclosure document;
  - o resources, including personnel to develop the new annual disclosure document;
  - o developing the new annual disclosure document itself; and
  - o communication to shareholders regarding the new annual disclosure document.
- Additionally, respondents noted that any potential savings would be eroded by:
  - o strains on internal personnel;
  - o competition for, and enormous strain on, auditors and other third parties (e.g., custodians, administrators);
  - o competing resources needed for other year-end functions within the complex;
  - o the ability to produce the disclosure document for a large number of funds within a short time frame; and
  - o the need for seasonal hiring to address general capacity concerns.

determining how to communicate the change in the disclosure document to shareholders; and successfully executing that communication plan. Dalia O. Blass October 1, 2019 Page 5 of 7

**Option 4: Streamlined Digital Disclosure: Summary Prospectus Delivered to New Investors, All Shareholders Have Online Access to Single Streamlined Shareholder Report and Summary Prospectus, and Annual Prospectus Supplement with Material Changes Delivered to Existing Shareholders**

- Sixty-two percent of respondents estimated annual potential savings of at least 25 percent, with 39 percent of respondents estimating annual potential savings of 40 percent or more (see Figure 2).
- Cost savings were primarily expected to be generated from lower printing and postage costs and lower processing fees.
- Additionally, 27 percent expected reductions in resource costs (including personnel costs). A few respondents indicated that project management, operational costs, and fees paid to auditors and other third parties (e.g., custodian, administrators) are additional elements that may provide cost savings opportunities once this option was fully implemented.
- Challenges identified included:
  - o developing the initial template for the annual supplement;
  - o developing the annual supplement of material changes itself;
  - o determining what constitutes a material change; and
  - o communication to shareholders regarding the new disclosure approach.
- Additionally, more than half of respondents identified developing the webpage to host the material as a challenge, and more than half of respondents expressed concern over the

potential for the SEC to get more involved in web design. • Other information from the survey that is relevant to Option 4 included respondent reports on their current disclosure process. Respondents were fairly evenly split on whether they use: o a third-party platform or an internal platform to host fund disclosure documents; or o a third party to assist in posting documents on the fund’s website or internal resources. Figure 2 summarizes respondents’ estimates of cost savings across the four options. Dalia O. Blass October 1, 2019 Page 6 of 7 Figure 2 Estimated Potential Cost Savings by Reform Option Percentage of respondents estimating each degree of potential cost savings Note: The bracketed number to the right of each column sums respondents’ estimates of cost savings of 25 percent or more. Components may not add to the totals because of rounding. Source: Preferences and Costs Associated with Disclosure Reform Options Two Additional Key Findings: New Options vs. Status Quo Options We also surveyed members regarding processing fees and Rule 30e-3 and found that almost all of respondents (97 percent) plan to rely on Rule 30e-3 to transmit shareholder reports. Further, we found that 87 percent of respondents stated that they were “very” or “somewhat” concerned with the impact of New York Stock Exchange processing fees on the cost of regulatory mailings. Finally, 80 percent of respondents considered disclosure reform to be “very” or “somewhat” important even if processing fees were revised to address their concerns. Mailing Stickers to Existing Shareholders Respondents indicated that the primary reasons for mailing stickers was to inform shareholders of material changes to the portfolio manager; material increases in fees; and certain material, but nonfundamental, changes to the fund’s investment objectives or strategies. Other reasons proffered were (i) changes to subadvisory agreements or subadvisers; (ii) changes in the fund’s index or benchmark and changes to the fund’s name; or (iii) notice of fund merger or liquidation. Dalia O. Blass October 1, 2019 Page 7 of 7 If you have any questions or require further information, please contact any of us at 202-326-5800. Sincerely, /s/ Dorothy Donohue, Deputy General Counsel, Securities Regulation Sarah Holden, Senior Director, Retirement and Investor Research Joanne Kane, Director, Operations and Transfer Agency Jason Seligman, Senior Economist, Retirement and Investor Research cc: Paul Cellupica, Deputy Director and Chief Counsel Susan Nash, Associate Director/Senior Policy Adviser Jennifer McHugh, Senior Policy Adviser Michael Kosoff, Senior Special Counsel Division of Investment Management