Public Statement

Statement on Tailored Shareholder Reports

Commissioner Hester M. Peirce

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I want to begin by thanking the staffs of the Divisions of Investment Management and Economic and Risk Analysis, and the Offices of the Chief Accountant, General Counsel, and Compliance Inspections and Examinations who are responsible for today's proposed rulemaking.

Today's proposal marks another important step in the Commission's efforts to review, and where necessary, amend disclosure requirements to ensure that investors get the facts and figures they need to make informed decisions. Improvements like the ones we are considering today are of direct relevance to retail investors, for whom funds are the primary way for accessing the markets. I am pleased, therefore, to support these proposals, which embrace a tailored approach to communicate with investors and potential investors, in a useful, concise, flexible, and technologically forward-looking way.

Fund shareholders currently confront fund disclosure that is full of data, statistics, and lots of narrative. A quick perusal—which is usually all these documents get—makes it clear that lawyers, not retail shareholders, are the muses that inspired these documents. Today's proposals would reorient these documents with the retail shareholder in view. The proposal envisions a layered approach to disclosure that emphasizes information—such as fund expenses, performance data, and portfolio holdings—that is particularly important for fund shareholders to assess and monitor their investments. Investors would continue to receive a fund prospectus at the point of their initial investment. Once invested, however, they would receive concise, informative, and visually engaging shareholder reports instead of prospectus updates and lengthy shareholder reports that fill investors' electronic or physical trashcans in a twice-yearly ritual. As part of the new approach, fund shareholders would receive notifications describing material fund changes to keep them informed about how best to manage their investments and could find more detailed information about their funds on fund websites. If the goals behind these proposals are achieved, the truth in the phrase "less is more" will surely be borne out.

While I enthusiastically support the goals behind today's proposals, I am looking forward to comment on the approach we took. In particular, is there anything more we can do to encourage technological innovation in funds' communications with shareholders? The statute ties our hands in some ways, but are there things that we can do to move unequivocally away from a paper-based default mindset and take better advantage of funds' own websites? Our collective experience over these last several months has shown that funds, investors, and intermediaries are remarkably adaptable and are capable of operating in a wholly paper-less environment. So perhaps now is the time, for instance, to allow electronic-only delivery for new investors and dispense with requiring funds to mail paper copies of annual reports and other disclosures on request. Many fund complexes likely would retain a paper option to meet customer demand, but is a regulatory mandate necessary? Just a thought. Likewise, we require information on fund websites also to be included in forms filed with us. Is this kind of duplication necessary? Technological change also opens the door to more personalized fee disclosures, which the proposal asks about, and I am eager to hear what commenters think.

I also look forward to hearing from commenters about how best to convey accurately to shareholders expenses that they indirectly incur. For example, the proposal grapples with how Acquired Fund Fees and

Expenses, or AFFE, should be disclosed by funds that invest in other funds. Funds that limit their investments in other funds to ten percent or less of their total assets would be able, under the proposed amendments, to include the AFFE data in a footnote to the fee table, rather than in the fee table itself. Would it make more sense for all AFFE disclosure to be in the footnotes? How should other costs—such as transaction costs and securities lending costs—that funds incur in process of producing returns be reflected? Does the presentation we are proposing work? By work, I mean would fund fee and return information enlighten, rather than confuse, investors? More generally, retail investors need to understand that the people who manage their money get paid for doing so and that making money costs money. Will the proposal help to underscore this point for fund shareholders? Will the proposal help to ensure that when investors sit down to compare funds, they are not stymied by differences in how fund sponsors make money and how fund returns are generated?

Speaking of comparability, the proposal amends the definition of an appropriate broad-based securities market index to clarify that all funds, in their prospectuses and fund reports, should compare their performance to the overall applicable securities market. Would the costs, which fund shareholders will incur indirectly be offset by their enhanced ability to compare funds?

I would be remiss if I did not also briefly mention an overarching criticism that is not unique to this proposal: this release, at nearly 700 pages, is simply too long. The verbal explosion that has occurred in our releases over the last twenty years means that only securities attorneys and compliance professionals, who are paid well to read such things, wade through this much material and come away confident that they have a reasonable grasp of what is being proposed. I appreciate the use of Feedback Fliers to elicit feedback from retail investors, but reading our proposals should not be a days-long commitment. One of the stated goals of today's proposals is for funds to create shorter, less complicated disclosure documents, drafted in plain English. A worthy goal, indeed, and one I think the Commission should make greater effort in achieving itself.

Again, my thanks go to the agency's staff who worked so hard on this proposal: Dalia Blass, Amanda Wagner, Zeena Abdul-Rahman, Daniel K. Chang, Mykaila DeLesDernier, Pamela K. Ellis, Angela Mokodean, Brian McLaughlin Johnson, Daniel Rooney, Keith Carpenter, Michael Kosoff, Narahari Phatak, Alexander Schiller, Cindy Alexander, Marie-Louise Huth, Parhaum Hamidi, Adam Large, Jill Felker, Vanessa Meeks, Meridith Mitchell, Lori H. Price, Natalie Shioji, Cathy Ahn, Robert Bagnall, Sean Bennett, Katherine Feld, Christopher Mulligan, and Monica Lilly. I also want to thank commenters in advance for the insights and wisdom they will share as we look to next steps.