

Statement

Simplicity is a Goal Unto Itself: Statement on Tailored Shareholder Reports for Mutual Funds and Exchange Traded Funds; Fee Information in Investment Company Advertising



Commissioner Caroline A. Crenshaw

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Throughout history, some of the world’s greatest minds have extolled the virtues of simplicity. Fryderyk Chopin is credited with saying, “Simplicity is the highest goal, achievable when you have overcome all difficulties.”^[1] “Brevity is the soul of wit,” Shakespeare told us through Polonius in the second act of *Hamlet*.^[2] And, of course, there is Occam’s razor, which stands for the principle that a simpler explanation is preferable to one that is more complex.^[3]

I view today’s rule as one aimed at achieving this lofty goal of simplifying disclosures for investors without sacrificing the important information they need and on which they rely. With more of the investing public putting their hard-earned money in mutual funds and ETFs,^[4] it is crucial that shareholder reports contain concise, salient and accessible information about their investments. The layered disclosure approach to shareholder reports adopted today strives to do just that.

As noted in the release, staff observed in a 2020 review that the average annual shareholder report was approximately 134 pages long, with some of the longest reports observed extending over 1,000 pages.^[5] One thousand pages is, of course, more reading than can be found in the *Iliad* and the *Odyssey* combined.^[6] Or perhaps more relevantly to some, that is about three Harry Potter books long.^[7] So, depending on your frame of reference, before finishing some open-end fund shareholder reports, you can have either traveled from Troy to Ithaca, or have made it through the escape of the Prisoner of Azkaban. Either way, getting through a shareholder report under current standards may be no small feat for any investor.

The information contained in shareholder reports under this new rule will include targeted and key information about a fund. For example, shareholder reports will include a simplified expense presentation – a table showing the expenses associated with a hypothetical \$10,000 investment in the fund during the preceding reporting period, both as an expense ratio and in dollars. The shareholder reports will include a more concise Management Discussion of Fund Performance, and additional performance-related data. And, the shareholder reports will include fund statistics (such as net assets and total advisory fees paid during the reporting period) and a graphical representation of categories of portfolio holdings. Different fund series and share classes will be required to have separate reports. This layered approach is expected to reduce the size of the shareholder report significantly.^[8]

Today's rule also addresses fund advertising. It will require that the presentation of investment company fees and expenses in advertisements and sales literature be standardized, consistent with the relevant prospectus fee table, and be reasonably current. The rule also takes aim at funds that hold themselves out as being "no-expense" or "zero-expense" funds, but conceal other pertinent information about potentially hidden costs, or expenses that may be incurred in the future. Misleading expense presentations are anathema to transparent markets and can lead investors to make financial decisions that are against their interests, and I hope that today's rule will help remedy these deficiencies.

I would also like to highlight one key observation about the rule. Simply because information is not included in a streamlined annual or semi-annual report, does not mean that it is not material to investors. By today's action, we are not altering our bedrock materiality standards. Investment companies will continue to post detailed financial information about fund investments on the fund's website, through the filing of Form N-CSR on EDGAR, and for delivery to investors in paper or electronically upon request. This information will include, for example, financial statements, director compensation, and matters submitted for a shareholder vote, and it will be certified by a fund's principal executive and financial officers. I encourage interested investors to exercise their rights to access those materials for more details – details which may continue to be significant to their understanding of their investments.

It is my great hope that today's rule will make it easier for *all* investors to better understand and monitor their investments; to understand more fully the fees that they are paying in connection with those investments; and to invest their money in a way that is actually aligned with their goals – be they retirement, a child's or grandchild's education, buying a new home, starting a business, or taking a well-earned vacation – the myriad of life events that so many of us rely on our savings and investments in mutual funds and ETFs to do.

I also hope, beyond today's rule, that we will continue to look for other ways to streamline shareholder reporting. And, in particular, it is imperative that we continue to endeavor to make sure investors have the information they need to understand all of the fees and expenses they pay in connection with their investments.^[9]

As Chopin, Shakespeare and others have acknowledged, striving for simplicity is no easy feat. This is reflected in the rule before us today. It took heavy-lifting and tireless work by the staff of the Division of Investment Management, the Division of Economic and Risk Analysis, our General Counsel's office, and in the Chair's Office. Thank you to all the members of those offices and others who worked on this rule, as well as the Office of the Investor Advocate for the performance of investor testing. And, I also want to thank those who took the time to comment on the proposal, and those who participated in investor studies and testing in relation to this final rule. Your participation has helped achieve important changes.

[1] See The Fryderyk Chopin Institute, *available at* [Narodowy Instytut Fryderyka Chopina \(nifc.pl\)](http://NarodowyInstytutFryderykaChopina.nifc.pl).

[2] Shakespeare, William, *Hamlet*, Act 2, Scene 2, 86–92 (1601).

[3] Occam's razor, also known as the "Principle of Parsimony," is the problem solving principle sometimes expressed as "entities should not be multiplied beyond necessity." The saying is attributed to William of Ockham in the fourteenth century.

[4] Based on figures collected on Form N-CEN as of December 2021, assets in open-end funds (excluding money market funds) were approximately \$26 trillion.

[5] Tailored Shareholder Reports for Mutual Funds and Exchange-Traded Funds; Fee Information in Investment Company Advertisements, Release Nos. 33-11125; 34-96158; IC-34731 ("Adopting Release") at 14 and nn. 34-35.

[6] Homer, *The Iliad*, Translated by Robert Fagles, Penguin Books (1998); Homer, *The Odyssey*, Translated by Emily Wilson, W.W. Norton & Co. (2018).

[7] J.K. Rowling, *Harry Potter & the Sorcerer's Stone*, A.A. Levine Books (1998); J.K. Rowling, *Harry Potter & the Chamber of Secrets*, Scholastic, Inc. (2000); J.K. Rowling, *Harry Potter & the Prisoner of Azkaban*, Scholastic, Inc. (2001).

[8] See, e.g., Adopting Release at 164 (noting "investors will now receive a streamlined shareholder report that may fit on a trifold self-mailer that is delivered directly to them.")

[9] This is especially true in light of research indicating that retail investors may be overpaying fees. See, e.g., Comment Letter of Ed deHaan Yang Song, Chloe Xie and Christina Zhu, (September 29, 2020) (estimating that "retail investors could have saved \$358M in 2017 alone by switching from high-fee to low-fee versions of S&P 500 funds that provide nearly identical pre-expense returns"). See also Adopting Release at 30 (noting that, although we are not adopting the proposed amendments to fund's prospectus fee disclosure summary, "[h]elping investors more readily understand fund fees and expenses is an important priority of the Commission" and that the comments we received "merit further consideration").