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March 23, 2012

Ms. Elizabeth M. Murphy, Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Re: **Comment Request for Study Regarding Financial Literacy Among Investors (Release No. 34-66164; File No. 4-645)**

Dear Ms. Murphy:

Fidelity Investments ("Fidelity")[1] appreciates the opportunity to respond to the Securities and Exchange Commission's ("SEC" or "Commission") request for comment to help inform its study regarding financial literacy among investors ("Study")[2] as required by Section 917 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act").[3] Fidelity has a significant interest in investor literacy and disclosure issues and previously has provided comments to both the SEC and to the Financial Industry Regulatory Authority ("FINRA") on their literacy and disclosure proposals.[4]

Fidelity generally agrees with the views expressed by the Securities Industry and Financial Markets Association, The Financial Services Roundtable and Investment Company Institute in their comment letters to the SEC. We submit this letter to supplement these letters on specific issues.

Fidelity has long sought to provide investors the tools they need to make informed investment decisions. To this end, Fidelity provides an array of educational offerings on financial topics, free of charge, across accounts and products, both proprietary and non-proprietary, on our platform. Investors can pick and choose from among these offerings, via a variety of media, depending on their level of interest and sophistication. We also understand that simply providing information to investors is not enough. Information is most useful if it is provided in a format and context that is understandable and actionable by the average investor. Based on our experience in creating effective investor communications in different media, and the measurements and feedback we have received on our programs, we have observed the following points:

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[1] Fidelity is one of the world's largest providers of financial services, with assets under administration of $3.6 trillion, including managed assets of $1.6 trillion. Fidelity provides investment management, retirement planning, portfolio guidance, brokerage, benefits outsourcing and many other financial products and services to more than 20 million individuals and institutions, as well as through 5,000 financial intermediary firms.

[2] Comment Request for Study Regarding Financial Literacy Among Investors, 77 Fed. Reg. 3294 (Jan. 23, 2012).

[3] Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376 (2010).

[4] Among other regulatory proposals, Fidelity submitted a comment letter in response to the SEC's previous comment request under Section 917 of the Dodd-Frank Act, Comment Request on Existing Private and Public Efforts to Educate Investors, 76 Fed. Reg. 22740 (Apr. 22, 2011). Fidelity's comment letter is *available at* http://www.sec.gov/comments/4-626/4626-62.pdf. Fidelity also submitted a comment letter in response to FINRA, REGULATORY NOTICE 10-54, DISCLOSURE OF SERVICES, CONFLICTS AND DUTIES (2010). Fidelity's comment letter is *available at* http://www.finra.org/web/groups/industry/@ip/@reg/@notice/documents/noticecomments/p122723.pdf.

- Effective communications are clear, tailored to the investor's level of understanding, and can be accessed through a variety of media. Electronic delivery is an effective way to deliver timely disclosures to investors in several formats.

- Investors differ in interest and sophistication and there is no single piece of information or method of delivery that will improve the financial literacy of all investors. Institutions that sell financial products and services endeavor to understand their investors and are therefore generally well positioned to convey key financial educational materials as well as information about products and services tailored to the investor's sophistication and relationship with their financial service provider.

- Robust competition in the financial services marketplace drives the offering of financial literacy resources for investors.

- Well intentioned regulatory efforts have resulted in overlapping disclosure requirements on specific products and have led to disconnected investor warnings and advisories instead of clear, simple financial education. Clear regulatory focus on improving investor education and better coordination among regulators to avoid piecemeal disclosure rules will facilitate better financial literacy.

In the following sections, we discuss in greater detail our positions and suggestions for improvements in these areas.

Investors today receive a tremendous amount of information about mutual funds from a variety of sources, including advertising, third-party publications, prospectuses, statements of additional information, and shareholder reports. As the SEC is well aware, mutual fund prospectuses and annual and semi-annual reports contain a wealth of information, as dictated by Form N-1A, Reg. S-X and other regulations. Financial services firms incur substantial printing and mailing costs to send these materials to current and prospective shareholders.[5] Given the amount of resources dedicated to providing this information to investors, it is important to understand whether investors find this information useful in making financial decisions and how investors access this information.

Unfortunately, many investors find prospectuses and shareholder reports too complicated or hard to understand, and dispose of the documents without reading them.[6] We believe that part of the reason for the proliferation of other methods of information about mutual funds is due to the failings of the fund prospectus. Although the Commission has developed a summary prospectus and many firms, including Fidelity, use this shortened form, we believe that further regulatory efforts to simplify disclosure documents are needed. Aside from the fund prospectus as an informational and educational resource, we

[5] For example, for calendar year 2011, approximately $26 million was spent to mail regulatory reports to Fidelity's mutual fund customers (including summary/statutory prospectuses, annual and semi annual reports). These fees, which include processing charges, printing, postage and the cost of envelopes, were paid by the Fidelity Funds and Fidelity depending on the funds' fee arrangements. It is standard for mutual fund providers to structure fee arrangements differently across fund types.

[6] A 2008 study found that nearly two-thirds of investors who received or obtained mutual fund prospectuses said that they rarely (28%), very rarely (14%) or never (21%) read prospectuses when they received them. Similarly, half (50%) of investors who had received or obtained mutual fund shareholder reports said that they rarely (26%), very rarely (9%) or never (15%) read mutual fund shareholder reports when they received them. Among the investors who rarely, very rarely or never read shareholder reports, 27% said that they are too complicated or hard to understand; and 65% said that they dispose of shareholder reports when they receive them. Abt SRBI Mandatory Disclosure Documents Telephone Survey (July 30, 2008).

believe that the most effective methods of investor education lie with providing investors the ability to receive more documents electronically through different media.

Electronic Delivery is an effective way to improve the timing and format of disclosures to investors.

Our experience is that simple, clear communications help empower investors to make investing decisions that are in their best interests, particularly if they are provided at a time and in a format that is understandable and actionable by the average investor. Too much information presented at a single point in time can overwhelm investors, leading to confusion and/or inaction. In contrast with paper delivery, electronic delivery provides investors greater flexibility to access current information quickly at a time and location of their choosing.[7] Moreover, electronic delivery allows firms to provide useful information in a "tiered" format. An electronic presentation allows investors to obtain an overview of a specific topic or, by use of hyperlinks, drill-down on more specific information on a given topic, when convenient. The tiered format of electronic delivery also allows investors to find information most pertinent to them at any stage of a relationship, allowing for easier comparison of accounts and service across firms.

Among Fidelity's retail customers who use the Internet, adoption of electronic delivery has increased over the past few years. In 2010 Fidelity conducted a survey of retail customer use of and satisfaction with electronic delivery.[8] Over 60% of retail customers surveyed indicated that they received at least one type of Fidelity account information via electronic delivery, up from 50% in 2008. Although reduction in paper was a key motivator for Fidelity's customers that have opted for electronic delivery, the ability to access documents anytime, anywhere, and the timeliness and organization of information received were also factors. Fidelity also found a high level of satisfaction among these customers, who indicated that the ability to access documents online was the most important factor for them in adopting electronic delivery, followed by the prompt notification of a document's availability, the ease of saving documents to a computer, and the ability to manipulate or analyze data and the breadth of materials available.[9]

Given the use of electronic delivery by investors, to help ensure that investors receive information that is most relevant to them in a format accessible to them in a variety of media, and as a cost-effective means of delivery, regulators should expand opportunities for investors to receive documents electronically. For example, Fidelity supported the SEC's adoption of the Notice and Access model with respect to its proxy rules.[10] Under this model, issuers and other soliciting persons can effect delivery by

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[7] The development of social media as well as other emerging e-technologies underscores the different ways that today's investors use and seek access to financial information. Today, investors interact with their financial services providers in mobile commerce through smart phones, tablets, and other media. Given the rapid changes in technology and investor use of these new technologies, regulatory initiatives should be flexible to adapt to changing technology and allow for the needs of present and future investors in the variety of formats in which they choose to interact with their financial services provider.

[8] 2010 Fidelity study of retail customers under the age of 80 with at least $2,000 in Fidelity retail assets who use the Internet. Of this group, 60% indicated that they currently use electronic delivery for any of the following: statements, shareholder reports, prospectus or trade confirms.

[9] *Id.* Specific motivators for electronic delivery among adopters include reduction in paper (80%), to help the environment (58%; 69% for those under the age of 40), convenience of having link or attachment sent to email (53%), ability to access documents anytime, anywhere (51%), more timely than paper or faster than mail (40%), easier to organize my information (39%). When choosing up to two aspects that were most important, 53% cited the ability to access documents online as the most important aspect of electronic delivery; 19-26% cited the timeliness of notification, ease of updating preferences and ease of saving documents to a computer; 10-14% indicated the ability to manipulate or analyze data and breadth of materials available, among other items.

[10] Shareholder Choice Regarding Proxy Materials, Exchange Act Release No. 34-56135 (July 26, 2007), *available at* http://www.sec.gov/rules/final/2007/34-56135.pdf, as further amended by the Commission in Amendments to Rules Requiring

posting their proxy materials on an Internet web site and provide shareholders with a notice of the Internet availability of the materials. The issuer or other soliciting person may choose to furnish paper copies of the proxy materials along with the notice. If the issuer or other soliciting person chooses not to furnish a paper copy of the proxy materials along with the notice, a shareholder may request delivery of a copy at no charge to the shareholder, and may also request to receive only paper copies of proxy materials in the future. This approach helps ensure that investors have access to the most current documents available, while facilitating the ability to reduce paper and conserve resources for those investors who desire to do so.

Moreover, in some cases simply posting a document on-line should be sufficient. In lieu of mandating mailing of semi-annual and annual mutual fund shareholder reports, the Commission should adopt rules that would allow delivery of these reports solely through web-posting. Fund advisers should be permitted to make these reports available for downloading on the adviser's web site and/or mail them to any shareholder who requests them, either on an as-needed basis or regularly if the shareholder so desires. Posting of shareholder reports, in place of mailing, is especially important given the Commission’s maximum lag time for annual and semi-annual reports of 60 days and the fact that shareholders have the ability to redeem their shares daily. The 60-day lag coupled with daily redemption means that in many cases an adviser will mail shareholder reports to investors who have since redeemed their shares and are no longer shareholders in the fund. The SEC has already adopted this approach in its rules regarding the disclosure of mutual fund proxy voting policies and records.[11] These rules require a fund to file with the Commission and to make available to its shareholders, either on the adviser’s website or upon request, its proxy voting record.

Disclosure requirements for mutual fund advertising should be simplified.

We believe that streamlining disclosures for mutual fund advertising would improve the disclosures provided to retail investors. Regulatory reform efforts in recent years have sought to clarify information in mutual fund advertising by adding new disclosures, without taking any away. As a result, disclosures in mutual fund advertisements have become voluminous. A recent U.S. Government Accountability Office Study completed pursuant to Section 918 of the Dodd-Frank Act found mutual fund “performance advertisements contain an average of 31 sentences of disclosure” and “one performance advertisement the GAO reviewed contained 102 disclosure sentences.”[12] This amount of disclosure is even more staggering considering that mutual fund advertisements are not the primary, or only, source of information available to investors in a mutual fund.

Simplifying disclosure requirements for mutual fund advertising will make it less likely that investors simply ignore this disclosure entirely. Disclosure reform efforts should focus on creating communications with the public that are as crisp as possible and that provide content that is targeted to a given audience. A desirable outcome of these efforts would be to present disclosure in a manner that encourages investors to read it and to consult more substantive materials, such as mutual fund prospectuses, for further information and education.

Internet Availability of Proxy Materials, Securities Act Release No. 33-9108, Exchange Act Release No. 34-61560 (Feb. 22, 2010), *available at* http://www.sec.gov/rules/final/2010/33-9108.pdf.

[11] Disclosure of Proxy Voting Policies and Proxy Voting Records by Registered Management Investment Companies, Exchange Act Release No. 34-47304 (Jan. 31, 2003) *available at* http://www.sec.gov/rules/final/33-8188.htm.

[12] MUTUAL FUND ADVERTISING: IMPROVING HOW REGULATORS COMMUNICATE NEW RULE INTERPRETATIONS TO INDUSTRY WOULD FURTHER PROTECT INVESTORS, GAO-11-697 (2011), *available at* http://www.gao.gov/new.items/d11697.pdf.

Efforts to improve financial literacy cannot be achieved through a one-size fits all approach.

We do not believe that there is one single data element that all retail investors need to make informed financial decisions before engaging a financial intermediary or purchasing an investment product or service. In our experience we have found the opposite to be true; different investors are looking for different pieces of information about financial products and services prior to making an investment decision based on their own individual needs and circumstances.

Investors work with financial institutions through various relationship models. Some investors are self-directed; others work with a financial planner or adviser of some sort. Many investors are retirement plan participants who work with a financial services provider through their employer and many investors interact with a single financial services provider through multiple relationship models. Moreover, different investors have different levels of sophistication. Financial institutions with which investors work know their customers and can convey information that is tailored to the needs of the customer's interest and the customer's relationship. A detrimental end result of this Study would be to pinpoint a single data element that may or may not be relevant across all investors and relationship models and to elevate that single data element into required and highlighted disclosure.

In addition, the Study should not mandate a single provider of disclosure (or method of disclosure delivery) without taking into account intermediary business models. To that end, Fidelity believes that financial services firms that provide services to customers through independent non-affiliated third parties, including banks, family offices, brokerage firms and investment advisers (collectively "Intermediaries") should be permitted to deliver certain disclosures through the Intermediaries, who in turn provide such disclosures to customers. In these cases, the Intermediaries have a direct relationship with the end customer and in our opinion are in the best position to convey this information most effectively.

Competition in the financial services industry drives the offering of financial literacy resources.

Today, most investors have a relationship with more than one financial services provider. As a result, there is robust competition for investors and clients among financial services firms. Fidelity, like other service providers, has strong incentives to continue to develop new and better ways to educate customers and the technological resources to keep pace with innovation. We offer many tools on-line and free of charge in order to serve both current and potential customers. Our technology associates observe the marketplace and build novel and useful content for investors. For example, Fidelity and other private sector firms have recently developed Apps for investor use on the Apple iPhone®, iPod touch®, and iPad®. These free Apps allow investors to monitor their portfolio, trade, research investments, and follow today's market news—virtually whenever, wherever they want.[13] These tools, along with in-person and on-line services, provide a rich suite of offerings for any interested or motivated consumers.[14]

[13] The development of social media as well as other emerging e-technologies underscores the different ways that today's investors use and seek access to financial information. Today, investors interact with their financial services providers in mobile e-commerce through smart phones, tablets, and other media. Given the rapid changes in technology and investor use of these new technologies, regulatory initiatives should allow for the needs of present and future investors in the variety of formats in which they choose to interact with their financial services provider as well as be flexible enough to adapt to changing technology.
[14] These communications are subject to regulatory scrutiny. They are distributed by a firm's broker-dealer, and are subject to the rules of the Financial Industry Regulatory Authority (FINRA), which requires the content to be, among other items, fair, balanced, and not misleading to investors.

<u>Rulemaking efforts should be coordinated with existing rules and across agencies.</u>

Where possible, agencies should consider the cumulative effects of new and existing rules and to identify opportunities to harmonize and streamline multiple rules.[15] Many investors use different financial services providers for different needs. These providers often have different regulators that require varying information even across similar products. Regulators should work with the industry to recognize similarities in required information and allow financial intermediaries to comply with only one regulator's requirements. This approach would reduce disclosure, confusion among investors and the expense associated with compliance with multiple regulatory frameworks.

An example of how this approach has been successfully implemented is the recent no-action relief the Commission's staff granted, which provided that, in the context of retirement savings plans, the Commission would treat information a plan administrator provides that is required by and complies with the disclosure requirements set forth in the Department of Labor Rule 404a-5 as if it were a communication that satisfies the requirements of Rule 482 under the Securities Act of 1933.[16] The SEC no-action relief permits a plan administrator to look to a single rule when presenting required information and eliminates the possibility of overlapping and potentially conflicting requirements between the Department of Labor disclosure rules and the federal securities laws. We commend the Commission's approach in its no-action relief and urge it to continue to make similar efforts to harmonize disclosure obligations for similar products across other regulatory agencies.

The need for regulatory agencies to work together to harmonize disclosure obligations for similar products is especially important during the current period of regulatory reform. For example, in the current regulatory environment, several agencies have issued or will issue disparate proposals on disclosure to be provided to retail investors concerning the nature of costs and services provided to them by their financial service provider.[17] In order for disclosure to be effective, it needs to avoid overlapping and disconnected disclosure requirements among multiple regulatory agencies that may lead to confusion

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[15] *See*, e.g., OFFICE OF MGMT. & BUDGET, EXECUTIVE OFFICE OF THE PRESIDENT, MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES: CUMULATIVE EFFECTS OF REGULATIONS (2012).

[16] *See* Department of Labor, SEC No-Action Letter (Oct. 26, 2011), *available at* http://www.sec.gov/divisions/investment/noaction/2011/dol102611-482.htm. The No-Action letter also states that FINRA staff intends to interpret FINRA's rules applicable to the information provided by a Plan Administrator to Plan Participants that is required by and complies with the disclosure requirements under the DOL Rule in a manner that is consistent with the SEC positions in the No-Action letter. We similarly commend FINRA for its practical approach and urge it to continue to make similar efforts to harmonize disclosure obligations for similar products across other regulatory agencies.

[17] Dodd-Frank Act § 913 allows the SEC to facilitate the provision of simple and clear disclosures to investors regarding the terms of their relationships with brokers, dealers and investment advisers, including any material conflicts of interest; Dodd-Frank Act §919 grants the SEC authority to issue rules designating documents or information that shall be provided by a broker or dealer to a retail investor before the purchase of an investment product or service by the retail investor; FINRA, REGULATORY NOTICE 10-54, DISCLOSURE OF SERVICES, CONFLICTS AND DUTIES (2010), *available at* http://www.finra.org/Web/groups/industry/@ip/@reg/@notice/documents/notices/p122361.pdf, proposes a form ADV-type document for broker-dealers to deliver to retail investors; FINRA, REGULATORY NOTICE 09-34: INVESTMENT COMPANY SECURITIES (2009), *available at* http://www.finra.org/Web/groups/industry/@ip/@reg/@notice/documents/notices/p119013.pdf (proposing Rule 2341) proposes obligations on broker-dealers to disclose to retail investors certain conflicts associated with the sale of investment company securities; we also note disclosure regimes announced by the Department of Labor under 29 C.F.R. §2550 (2012) (ERISA§§ 404(a) and 408(b)(2)) to help ensure that plan sponsors and plan participants understand the fees and expenses associated with their investments, *available at*: http://webapps.dol.gov/FederalRegister/HtmlDisplay.aspx?DocId=24323&AgencyId=8&DocumentType=2 and http://webapps.dol.gov/FederalRegister/PdfDisplay.aspx?DocId=25781 respectively; and the Commodity and Futures Trading Commission's proposed rule, Harmonization of Compliance Obligations for Registered Investment Companies Required To Register as Commodity Pool Operators, 77 Fed. Reg. 11345 (Feb. 24, 2012), *available at* http://www.cftc.gov/ucm/groups/public/@lrfederalregister/documents/file/2012-3388a.pdf.

among investors. More disclosure does not always result in a more informed investor. Regulators should consider any additional disclosure requirements in light of the disclosures that investors already receive. Better coordination among regulators to avoid overlapping and voluminous disclosure requirements will facilitate better financial literacy for investors.

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We thank the Commission for considering our comments. Fidelity would be pleased to provide any further information or respond to any questions that the Staff may have.

Sincerely,

cc: The Honorable Mary L. Schapiro, Chairman
The Honorable Elisse B. Walter, Commissioner
The Honorable Luis A. Aguilar, Commissioner
The Honorable Troy A. Paredes, Commissioner
The Honorable Daniel M. Gallagher, Commissioner