



**Final Report**

**Focus Groups about  
Plain English Documents**

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**Prepared for the:**

**Securities and Exchange Commission  
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## Overview and Methodology

The Securities and Exchange Commission (SEC) contracted with Abt SRBI to conduct four focus groups in April 2008 to assess investor opinions of the “plain English” initiative. When the Commission approved its “plain English” rules in 1998, the objective was to change the corporate culture in America so that documents meant for investors to read were prepared so that investors would use them. At the time, it was envisioned that disclosure documents would become simpler, clearer, and more useful to investors.

Now, ten years later, the Commission sought to evaluate whether the plain English initiative has been working by conducting focus groups to obtain investor views and opinions about various disclosure documents filed by companies, including mutual funds. The Commission will use this information to gauge the success of the plain English initiative, especially as it relates to individual investor satisfaction. The Commission also may utilize this information in connection with future disclosure initiatives. A parallel sample survey was also being conducted in Spring 2008 to obtain quantitative information about this important topic.

The focus groups were conducted with investors in four cities, as shown in Table 1:

**Table 1**

**SEC Focus Group Arrangements  
Plain English Focus Groups  
April 2008**

<b>Location</b>	<b>Date</b>	<b>Time</b>	<b>Number of Participants</b>
Boston, Massachusetts	April 2, 2008	6:00 PM	9
Denver, Colorado	April 9, 2008	6:00 PM	8
Dallas, Texas	April 15, 2008	6:00 PM	8
Jacksonville, Florida	April 22, 2008	6:00 PM	5

In order to qualify to attend the focus groups, interviewees had to have purchased one or more stocks, mutual funds, and/or bonds within the past two years. These investments had to be outside of a 401(k) or other employer-sponsored plan. Also, prospective participants could not have taken part in a focus group within the past 12 months, nor could they have a family member who worked in market or survey research. The screening was conducted by telephone from Abt SRBI's Fort Myers, Florida, telephone center using list sample of high-income individuals in each of the four metropolitan areas where the groups were conducted. The screener is provided in Appendix 1. The same screener also contained questions utilized to recruit participants for three summary mutual fund prospectus focus groups conducted in Boston, Denver, and Dallas.

All participants received a letter or email confirming the date, time, and location of their session (Appendix 2) with directions to the specific focus group facility in their area. They also received a reminder call one day prior to the group (Appendix 3). An effort was made to recruit 15 potential participants for each group to ensure that eight to ten actually attended. Each individual investor who participated in the focus groups was paid an honorarium of \$75, except that Jacksonville participants were given \$100 because of the difficulty of recruiting participants in that location. All participants were re-screened upon arrival at the focus group facility to ensure that they fulfilled the criteria for participation.

The moderator's guide for the plain English focus groups explored the following issues:

- Factors in investment decision-making;
- Reaction to an operating company annual report;
- Reaction to a mutual fund-shareholder report;
- Reaction to an operating company proxy statement; and
- Preference for online or paper materials.

A copy of the moderator's guide is contained in Appendix 4.

The OMB Approval number for this information collection (3235-0638) was provided to all respondents at the beginning of each group. The following disclosure was also read to participants:

Thank you for agreeing to participate in a focus group regarding disclosure provided to investors by companies and mutual funds. We will be discussing several different types of disclosure documents during the session (although the discussion will include more than these documents). **Please read through each document** in its entirety with the idea that you are seriously considering investing in one or more of the companies or funds being offered.

Please bear in mind that these documents are provided solely for the purpose of the focus group. Neither we nor the Securities and Exchange Commission are recommending these companies or funds as appropriate investments. Nor are we endorsing or in any way promoting the companies or funds that prepared the

documents, or expressing an opinion regarding the adequacy of the companies or funds.

The focus groups were moderated by Carla Jackson of Abt SRBI. Observers from the SEC were present at all of the focus groups.

## Factors in Deciding about Investments

Participants in the focus groups said they own a variety of stocks and mutual funds, ranging from one to 300 stocks and one to ten mutual funds, outside of employer-sponsored retirement plans. They use a variety of sources to obtain information about potential investments, including:

- Morningstar ratings
- Value Line
- Friends and family
- Mutual fund surveys (print and online) from the American Association of Independent Investors (AAII)
- Consumer Reports – March edition on mutual funds
- Investment clubs
- Newspapers (local and Wall Street Journal)
- Magazines
- Internet sites (CNBC, MSN Money, Yahoo Finance, Bloomberg Report, The Motley Fool, chat rooms)

While professional investment advisers were also mentioned as an information source by many participants, there was also some discussion about whether the adviser stood to profit from his/her recommendations, or was an independent, unbiased adviser. Generally, there was a strong preference among participants for independent advisers who do not profit from their recommendations.

In addition to utilizing a variety of sources for investment information, participants said that they apply various criteria in evaluating potential investments. Most said they are concerned about the return from their investments, and Morningstar and Value Line ratings are important investment criteria for many of them. With respect to operating companies, one Boston participant noted, *“I get a perspective of how much debt they have and how to compare that to other companies in their industry; what their profit margins are and you know, the story.”* Another participant in the same group noted that, *“With mutual funds, I carefully track the fees and other expenses when looking at the investment. (I) want to see the tenure of the investment manager and his track record relative to his peers. I also want to see how the sector weighting is looking and in particular how much un-invested capital they have.”*

Some participants said they carefully research the social values of the firms with which they invest. Other participants noted that they research the stocks included in their mutual funds to ensure that there is not significant overlap so they can spread the risk associated with their investments. Other factors considered by participants in their investment decisions are (for operating companies) price history, especially five to ten years, and (for mutual funds) their advisor’s recommendations, expense ratio, and qualifications of the managers. Geography (in terms of U.S. versus foreign investments) was also mentioned by one respondent. In Denver, several participants remarked that they looked for information about, and avoided, investments in companies with large CEO buyouts.

## **Operating Company Annual Reports**

Participants were asked whether they utilize annual reports in making their investment decisions, and then they were asked to review an example of an annual report and comment on it. Overall, many participants said they did not utilize annual reports in their investment decision-making, and the length and complexity of the illustrative annual report was an issue for many respondents.

Most participants said that they do not utilize annual reports as a tool in their investment decision-making. Several participants said they consign annual reports to the recycling bin, because, as one Boston participant noted, “...it’s just too much information to look at and much less absorb.”

A Denver participant remarked that the most important source of information in an investment decision should be an annual report, since it is supposed to be accurate and truthful. But he also commented that he does not know how to read an annual report. Another Denver participant said that he reads annual reports now that he is retired but did not do so while he was still working: “Several years ago I tried to read them. There is so much minutia in most of it and yeah, it’s in the English language, but trying to make heads-or-tails of it, I finally gave up!” But another Denver participant noted progress in the understandability of annual reports: “It’s my impression that the reports have improved considerably over the last 20 years, though. In simplicity and in being brief, to-the-point, less garbage, less footnotes.”

Of those who do read annual reports, one Denver participant remarked that “...it’s important to read what the management says (are) the challenges for the company going forward; how they’ve done in the recent past. What their outlook is for the future. Because you want to get their opinion obviously, they’re managing the company. You look at the financials, the history, what they’ve done in the past and on usually a quarter or yearly basis.” Another participant in the same group said that she often looks for the executive summary at the beginning of an annual report. Another participant agreed, saying he looks for a summary of the management goals, whether they were met, and an abbreviated financial report.

In Dallas, several participants remarked that the information in the annual report was already dated by the time it reached them because of changing market conditions. Additionally, they noted that the annual report reflects past performance, not future growth. Some participants in Dallas felt that the annual report puts a positive spin even on negatives about a company. The trustworthiness of information was also mentioned as an issue by some respondents. There was also concern that the annual reports are expensive to produce and mail, and that this impacts a company’s bottom line and therefore investors’ return. Other issues with annual reports mentioned by participants included small font size that makes them difficult to read and excessive disclaimers that impede the flow of the text. One Denver participant summarized by saying that the information largely consists of what is legally required, not what is helpful to potential investors.

In Boston, several participants mentioned the Apple Annual Report as an example of a well-done annual report because the company describes the strategy used in bringing new

products to the market. It was also viewed by several Boston participants as visually appealing since it uses a large font size and generous amounts of color and white space.

Following the general discussion about annual reports, a copy of an annual report was distributed to participants and they were asked to review it for approximately 15 minutes. In all of the locations except Denver, the operating company annual report was reviewed before the mutual fund shareholder report. Some participants in each group volunteered that they had never looked through an annual report prior to the focus group they attended.

The sheer amount of information in the annual report was an issue for many participants:

- *“There’s lots of data, there’s very little information.”* (Boston)
- *“...an ordinary person – this... doesn't mean much to them, it's a bunch of figures and they don't care, they want the bottom line. They get their dividends.”* (Dallas)
- *“...(for) a common person, it's overwhelming.... You almost need an accounting degree and a business degree to understand everything that's in here. There's more questions than answers.”* (Dallas)
- *“...(the) reality is, somebody sitting down and going through all of this – if we weren't forced to, I'm not sure who would. Particularly with no commas, there's no paragraph registers, no change of thought breaks.”* (Dallas)
- *“... (This) had way too much information for a small investor...for small investors, it should be 10 pages or less.”* (Denver)
- *“There’s so much information I’m not even sure whether to start. It was so much.”* (Denver)
- *“I’d have to take a week’s vacation to read this.”* (Jacksonville)
- *“(An) ordinary person – I bet they go through and look at them and see what the dividend was and then I bet it goes right in the trash! They don't need to know that! A stockholder – what do they care!”* (Jacksonville)

A participant noted that there was so much verbiage in the report that it was not clear whether the information is trustworthy or not. In particular, Boston participants wanted the annual report to explain the reasons for some of the decisions that had been made. The sheer density of the text was also an issue for some participants.

In terms of items in the annual report that were difficult to understand, several participants mentioned the terminology and the new accounting standards. An example of a difficult sentence was offered by a Boston participant: *“The increase in earnings from continuing operations primarily with \_\_\_ to improvements in the combination of price and product mix, higher volume and reduced interest expense, net, which more than offset higher raw materials, utility costs, higher restructuring impairment charges and higher \_\_\_ expenses.”* That was one sentence! And there’s hardly any one-syllable words in that sentence.” Another Boston participant noted that, *“...the level of detail in the ‘Management Discussion and Analysis’ here is way over the top relative to what I’m used to seeing in an annual report. This is the kind of stuff you see in the footnotes.... But this front part needs to be a much crisper, clearer analysis of the business.”* Some of the



terms in the annual report considered difficult to understand, were “trading impairment”, “adjacent markets”, “cautionary statements for safe harbor purposes”, and “segment volume variances.” Acronyms were also difficult for many participants.

It was suggested in most of the groups that there be an executive summary at the beginning of the annual report. As one Boston participant noted, *“It almost seems like they should have a shortened version for the average person and then something for the professional, you know, or lots of appendices with a short thing, “Everything you really need,” in the beginning and if you’re really sharp technically, you can go to the appendices, you know.”* In Denver, a participant said that, *“The first three pages are a pretty good summary of what the company wants you to know. The financials and then the CEO’s two-page statement....”* One Boston participant who had used annual reports said that the most important items to him are always the profit and loss statement, the income statement, and the auditor’s report, and it was those items that he looked for in the example given to him in the focus group.

Generally, participants think that the information in annual reports is trustworthy, but there were some reservations:

- *“As long as you’re reading it and you know it’s a sales pitch, that’s fine, I mean it’s a good starting spot, you know, to base your investment decision on.”* (Denver)
- *“I consider it to be about as factually accurate as the company is going to put out in public, simply because the guy at the top has to, you know, sign on it – if it’s a lie he’ll go to jail.”* (Denver)
- *“(No accountant ever said that), ‘This is a hundred percent true.’”* (Denver)
- *“Well, I’m saying the average person in the world could not read all of this. You can hide anything in it and be protected by saying you said it! Because technically it’s in here somewhere, I’m sure....”* (Dallas)

There was also some discussion in the Denver group that companies use convoluted language to avoid saying anything that might be untrue. Similarly, a Dallas participant countered that the annual report was not especially trustworthy because, *“It’s obvious with this amount of verbiage that it’s easy to hide just about anything – numbers and names, too. It can portray just about any outcome desired.”* A Jacksonville respondent noted, *“Do I really trust it? To a certain degree, but it’s almost like you want another opinion.”*

When asked whether the annual report would be more trustworthy if it were shorter, one participant responded that, *“Perhaps, if it was made shorter and clearer. But the only thing I would trust coming out of this is an expert’s advice on it, somebody who reads these over and can know what to spot, because I don’t.”* It is not clear whether the perceived trustworthiness of the annual report would be impacted by the length of the annual report. But in Dallas, participants thought the average investor would think that the report “looks great” and be willing to invest. *“I don’t think it’s trustworthy because of the volume of it. When you go to this much effort to talk about the thing, you’re covering up something. If everything is good – look at Exxon’s annual report for example, they’ve not been voluminous! “*

In Denver, several remarked that there was insufficient time during the focus group to digest all of the information in the annual report. As a Denver participant noted, *“This is something that if I was really interested in the company, it would probably take me a couple of hours each of two days to go look at this and try and figure-out what it meant.”* Another Denver participant characterized the detailed financial information as *“...pretty arcane”*.

## Mutual Fund Shareholder Reports

Participants were also asked about their use of mutual fund shareholder reports in investment decision-making. Although most said they recalled receiving such reports, the majority had not utilized them for investment decision-making. When asked to review an illustrative shareholder report, however, participants were generally more positive about it than they were about the sample operating company annual report.

Some participants said that they had read mutual fund shareholder reports in the past. In Dallas, a participant remarked that his experience is that mutual fund shareholder reports are “...all different sizes, different points, different types....” One Boston participant said that whether or not he read shareholder reports depended upon how busy he was at a particular time. Another Boston participant said that recently he had felt that some of his mutual funds were not performing to his expectations, so he had read them to gain an idea of what the problems were (and then actually sold the particular funds). A Jacksonville participant noted that, “*Sometimes I look at the administrative costs and make sure they’re under that two-percent and then I just toss it.*”

Among those participants who had read mutual fund shareholder reports in the past, important information was considered to be the top holdings and the percentage of holdings by sector, as well as any significant changes in holdings and recent fund performance. Index comparisons and fund expenses were also mentioned as important issues. Some participants said that they are paying more attention than previously to the compensation paid to fund managers. A Dallas participant said that there are two things that are important to him in dealing with shareholder reports: “*One of them is, if there are unrealized capital gains that occurred in such a way that you end up owing taxes on gains that you don't actually personally realize And then the other thing is, what is the grand total of all the fees.... And that’s sort of analogous, when you buy like gasoline, there’s a motor fuel tax, but there’s also taxes that go through the whole process ...it may be even half the cost of the product, the taxes on all the different levels.*”

But many participants commented that they typically recycle the reports when they arrive and never even open them. A Denver participant said that the reports are not written to the lowest common denominator, which makes them difficult to understand. Another noted that it seems like there a lot of financial jargon in the reports that she does not understand and yet another in the same group that, “*I don't even think a high school graduate could read and understand most of it*”.

After the general discussion about using shareholder reports, participants were then asked to review an illustrative example of such a report. Participants commented very favorably upon the example shown in the groups. In Boston, participants said that the report was “*in English*” and “*meant to be understood.*” A Denver participant characterized the report as “*very clearly written.*” A Jacksonville participant commented that it was very hard to understand and to read through, while a Dallas participant noted, “*... they use some, what I would consider maybe ‘layman’ terms. Like ‘collateral damage’; I think everybody knows what ‘collateral damage’ is now.*”

In Denver, participants thought the mutual fund which prepared the report was doing a good job of communicating why they made the investments they had and what their strategy was. Participants liked the information in the report on the portfolio of

investments and the explanation of the fund's strategy, as well as a description of the fund's successes and failures. Participants also commented that the information they were looking for was easy to find. Several commented favorably on the "Letter to Shareholders" because it was brief and easy to understand. Importantly, it provided the strategy behind the investments and seemed "*transparent*".

However, in Dallas, one participant questioned the ability of new investors age 25 to 30 to understand the report, even though it seemed to be written in relatively simple language. Another Dallas participant said that is important to present the information in mutual fund shareholder reports using both text and graphics, since people have different learning styles.

When asked about possible changes to the illustrative mutual fund shareholder report, the following comments were offered:

- *"I thought it was a good report. It has its flaws and failings, but basically the way it's expressed is pretty clear."* (Boston)
- *"There actually are only about eight pages of text and everything else is tables. Which they could shorten by making it half the font size but then it would be hard to see."* (Boston)
- *"I like to look at the 'Financial Highlights', which is back on page 14, which sort of shows the history. It shows what they started with at the beginning of the year and that's the top line. And then about two-thirds of the way down, what they ended-up with, and with Net Asset Value at the end of the year. So, a summation of the culmination of the whole report right in here."* (Denver)

One Jacksonville participant summarized the report by saying, "... *in layman's terms – it's 'getting there'! It hasn't gotten there, but it's getting there where more common people can grasp a hold of it.*" Unlike the operating company annual report, participants did not comment about specific phrases, terms, or acronyms that were difficult to understand.

## Operating Company Proxy Statements

Virtually all of the participants said that they had received proxy statements in the past. While many said they throw away proxy statements without looking at them, some other participants noted that they do read them and return their vote. The number of proxy statements received had some impact on whether or not participants read and/or returned them: those who received relatively few said they tend to return them, while those who receive many say they usually do not return them.

Another issue was whether participants have time to read the statements, depending upon how many other things they have going on in their life. One participant said that he paid much more attention to proxy statements and other materials now that he had retired, compared when he was still working. Several participants said that they look at the Board of Directors candidates and their qualifications, but skip the remainder of the statement.

There are other factors that impact whether proxy statements are returned. For example, one Boston participant said *"I look to see if there is any shareholder issues that might be interesting. I look at names for a candidate who actually stand out from the crowd"* and another in the same group that *"I'll glance through it to see if there's anything unusual. But that's it."* Similarly, a Jacksonville participant said that he looks through the proxy statements to see *"...if something catches my attention or if it was something I wanted to read about, something interesting going on – if somebody sent over because I asked about it. Other than that, no."*

With respect to returning proxies, some participants said that they always return proxy forms, while others never do. Others wait until they are contacted by telephone or receive a second notice. A Dallas participant remarked that *"...I feel like voting is part of my responsibility as a stockholder...."* Another Dallas participant noted that, *"It depends on what it is. I'd say maybe 50/50. If it's something that I don't feel that my vote makes any difference, even expressing of my opinion sometimes – sometimes I toss them and sometimes I send them in. If it's something I feel strongly about – even if I know it's not going to pass, I still go ahead and vote."* But yet another Dallas participant said that he tried to read very carefully because the wording of the statements is sometimes *"tricky"*, so that a "yes" vote is actually "no".

Some participants said that they always vote with management recommendations, such as a participant in Denver who said that he trusts management to advise him what to do. Another Denver participant said that *"...If you don't go with management, if you're not with the company, you sell it, you leave it. You don't need to own it and fight the management."* In contrast, some others said they always vote against management's recommendations, including a Denver participant who said *"I generally vote against management's recommendations, just as a matter of course."* One theme expressed throughout the groups was that many participants felt that their number of shares is so small as to make their votes meaningless. As one Boston participant noted, *"It's hardly a question of being a good citizen; you're not a citizen in the corporate climate at all!"*

Participants were asked to review a sample proxy statement. Overall, they found that the font size was very small and difficult to read. For example, a Denver participant noted

that, *“I wanted to ask for a magnifying glass.”* One Boston participant said that it was difficult to understand the proxy statement. Another Boston participant remarked that there was a lot of verbiage in the proxy statement, whereas tables and graphs made the annual and shareholder reports somewhat easier to read and understand. Some participants said that they just went through the headings in the proxy statement to determine whether there was any information of interest to them. As one Boston participant noted, *“It doesn't seem like you have a meaningful effect, so that's why I don't even bother reading them usually.”* Some difficult terms in the document included: “restricted stock”, “distributed stock units”, and “Monte Carlo pricing model for compensation”. In Boston, some participants thought that there is more jargon in the proxy report than there was in the operating company annual report or the mutual fund shareholders report.

In terms of trustworthiness of the sample proxy statement, one Denver participant said that it appeared that management was attempting to conceal important information in excessive verbiage. A participant in the same group remarked that the proxy statement was so lengthy as to discourage stockholders from reading it. A Denver participant noted that the proxy statement was unnecessarily lengthy because of various legal disclosures which had to be included, which are far and above what stockholders need. In contrast, Jacksonville participants thought that the information in the proxy report seemed very straightforward. Overall, there were mixed opinions in the focus groups about the trustworthiness of the sample proxy statement which seemed related to the extensive text in the statement and also to pre-existing opinions about proxy statements and the perceived importance of voting in shareholder elections.

## Online Versus Paper Materials

Participants in the focus groups were asked several questions about their preference for online versus paper materials in making investment decisions. Some participants said that they preferred to receive operating company annual reports and mutual fund shareholder reports electronically, so that they could make the decision about whether to print them out or not. A Denver participant noted, “...there’s a lot of staff time, compiling time, mailing time, and all that other stuff. And to me, if I could get it electronic and know that I was saving myself money, I’d opt for it.” But one Dallas participant objected because he said that every company is asking customers to do everything themselves, which means that they are moving the burden to customers (in this case, who would have to print out materials themselves). He said he preferred the paper copies of annual and shareholder reports and other materials.

With respect to mutual fund shareholder reports, one Boston participant remarked that “One advantage I’ve found of using the online reports is ... I work sometimes with two and sometimes three screens. But if I have three screens working, I can have pages side-by-side and I can pluck them out of the folio and then be able to look (between them).” Another Boston participant remarked, and several other participants agreed that, “I’d rather have it online because I just throw it out anyway as soon as I get it.” “Saving trees” is also a factor in some participants’ preferences for online over paper copies. It was also suggested that it would be useful to have the option to opt-in or opt-out of receiving online mutual fund shareholder reports. However, a few participants expressed a preference for paper reports, although some were willing to print them out from an online source.

While some participants said that they are comfortable reading material on the screen, others said they dislike reading large amounts of text on a computer monitor and prefer to read from paper copies. One Boston participant commented that, “I don’t read things well on the computer, so half the time I end up having to print them out anyway.” Another participant in this group remarked, “I don’t know if I might be apt to look at it if it was just online. I think the only way I’m going to look at it is if it comes in the mail.” A Denver participant suggested that perhaps annual reports could be sent on CDs rather than as hard copy so that shareholders could decide whether or not to print them out for reading purposes. Several participants commented on the cost in paper and ink to print materials at home, whether they are received by email or accessed from a website.

Participants were asked their preferences for three possibilities for electronic delivery of materials from companies and mutual funds:

- An email with an attachment;
- An email with a clickable link to the annual report or shareholder report; or
- An email indicating that material has been posted to a company or fund website.

Most participants preferred an email with a clickable link as the easiest way to access this information. Some participants said that their email system does not support large attachments and there was also concern about possible viruses in large attachments. The clickable link was viewed as easier to use than having to type in a URL where documents could be located. In Dallas, participants particularly liked the possibility that perhaps

investors could select the way they would like to receive materials, whether in hard copy or online. But a concern was whether receiving reports online would mean that shareholders would also be subjected to spam from the companies or funds. At the same time, being “green” by using less paper was also an important consideration for some respondents.



## **Discussion**

In April 2008, focus groups were conducted in four cities to determine investor perceptions about the success of the SEC's plain English initiative. Participants in the focus groups were asked to share their experiences in using annual reports, mutual fund shareholder reports, and proxy statements, and then they reviewed and commented upon a sample of each type of investment information. They were also asked about their preference for online versus paper investment-related materials.

Overall, most participants said that they were familiar with operating company annual reports and mutual fund shareholder reports, but only a minority of participants said that they actively use these reports in making investment decisions. With respect to the operating company annual report tested in the focus groups, there were some issues with difficult terminology, but a greater problem was the sheer volume of information and the density of text contained in the illustrative report. Participants who had not previously utilized annual reports seemed to experience more problems with the sample document than those who were more familiar with annual reports from their previous investments.

In contrast, participants reacted more favorably to the illustrative mutual fund shareholder report. Participants said it was shorter than the operating company annual report, contained a well-designed management summary, and was formatted in an easy-to-read manner. Importantly, this document explained the fund managers' reasons for making decisions, so it appeared more transparent than the annual report.

While most participants said that they were at least somewhat familiar with proxy statements, even if they generally failed to return them, they found the sample operating company proxy statement presented in the focus groups somewhat difficult to read. The text appeared very dense and the document was not visually appealing; it was the font size and formatting, rather than the language, that made it difficult to read. In addition, participants' perceptions seemed impacted by previous perceptions of the trustworthiness of information in proxy reports.

Overall, there were relatively few comments about specific language in the three documents that made them difficult to use, and more issues with the length, text density, and formatting of the documents. Also, participants' experience in utilizing operating company annual reports, mutual fund shareholder reports, and proxy statements was an important factor in their ability to navigate the illustrative materials presented in the focus groups.

**Appendix 1:**  
**Focus Group Screener**

### 4218 TELEPHONE FOCUS GROUP SCREENER (Combined)

Introduction: Hello, I'm \_\_\_\_\_ with the research firm of Abt SRBI Inc. We are assisting the Securities and Exchange Commission (SEC) with research about investors in the U.S.

*IF ASKED: (EACH INTERVIEWER WILL HAVE THIS INFORMATION)*

*If respondents ask how their name was obtained, tell them their phone number was randomly selected from lists of telephone numbers in the local calling area.*

*This collection of information has been approved by the U.S. Office of Management and Budget (OMB). The OMB Clearance Number is \_\_\_\_ - \_\_\_\_\_. If you like, I can give you a name and address where you can send comments and questions about the proposed focus group.*

*(SEC Contact Information Here)*

SC. May I speak with the person, or one of the persons, in your household who is primarily responsible for making financial decisions for the household?

- |   |              |                               |
|---|--------------|-------------------------------|
| 1 | Same rspn    |                               |
| 2 | New rspn     | REPEAT INTRO                  |
| 3 | No such rspn | SCREEN OUT                    |
| 4 | Refuse       | THANK AND END, [Soft Refusal] |

1. Do you own any stocks, bonds, or mutual funds that are NOT part of a 401(k) plan or other employer-sponsored retirement program?

- |   |            |           |
|---|------------|-----------|
| 1 | Yes        | CONTINUE  |
| 2 | No         | GO TO Q4a |
| 8 | Don't know | GO TO Q4a |
| 9 | Refused    | GO TO Q4a |

2. Do you own any ... (READ LIST)

- |   |              | Yes | No | DK | RF |
|---|--------------|-----|----|----|----|
| a | Stocks       | 1   | 2  | 8  | 9  |
| b | Bonds        | 1   | 2  | 8  | 9  |
| c | Mutual Funds | 1   | 2  | 8  | 9  |

3. Which of the following statements best describes your approach to investing in stocks, bonds, and/or mutual funds?

- |   |  |
|---|--|
| 1 | I make most of my own investment decisions, or             |
| 2 | My financial advisor makes most of my investment decisions |

4. Not including those in a 401(k) plan or other employer-sponsored retirement program, how often do you buy and sell stocks, bonds or mutual funds? Would you say it is ... (READ LIST)

- 1 Daily
- 2 Weekly
- 3 Monthly
- 4 Yearly or Less
- 8 (VOL) Don't know
- 9 (VOL) Refused

4a. (IF Q1 = 2, 8, OR 9, OR Q2c = YES) Have you purchased any mutual funds within the last two years?

- 1 Yes
- 2 No GO TO DECISION
- 8 Don't know GO TO DECISION
- 9 Refused GO TO DECISION

4b. (IF Q4a= YES) How many mutual funds have you purchased within the last two years?

- 1 One fund
- 2 Multiple funds
- 3 Zero funds GO TO DECISION
- 4 Don't know GO TO DECISION
- 5 Refused GO TO DECISION

4c. (IF Q4a= YES) (Is / Are) your mutual fund(s) part of a 401K plan, or did you purchase (it / them) directly?

- 1 401(k) GO TO DECISION
- 2 Direct Purchase
- 3 Both

4d. (IF Q4c = Direct Purchase or Both) How did you go about making your most recent mutual fund purchase?

- 1 Bank
- 2 Broker / Dealer
- 3 Insurance agent
- 4 Direct from fund
- 5 Other (SPECIFY)

**Decision**

***Prospectus Focus Groups (8 PM)***

**Boston: Recruit one group where: 4a = 1 and 4b = 1 or 2 . Recruit at least one respondent with the additional characteristic: 4d =1 , 4d=2, 4d=3, 4d=4.**

***Plain English Focus Groups (6 PM)***

**Not in Boston: Recruit 1 group of Average Investors: Q2a, b, or c = 1 AND Q3 = 2**

**Boston: Recruit 1 group of Active Investors: Q2a, b, or c = 1 AND Q3 = 1**

**All others should be thanked and terminated. Those who qualify for one of the groups should then proceed to Q5.**

5. Does anyone in your immediate family work in the market research or survey research industry?

- |   |        |                     |
|---|--------|---------------------|
| 1 | Yes    | THANK AND TERMINATE |
| 2 | No     | CONTINUE            |
| 3 | DK/REF | THANK AND TERMINATE |

6. Have you ever participated in a focus group before? (IF ASKED: A FOCUS GROUP IS A GROUP DISCUSSION ON A SPECIFIC TOPIC LED BY A MODERATOR AND USUALLY HELD IN A FORMAL RESEARCH FACILITY.)

- |   |     |                   |
|---|-----|-------------------|
| 1 | Yes | CONTINUE          |
| 2 | No  | GO TO QUESTION 8. |

7. Was this participation in the last 12 months?

- |   |     |                     |
|---|-----|---------------------|
| 1 | Yes | THANK AND TERMINATE |
| 2 | No  | CONTINUE            |

8. Gender (RECORD. TRY TO GET A MIX)

- |     |        |
|-----|--------|
| [ ] | Male   |
| [ ] | Female |

**EXTEND INVITATION TO ELIGIBLE RESPONDENTS:** We would like to invite you to attend an informal group discussion with about 10 other people to discuss making investment decisions. We are not trying to sell you anything and you will only be asked to express your opinions. This discussion will last approximately two hours and you will receive \$75.00 for participating in this important research study.

(Plain English Focus Groups) Day, Date, Time, Location

(Prospectus Focus Groups) Day, Date, Time, Location

9. Can you attend?

- 1 Yes           CONTINUE
- 2 No            THANK YOU AND HAVE A NICE EVENING (DAY)

IF YES, SAY: Thank you for agreeing to participate. We will be mailing or emailing you a letter and calling you the day before the discussion to confirm the time and location. Could you please give me your:

Name: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_ (zip) \_\_\_\_\_

Phone # (home) \_\_\_\_\_ (work) \_\_\_\_\_

Email: \_\_\_\_\_

If you have any questions about the group, please feel free to call Abt SRBI at the following toll-free number: 1-888-772-4269.

We look forward to seeing you at the group discussion and appreciate your willingness to take part in this important research study.

Thank you and have a nice evening (day).

**Appendix 2:**  
**Focus Group Confirmation Letter/Email**

Dear \_\_\_\_\_ :

Thank you for agreeing to participate in the group discussion to be sponsored by the Internal Revenue Service (IRS) on \_\_\_\_\_, \_\_\_\_\_ beginning at \_\_\_\_\_ P.M.. The session will be held at \_\_\_\_\_ . Directions to the facility are attached.

This should be an interesting discussion which will provide valuable insight to the IRS about the experiences of taxpayers and we appreciate your willingness to participate. We will be paying \$75 as a “thank you” for your participation. We will also serve a light snack prior to the session, so please plan to come a little early. Please plan to stay for the entire group discussion.

Again, thank you for agreeing to take part in this important group discussion and we look forward to meeting you.

Sincerely,

Carla Jackson  
Vice President  
SRBI Research

Attachment



**Appendix 3:**  
**Focus Group Telephone Reminder**

**Telephone Confirmation for  
IRS Focus Groups**

Name \_\_\_\_\_

Home phone \_\_\_\_\_

Work phone \_\_\_\_\_

Hello, this is \_\_\_\_\_ from SRBI Research. May I please speak with  
\_\_\_\_\_.

(IF NEEDED: REPEAT Hello, this is \_\_\_\_\_ from SRBI Research.)

I am calling to confirm that you will be attending the IRS focus group on  
\_\_\_\_\_, \_\_\_\_\_ at \_\_\_\_\_ PM at \_\_\_\_\_.

- 1 Yes, confirms
- 2 No, will not be there -> We're sorry that you won't be able to make it.

(IF YES: Did you receive the directions we sent you in the mail?)

- 1 Yes
- 2 No - ASK IF THEY NEED DIRECTIONS.

Thank you, we look forward to seeing you there.

Have a nice evening.

**Appendix 4:**  
**Focus Group Moderator's Guide**

## **MODERATOR'S GUIDE**

### **MANDATORY DISCLOSURE DOCUMENTS (Plain English) FOCUS GROUPS**

#### **INTRODUCTION**

Introduction of the moderator.

Explanation of the nature of the general study – to provide input to the Securities and Exchange Commission (SEC) about mandatory disclosure documents. Emphasize that we are studying how the plain English initiative is working, and not that we are just getting general feedback about SEC-mandated disclosure forms.

Explanation of the purpose of the focus group approach -- to explore in a semi-structured manner what people think about the issues.

- The group discussion of the issues often generates deeper insights than individual one-on-one interviews.
- A topic oriented discussion of issues allows the participants, who know more about the issues than the researchers, to identify the important dimensions that might be lost in a structured interview setting.
- It's interactive so that the participants can talk back to us -- ask us what we mean, tell us when a question doesn't make any sense, or means different things to different people.

#### **BASIC GROUND RULES:**

- Certain collections of information, such as focus groups, require approval from, the Office of Management and Budget. The approval number for this collection of information is 3235-0638.
- To ensure your privacy, our contract with this facility forbids them to tell us anything about you except your first name.
- We are audio-taping the meeting for use in preparing a report about findings. Because we are taping this meeting, I ask that you speak loudly and clearly. If I think you are speaking too softly to be heard on the tape, I will ask you to speak up.
- Please speak just one at a time so everyone has a chance to participate.

- Don't engage in side conversations -- we need for everyone to hear what the others are saying and for everything that's said to be heard easily on the tape.
- Sometimes I'll go around the table and ask everyone for their input. At other times, I will just throw a topic open for general discussion.
- Participation -- we need to get a full range of opinions, and we need everyone's participation. You are here to talk. I am here to listen.
- No evaluation -- there are no right and wrong answers. We expect differences in how people see things, and we need to know about these differences.
- Feel free to disagree or question each other. The purpose of a group session is that we learn things in group interchanges that we don't get out of one-on-one discussions. If someone says something you disagree with, please let us know.
- Some observers are present behind the one-way mirror. They want to hear what you have to say about the topics we'll discuss, but we don't want you to feel constrained by their presence.
- If you have a cellular phone, please turn it off. We don't want the group to be disturbed and we also need your full attention during the session
- The session will last about two hours.

## **DISCLAIMER**

Thank you for agreeing to participate in a focus group regarding certain SEC disclosure documents. We will be discussing various disclosure documents prepared by companies or fund groups during the session. **Please read through each document** in its entirety with the idea that you are seriously considering investing in one or more of the companies or funds being offered.

Please bear in mind that these documents are being provided to you solely for the purpose of the focus group. Neither we nor the Securities and Exchange Commission are recommending these companies or funds as appropriate investments. Nor are we endorsing or in any way promoting the companies or fund groups that prepared the documents or expressing an opinion regarding the adequacy of the documents.

## **MODERATOR'S NOTE:**

The following materials are needed for this focus group:

- Proxy
- Operating company annual report
- Mutual fund shareholder report

## **INTRODUCTION OF PARTICIPANTS**

Let's go around the table. Please introduce yourself (first name only).

How many of you have been in a focus group before?

## **DECIDING ABOUT INVESTMENTS**

In approximately how many companies do you own stock, outside of a 401(k) or other employer-sponsored retirement programs?

What types of information are you looking for as you do your investment research? Does the type of information you are looking for differ between investments in specific companies and mutual funds? (RECORD ON A FLIP CHART).

When you are making an investment decision about stocks or mutual funds, from what sources do you get information? Which of these sources are most important? About how long do you spend with each of these sources in making a decision about an investment?

How important is the internet as a source of information about investment decisions? In what ways do you utilize the internet in making investment decisions? What types of websites do you utilize?

## **ANNUAL REPORTS**

(Several of you already mentioned Annual Reports). Do any of you (others) also use Annual Reports to obtain information about potential investments? I'm asking about Annual Reports for specific companies, rather than for mutual funds, at this point.

What sorts of information do you look for in an Annual Reports? What types of information have you looked for in an Annual Report but not found?

Now I want to pass out an example of an Annual Report. Please take about 10 minutes to look through this and then I have some questions that I want to ask you about it.

How helpful is an Annual Report like this in making an investment decision? What did you find particularly helpful? What was not helpful? What seemed to be missing that you would expect to find?

Was there anything that you found difficult to understand? What made it difficult to understand?

(If not already mentioned) How about the language used in the report? Was there anything that was unclear or could be explained better?

How trustworthy do you consider the information in this Annual Report? What makes it trustworthy? Anything that you think makes it untrustworthy?

Are there any other comments about the Annual Report?

## **MUTUAL FUND SHAREHOLDER REPORTS**

(Short Intro): Mutual funds are required to send reports to shareholders twice a year. When you receive reports for funds in which you are already invested, do you generally read them?

If so, which of the following types of information do you look for? Which are of the most importance? (ROTATE)

- Financial statements
- List of securities held by the fund
- Compensation paid to directors and officers
- Information about the fund's directors and officers, such as their names, titles, and experience
- Explanation of how the fund performed
- Graph showing how the fund performed in comparison to a securities index
- Information about fund expenses
- Tables, charts, or graphs which show the types of investments made by the fund
- Information about accountants
- Information about how the fund board approves contracts with the fund's investment adviser
- Other (describe)

Now I want to pass out an example of a fund shareholder report. Please take about 10 minutes to look through this and then I have some questions that I want to ask you about it.

What information in this report is most helpful to you? What is least helpful? Is there anything missing that you would like to find?

Do you find this information to be understandable? Is it useful?

What changes would make the report more useful to you?

Have you ever looked at a fund shareholder report online? If so, how did you locate these reports? how easy were they to find?]

Did you find reading reports online to be helpful? What was easy about it? What was difficult?

Is there any information in the report that you would prefer to receive in paper form? If so, what kind of information?

Is there any information in the report that you would prefer to receive online? If so, what kind of information?

Would you prefer to receive all of the information in these reports online, provided that you could still obtain the information in paper, upon request?

If you could receive all of this information in paper form at any time on request, would you still prefer to receive some of the information in paper without having to first request a paper copy? If so, what information?

Are there any other comments about fund shareholder reports?

### **PROXY STATEMENT**

Now I want to ask how many of you have received Proxy Statements in the past.

For those of you have received proxy statements, what do usually do when you receive one: do you read it thoroughly, glance over it, or discard it?

For those of you who at least glance at it, what types of information are you looking for? Do you usually return the proxy? If not, why not?

For those of you who discard Proxy Statements, why do you usually do so?

What sorts of information do you look for in a Proxy Statement? What types of information have you looked for in an annual report but not found?

Now I want to pass out an example of a Proxy Statement. Please take about five minutes to look through this and then I have some questions that I want to ask you about it.

Was there anything that you found difficult to understand? What made it difficult to understand? What it clear what to do?

How about the language used in the Proxy Statement? Was there anything that was unclear or could be explained better?

How trustworthy do you consider the information in this Proxy Statement? What makes it trustworthy? Anything that you think makes it untrustworthy?

Any other comments about the Proxy Statement?

### **SUMMARY**



Thinking about our entire discussion tonight, is there anything else you would like to share with us?

(Moderator excuses himself/herself to go into the client room to ask observers if there is anything they would like to ask or have clarified). Ask any other questions/clarifications upon return.

Thank you for coming here tonight and sharing your thoughts and ideas with me. You have given us a great deal of help. Please check with the hostess on your way out of this room.

Good night!