MEMORANDUM

August 5, 2015

TO: File No. S7-08-15

FROM: Andrea Ottomanelli Magovern
Division of Investment Management

RE: Investment Company Reporting Modernization — Release No. IC-31610

On August 4, 2015, Jennifer McHugh, Senior Policy Advisor to the Director, Michael Spratt, Assistant Director, Sara Cortes, Senior Special Counsel, Michael Pawluk, Branch Chief, David Bartels, Branch Chief, J. Matthew DeLesDernier, Senior Counsel, David Marcinkus, Senior Counsel, Amy Miller, Senior Counsel, and Andrea Ottomanelli Magovern, Senior Counsel of the Division of Investment Management, Raymond Be, Special Counsel of the Division of Corporate Finance, and Matthew Kozora, Financial Economist of the Division of Economic and Risk Analysis met with Chuck Callahan, Senior Vice President, Regulatory Affairs, Robert Schifellite, President, Investor Communication Solutions, and Lyell Dampeer, President, Investor Communication Solutions U.S. of Broadridge Financial Solutions, Inc., and Annette Nazareth, Partner of Davis Polk & Wardwell LLP.

The purpose of the meeting was to discuss proposed rule 30e-3 under the Investment Company Act of 1940.

Attachment
Discussion Outline

- Broadridge actively supports the proposal's goals of greater levels of viewing of fund information by individual shareholders and additional printing & postage cost savings for fund companies.

- But, experience with proxy Notice & Access indicates that an unintended consequence of the proposal would be an 80%+ reduction in viewing by groups of individuals that receive a mailed Notice.*
  - Behavioral research, surveys, and measurement statistics all indicate that N&A for fund reports would have a negative impact on viewing.

- Moreover, several factors diminish the proposal's potential cost savings on printing and postage.
  - The Notice & Access delivery method adds complexity and work. The additional processing costs would erode the proposal's potential benefits of mailing a smaller, lighter communication.
  - Fund shareholder "consents" to electronic delivery are growing by 20% annually. The portion of reports sent by mail is decreasing.

- Alternatives to a Notice & Access provide greater total cost savings AND far better viewing levels by shareholders.
  - E-delivery creates the greatest savings, followed by a mailed Summary.
  - Newer technologies offer viable options today.

* On February 19, 2015, the SEC convened a roundtable on "Retail Participation in the Proxy Process" to discuss the decline of retail participation after Notice & Access rules went into effect. Surveys by Forrester (online and telephone), comScore Networks and others (e.g., AARP) -- before N&A went into effect -- reported that the vast majority of shareholders looked at proxy materials at least "some of the time" or more. Mailed Notices contain unique control numbers necessary to access proxy materials and vote at the specified URL.
Examples of alternatives to Notice & Access
Greater savings – together with higher viewing levels

- **A Summary Report delivery option**, modeled on the success of the summary prospectus delivery option. SEC studies conclude that many individual investors prefer user-friendly summary information by mail -- with access to an Internet site for additional, detailed information. Use of summaries enjoys the support also of many constituent groups.

- **Electronic delivery with one-click access to reports and/or a “compliance envelope.”** Electronic delivery currently comprises nearly 45% of all annual and semi-annual report deliveries for funds held in brokerage accounts and is projected to grow to almost 60% in FY18.

- **Branded and more user-friendly email messages** for sending links to shareholder reports (expected launch September, 2015):
  - Issuer, investment company, and broker branding could be useful in stimulating shareholder interest and in providing a communications and customer relationship opportunity beyond a compliance purpose.
  - Summary information in the body of the email template could provide useful information as well as one-click access to complete reports.

- **Enhanced broker Internet platforms (“EBIPs”)** enable fund companies to provide shareholder reports to investors holding fund and ETF positions in a brokerage account by displaying them on a broker's client website, at no additional fee. Currently, Investor Mailbox is installed or in-flight at brokers that, as a group, have over 55% of all street accounts.

- **Digital mail channels** provide information where shareholders want to receive it. Interfaces are available for Dropbox, Evernote, and other leading digital channels. Requires participation of brokers and investment companies, and shareholder consent to e-delivery.
Operational considerations for fund deliveries (examples)
Investment companies

Customer Experience

- **Initial Statement**: gathering "implied" consents from existing and new shareholders (business return envelope and toll-free number). Likely to include a control number or unique identifier for consents to a complete report. As proposed, consents are applied on a series level (assumes this is at the 6 digit or trust). Requires development.

- **Notice distribution** – could send a Notice to an “implied” consent. Likely include a control number or unique identifier to support fulfillment and preference management.

Cost Considerations

- **Printing**: depends on volumes and other factors. Lower quantities would increase unit costs of complete reports for many smaller funds.

- **Postage**: the vast majority of mailings are sent as “bulk” mail. Notices, digests, and most reports weigh less than 3.3 oz. Little to no savings.

- **Fulfillment**: unknown number of requests for complete reports. Standing preferences (e.g., series and/or account based) together with new requests could represent as much as 10% of shareholders for some funds.
  - New requests must be fulfilled in 3 days by First Class mail.

- **Web**: online hosting and presentment would add cost.
Operational considerations for fund deliveries (examples)

Broker dealers

The proposal would require capital investment, ongoing systems development, and additional processing costs for brokers. Examples of the additional work effort include the following, among others:

- New control number system to identify shareholders and capture and process new consent types:
  - New consent options for shareholders include, e.g., "implied" consent resulting from no response to a mailing of an Initial Statement and opt-in consents to complete reports.
  - New systems and processing for consent options, e.g., for applying consents to a series and/or to all positions within an account. "Series" consent processing would require mapping of 6- and 9-digit cusips.

- Notification of new accounts

- New fulfillment obligations (3-day turnaround on requests)

- Multiple distribution alternatives and, therefore, multiple production streams within each job

- Potential support of stratification of shareholders (e.g., mailing reports to a segment of shareholders)

- A variety of mail consolidation opportunities and their associated processing

- Capacity availability to all funds that choose to use the new method

- Capacity availability to all shareholders that opt-in for hard copy reports

NYSE regulated fee schedule recognizes the additional work involved in processing N&A for proxies. The proposed rule for fund reports involves at least as much complexity and work.
Electronic deliveries are a large and growing percentage of all report deliveries. Shareholders that want e-delivery are providing affirmative consent.

<table>
<thead>
<tr>
<th>Year</th>
<th>E-Mailed</th>
<th>Mailed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>19%</td>
<td>81%</td>
</tr>
<tr>
<td>2011</td>
<td>23%</td>
<td>77%</td>
</tr>
<tr>
<td>2012</td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>2013</td>
<td>37%</td>
<td>63%</td>
</tr>
<tr>
<td>2014</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>2015</td>
<td>43%</td>
<td>57%</td>
</tr>
<tr>
<td>2016 est.</td>
<td>48%</td>
<td>52%</td>
</tr>
<tr>
<td>2017 est.</td>
<td>54%</td>
<td>46%</td>
</tr>
<tr>
<td>2018 est.</td>
<td>59%</td>
<td>41%</td>
</tr>
</tbody>
</table>

Over the past decade, Broadridge has distributed over 2 billion shareholder communications alerting investors to their options to receive regulatory information electronically.

E-deliveries are projected to comprise 59% of all report deliveries in FY18. As volumes increase, the number of mailed reports will decrease somewhat. EBIPs and digital delivery channels (e.g., Inlet) support greater adoption levels.

By the first quarter of calendar year 2016, the incremental savings of e-delivery will exceed the projected savings of N&A for all of FY18.
Alternatives to Notice & Access: 
Greater savings AND far better viewing levels by shareholders

<table>
<thead>
<tr>
<th></th>
<th>Industry Spending (Printing, Postage and Fees)</th>
<th>Savings Opportunity Total FY18</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY15 ($m)</td>
<td>FY18 est. ($m)</td>
</tr>
<tr>
<td>Current Model</td>
<td>354</td>
<td>382</td>
</tr>
<tr>
<td>Notices</td>
<td>318</td>
<td>364</td>
</tr>
<tr>
<td>(for mailed reports)</td>
<td></td>
<td>18</td>
</tr>
<tr>
<td>Summaries</td>
<td>221</td>
<td>252</td>
</tr>
<tr>
<td>(for mailed reports)</td>
<td></td>
<td>130</td>
</tr>
<tr>
<td>Emails</td>
<td>144</td>
<td>179</td>
</tr>
<tr>
<td>(for mailed reports)</td>
<td></td>
<td>203</td>
</tr>
</tbody>
</table>

**Impact on Information Viewing:**
- A known 80%+ decrease in "eyeballs" for recipients of mailed Notices vs. mailed reports.
- Individuals prefer Summary information "wherever possible."

**Notes and Assumptions:**
- For funds and ETFs held beneficially in street name.
- Printing costs are based on industry estimates and are held constant. Current mix of digests and lengthier reports and an average for annuals and semi annuals.
- Postage costs are based on USPS rates and are held constant.
- Processing fees are based on NYSE regulated rates for an “Interim” communications. Notice & Access processing fees are based on NYSE regulated rates and are computed on the basis of job size “tiers.”
- The Notice alternative assumes 90% of mailed deliveries are Notices and 10% of mailed deliveries are complete reports sent with prior consent. Excludes costs for fulfillment of complete reports upon request and costs for Initial Statement processing and distribution. The “Summaries” and “Emails” alternatives assume 100% of mailed deliveries are sent by each of these methods, respectively.
Alternatives to Notice & Access: Greater savings AND far better viewing levels by shareholders (continued)

Impact on Information Viewing:

- A known 80%+ decrease in “eyeballs” for recipients of mailed Notices vs. mailed reports.

Baseline Viewing Levels: SEC studies provide ranges for fund annual reports. (Refer to “Investor Testing of Selected Mutual Fund Annual Reports (Revised),” submitted to the SEC, February 9, 2012, pages 61 and 68.) Homework group: 91% recalled receiving an annual report, and 73% say they read/scan/skim some or all of it. Online survey group: 86% recalled receiving an annual report, and 87% say they read/scan/skim some or all of it.

Statistics for Proxy Notice & Access: Eight years of reported viewing statistics for proxy Notice & Access indicate that fewer than one-half of 1% of recipients of mailed Notices take steps to read materials online.
- In the 12 months ending May 30, 2015, seventeen funds mailed over 1.9 million Notices to street shareholders for annual meetings. Less than two-tenths of 1% of the recipients (i.e., 3,498) went to the website and clicked on “Read Materials.” Although proxies and fund reports have a different purpose, the shareholders are the same.

- Individuals prefer Summary information “wherever possible.”

Preferences for Summary information: In 2012, the SEC prepared a study of financial literacy, pursuant to Dodd-Frank. Key findings on the timing, content, and format of disclosures are as follows (refer to page iv of the Executive Summary):
  - “Investor preferences are mixed with respect to the method of delivery. Some investors prefer to receive certain documents in hard-copy, while others favor online disclosure.
  - With respect to the format of disclosure documents, investors prefer that disclosures be written in clear, concise, understandable language, using bullet points, tables, charts, and/or graphs. Investors favor “layered” disclosure and, wherever possible, the use of a summary document containing key information about an investment product or service.”

* The fund meetings included director elections – the outcomes of which, under NYSE rules, include “broker votes” for un-instructed shares.