American Forest & Paper Association

August 7, 2015

Secretary Brent J. Fields
Securities and Exchange Commission
100F Street, NE
Washington, DC 20549-1090

**Re: Investment Company Reporting Modernization Proposed Rule; Release Nos. 33-9776; 34-75002; IC-31610; File No. S7-08-15**

Dear Secretary Fields:

We write in opposition to the Securities and Exchange Commission's proposed Rule 30e-3, which would eliminate the current default requirement for mutual funds to transmit information to investors in paper form. We ask the SEC to withdraw this proposal based on the following hardships it will create for individual investors:

- It ignores the preference of the majority of investors for receiving investment information in a paper format.
- It will make access to critical information upon which millions of Americans depend to make sound investment decisions more difficult, as many citizens do not have regular availability of broadband internet connectivity at home.
- It transfers the cost of providing printed documentation of financial information to the individual investor.
- It places a confusing burden on investors who currently receive investment documentation in printed form by requiring them to take "opt-in" action in order to continue that delivery method.
- By compelling investors to go online, the rule makes it less likely that they will take the time to read and comprehend important financial disclosure information related to their investments, including understanding potential risks.
- The rule disproportionately disadvantages those who are less likely to have high-speed internet access, such as the elderly, low-income households, rural communities, and military personnel who are deployed abroad.

The American Forest & Paper Association (AF&PA) serves to advance a sustainable U.S. pulp, paper, packaging, and wood products manufacturing industry through fact-based public policy and marketplace advocacy. AF&PA member companies make products essential for everyday life from renewable and recyclable resources and are committed to continuous improvement through the industry's sustainability initiative - *Better Practices, Better Planet 2020*. The forest products industry accounts for nearly 4 percent of the total U.S. manufacturing GDP, sells over $200 billion in products annually, and employs nearly 900,000 men and women. The industry meets a payroll of approximately $50 billion annually and is among the top 10 manufacturing sector employers in 47 states.

AF&PA's sustainability initiative - *Better Practices, Better Planet 2020* - is the latest example of our members' proactive commitment to the long-term success of our industry, our communities and our environment. We have long been responsible stewards of our planet's resources. Our member companies have collectively made significant progress in each of the following goals, which comprise one of the most extensive quantifiable sets of sustainability goals for a U.S. manufacturing industry: increasing paper recovery for recycling; improving energy efficiency; reducing greenhouse gas emissions; promoting sustainable forestry practices; improving workplace safety; and reducing water use.

**<u>Citizens Prefer to Receive Important Information on Paper</u>**

A significant portion of our population either prefers or relies upon paper to receive communication from its government and service providers. According to the U.S. Census Bureau 2013 report, "Computer and Internet Use in the United States," the ability to access information electronically is still not readily available to many Americans – 25.6 percent of the U.S. population lacks broadband access at home.[1] In a recent Pew Internet Project report, 41 percent of Americans age 65 and older do not use the internet or email.[2]

Customer preference for paper billing was confirmed by a recent study by the Inspector General of the United States Postal Service: *"Will the Check be in the Mail? An Examination of Electronic and Transactional Mail."* This survey found that, while many people may choose to pay bills online, the vast majority (91 percent) choose to receive bills and statements on paper through the mail.[3]

According to SEC's own study by Siegel + Gale,[4] a vast majority of American investors (71 percent) said they prefer to read annual reports in paper format rather than online. In addition, investors indicated printed shareholder reports communicate complex financial data more effectively than electronic documents. When shareholder reports are sent in print and electronic form, a higher percent (91%) of print readers remember reading the document compared to those who read the document on line (86%).[5] Comprehension of topics like mutual fund expense ratios and fund performance was higher among readers of print documents than electronic reports.[6]

**<u>Rule 30-e-3 Ignores the Digital Gap for Many Americans</u>**

[1] http://www.census.gov/prod/2013pubs/p20-569.pdf
[2] Pew Research Center, Older Adults and Technology Use, April 3, 2014, p.1, http://www.pewinternet.org/2014/04/03/older-adults-and-technology-use/
[3] OIG Report RARA-WP-15-006, Feb. 9, 2015
[4] "Investor Testing of Selected Mutual Fund Annual Reports (Revised)," Siegel+Gale, Feb. 2012
[5] Ibid., p. 61
[6] Ibid., pp. 94, 66

Many institutions and government agencies are increasingly making access to forms and information available only on the internet, leaving many Americans without internet capability or familiarity out of the necessary flow of information and interaction. Citizens who are 65 or older account for 14.1 percent of the U.S. population, or about 45 million people, the highest percentage ever.[7] And the number of Americans 65 and older is expected to grow dramatically. By 2020, the population of seniors is expected to increase to 16%.[8] Access to information is a key issue for seniors, as 41 percent of Americans 65 and older do not use the internet at all.[9] Furthermore, 34 percent of the senior population owns mutual funds, meaning that more than 15 million individual investors could be cut off from valuable information they need most to manage their financial future.[10]

The digital gap extends beyond the aging population to minorities and those living in rural areas of the country. Twenty percent of African Americans do not use the internet and 38 percent lack some sort of broadband connection at home.[11] Among adults in rural communities, which tend to have a higher proportion of residents who are older, lower-income, and have lower levels of educational attainment, 28 percent do not use the internet.[12]

**Implied Consent is Inadequate and Not Favored by the Majority of Investors**

Shareholder reports are important decision tools for investors; in the SEC's commissioned study of investor response to the Summary prospectus rule, 21.8 percent of respondents found the shareholder report to be a main source of information when deciding to choose an investment.

This rule in its current form will degrade financial disclosure for those who prefer print and do not want to shift to e-Delivery. Sending the Initial Statement does not justify the conclusion that implied consent is gained for investors who receive the Statement. Most investors view implied consent as proposed as the government overstepping its boundaries. In a survey conducted by InfoTrends, the majority of American adults across all demographic groups believe efforts such as using implied consent in the Modernization rule is wrong. When asked if the government or firms in the private sector should force consumers to shift from print to electronic content, 73% of respondents said it is wrong to expect anyone to go online to interact with government agencies; 84% objected to private sector entities initiating a forced shift to electronic format, and 90% of people under 25 share the belief that options for paper based communications should be preserved.[13] This contradicts the SEC's behavioral economic theory that the

[7] Administration on Aging, http://www.aoa.acl.gov/Aging_Statistics/Profile/2014/2.aspx
[8] Ibid.
[9] Pew Research Center, "Older Adults and Technology Use," http://www.pewinternet.org/2014/04/03/older-adults-and-technology-use/
[10] ICI 2015 Investment Company Fact Book, p.116
[11] Pew Research Center, "African Americans and Technology Use," http://www.pewinternet.org/2014/01/06/african-americans-and-technology-use/
[12] Pew Research Center, "American's Internet Access 2000-2015," http://www.pewinternet.org/2015/06/26/americans-internet-access-2000-2015/
[13] "Access for All: American Attitudes Regarding Paper & Digital Information," InfoTrends 2013

rule justifies using implied consent to force shareholders to switch from paper to electronic delivery (p. 310, footnote 716).

Other Federal Agencies have disallowed implied consent, or restrict its use in ways that the Report Modernization rule supports. The IRS does not allow financial organizations to use "implied consent" to enroll investors for e-Delivery of tax documents; investors must opt in by taking express consent action themselves.[14] The Department of Labor and the Department of the Treasury have concerns with e-Delivery, citing issues such as lack of consistency and clarity of presentment of Internet content, as well as protecting participant's choice to receive paper.[15]

**Conclusion**

We strongly urge the SEC to reconsider the Proposed Rule in light of the negative impacts and unintended consequences outlined above. Americans of all ages living in all regions of our country deserve to have access to information and services based on their personal preference and ability to receive information delivery, either digitally or on paper. We urge the SEC to fulfill its mission to protect the interests of investors by withdrawing Rule 30e-3, which disregards the preference of the majority of Americans and leaves many who depend on access to critical investment information to make informed decisions that affect their financial future.

Rather than forcing individual investors to opt-out of electronic delivery (when so many of them do not have home internet access), the SEC investment information should continue to be sent to shareholders in the mail, and continue to allow those who prefer to receive reports electronically to "opt in" at their convenience.

Please refer questions or comments to Mark Pitts, mark_pitts@afandpa.org or 202-463-2764

Sincerely,

Paul Noe
Vice President, Public Policy

[14] Closing the E-Delivery Gap, 2013 Pershing LLC, subsidiary of New York Mellon Corporation

[15] Private Pensions; Revised Electronic Disclosure Rules Could Clarify Use and Better Protect Participant Choice, p.19, United States Government Accountability Office, Sept. 2013.