

MEMORANDUM

TO: File No. S7-08-15

FROM: Marc Oorloff Sharma, Senior Special Counsel
Office of the Investor Advocate

DATE: September 21, 2015

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

On September 18, 2015, Rick Fleming, Investor Advocate, Marc Oorloff Sharma, Senior Special Counsel, Brian Scholl, Senior Economist, and Stephen Deane, Investor Engagement Advisor of the Office of the Investor Advocate met with Chuck Callan, Senior Vice President, Regulatory Affairs, Robert Schifellite, President, Investor Communication Solutions, Lyell Dampeer, President, Investor Communication Solutions U.S., and Sharyn Bilenker, Vice President, Corporate Affairs and Strategic Development of Broadridge Financial Solutions, Inc.

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

Attachment

Briefing for SEC Director Fleming SEC Proposal: Investment Company Reporting Modernization File Number S7-08-15

September 18, 2015

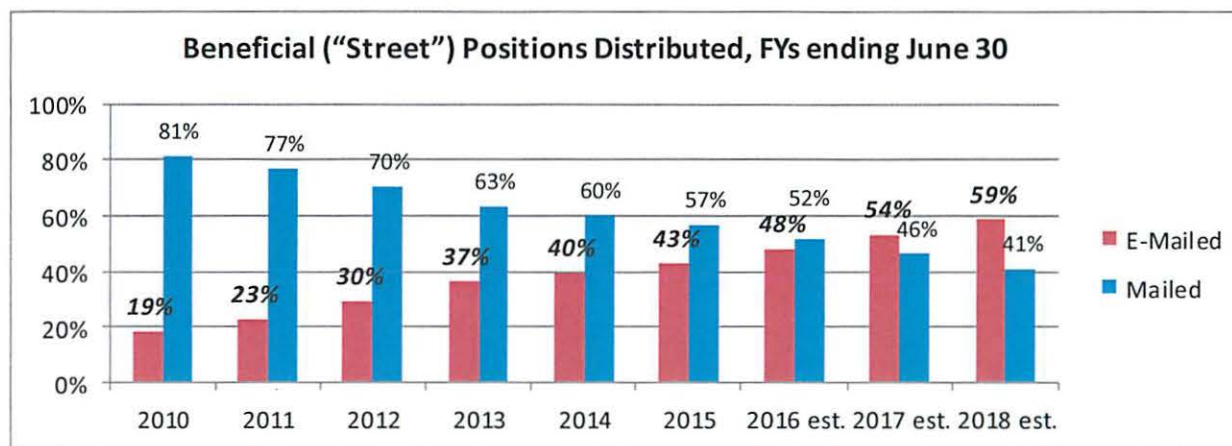


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Discussion Outline

- Broadridge met twice with the SEC Division of Investment Management and submitted detailed comments. We provided empirical data and new, primary research on the preferences and behavior of individual mutual fund investors, as filed:
 - Information on the Growth of Electronic Delivery under SEC Guidance
 - Evidence of the Proposal's Negative Impact on Individual Investors
 - References to Valid Data and Studies Contained in the Proposal
 - Comparative Cost Savings Analysis: Alternatives to Fund Notice & Access
 - Critical Role of Broker Dealers
- Highlights are provided below.

The technological advances the proposal seeks to accomplish are already occurring due to the SEC's existing guidance on electronic communications.



- The proposal would not change the process by which millions of investors who have consented to e-delivery receive their fund reports.
- Several technological advances will continue to drive growth in e-delivery without a change in SEC rules.
- In its simplest form, the rule proposal substitutes a mailed notice for a mailed fund report.
- "EBIPs" and digital delivery platforms provide opportunities to drive further growth in e-delivery, at the consent of the individual investor.

A large body of data shows that the majority of individuals receiving reports by mail will not take the extra steps and, therefore, will not look at or read fund reports.

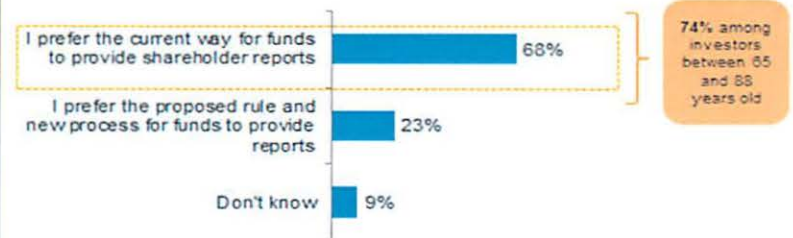
Based on the evidence, street holders of 115 million fund positions are negatively impacted by the proposal. It will have a disparate impact on investors ages 65 and older. Based on the data the proposal would reduce by over 80% the number of these investors who look at fund reports.

The data we provided include:

- Baseline viewing levels, SEC testing
- Results of two new surveys and studies
- Seven years of viewing and voting statistics
- Disappointing statistics for funds using notice & access
- Research on the predictable negative impact on individuals of a change in “defaults”

Seven out of 10 investors prefer the current way they receive reports (by mail) to the proposed approach

“Do you prefer the current way or the proposed way for funds to provide shareholder reports?”



Base: 751 Receive by Mail
Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.16.M)

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There is no evidence indicating that the proposal will lead to higher levels of fund information awareness or viewing.

Déjà vu all over again?

The proposal suggests that because people generally use the Internet for all sorts of things today, they will logically use it to access shareholder reports when they are told by mail where to find them, even if they do not access or look at fund reports online today. This hypothesis was advanced by the SEC in 2005 when notice & access rules were first proposed for proxies. Regarding the belief that a mailed notice would increase proxy participation, SEC Chair Christopher Cox said:

"We want to help shareholders get all the information they need in order to make their decisions. Several of the SEC's proposed rules over the past few months are aimed at doing just that.

Take our electronic proxy proposal...By giving investors more, and importantly, more usable information we can enable increased participation by better informed shareholders.

A postcard-sized notice would apprise shareholders of the availability of their proxy materials on the Web. By going online, they could search the proxy statement for the items they want, and follow links to other, more detailed information. They could do everything they do now with paper proxies, just more of it, and faster and more efficiently. Investors who want paper in addition, or instead, would simply call a toll free number.

With more than 75% of Americans having access to the Internet — and spending an average of 25% of their waking hours online -- it's high time to bring this revolutionary technology to the world of shareholder democracy."

(Remarks Before the Committee for Economic Development, March 21, 2006)

Despite the documented reduction in viewing and voting of over 80%, an analogous hypothesis is being advanced again for fund reports. These hypotheses miss the larger point.

A substantial body of behavioral research on defaults, "switches," and "nudges" in a variety of applications is clear and irrefutable: when there is a change in the default, individuals typically take no action. They neither opt-in nor opt-out, even when it is in their best interest.

Individuals who receive reports by mail will become totally disengaged.

Findings: The notice & access option is estimated to save funds \$18 million (or \$0.02 per report) in fiscal year 2018. By comparison, the cost savings from the alternatives are estimated to be \$203 million for the e-delivery option and \$130 million for the summary report option (or \$0.28 and \$0.18, respectively, per report).

	Industry Spending (Printing, Postage and Fees)		FY18 Savings Opportunity (vs. FY18 baseline)	Net Savings Per Report (vs. FY18 baseline)
	FY15 (\$m)	FY18 est. (\$m)	FY18 est. (\$m)	FY18 est. (\$)
Baseline	354	382	-	-
Notice & Access Option	318	364	18	0.02
Comparison of the Alternatives				
E-Delivery Option	144	179	203	0.28
Summary Report Option	221	252	130	0.18

A total of 0.2 bps
over five years on
an initial investment
of \$10,000

Even under current SEC guidance for e-delivery, without a change in rules, the incremental annual savings of sending 59% of all deliveries by email amounts to over \$100 million.

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

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.”*