



INVeSHARE

Intelligent solutions for shareholder communications

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February 11, 2015

*By E-Mail (rule-comments@sec.gov)*

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

**Re: Investment Company Reporting Modernization - File No. S7-08-15**

Dear Mr. Fields:

INVeSHARE, Inc. ("INVeSHARE") is a financial intermediary that among other things assists brokers in satisfying their responsibilities for the delivery of proxy materials and periodic reports to their clients, for the management of corporate actions, and for the establishment and maintenance of Enhanced Brokers' Internet Platform (EBIP) through broker websites. We are transforming the regulated shareholder communications business with our innovative and fully-compliant print and electronic delivery solutions.

INVeSHARE appreciates the opportunity to comment on the above-referenced release proposing new rules for the dissemination of information to investors in registered investment companies. In this letter, we focus on one of the proposals, Rule 30e-3, which would permit registered investment companies to use a "notice and access" type approach to the distribution of interim and annual reports. We support the proposals in concept, as well as the Commission's efforts to leverage technology to achieve more efficient delivery of disclosure to investors. We believe that the proposed rules (if streamlined as described below) will be well received by investors, and will prove to align with trends favoring the use of digital technology to obtain financial information, and that they will accelerate that trend. However, we have several concerns about the proposals, which we outline below.

1. The Proposals Overlook the Important Role Brokers Play In the Distribution of Periodic Reports

The proposals overlook the role of brokers and other agents in our capital markets, and they appear to assume that all fund investment positions are registered directly with the fund, even though a significant majority of fund positions are held through brokers. Even beyond the delivery of mutual fund reports, brokers and other intermediaries play an important role. Clients look to their brokers to provide guidance and to protect their legitimate interests (including financial privacy) when it comes to matters affecting their accounts. Clients furthermore expect that each brokerage firm will provide a consolidated and uniform source of information and



support with respect to multiple securities included in a given client account. Because brokers are in a position to address client needs in a complete manner by focusing on the entire account (and entire portfolio) held by the client, they can provide an overall positive and complete client experience. The proposed rules overlook this role, and even appear to be directly inconsistent with the format of the client-broker relationship, such as by proposing that fund investors consent on an investment-by-investment (or series) basis rather than on an account basis.

Even more significantly, the proposals do not outline the procedures that brokers and their agents should follow in carrying out their responsibilities. By contrast, the final rules governing “notice and access” option for the delivery of proxy materials outline in detail how brokers should process deliveries for shareholders who hold their shares through brokers and other intermediaries.<sup>1</sup> Indeed, we believe that the Commission should use the approach outlined in the proxy “notice and access” rules as a basis for supplementing the proposals or provide additional detail on the role of brokers.

The role that brokers and their agents play in processing accounts held in beneficial or street name cannot be subsumed by mutual funds or other third parties. Brokers are legally required to protect the financial privacy and personal information of their clients, including information that is necessary to comply with the dissemination of information required by the proposal. Regulation S-P implements legislation designed to protect the privacy of personal information an investor has entrusted to his or her broker, mandates that an investor’s identity, contact information, and share position data is within the protections of that Regulation.<sup>2</sup> We believe that the obligation of brokers to maintain the financial privacy of their customers and customer accounts would be undermined insofar as new rules provided mutual funds with access to information about brokers’ clients, or put brokers in a position where such information could be inadvertently or indirectly disclosed to mutual funds.

## 2. The Proposed Rules In Some Respects Would Be Overly Costly And Unnecessarily Complex

Several elements of the proposed approach to delivery of interim and annual reports are unnecessarily complex, and associated costs would in some cases outweigh the benefits.

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<sup>1</sup> See Exchange Act Rule 14a-16(a)(2), (j), and (k), and Rule 14b-1(d) and (e); see also Internet Availability of Proxy Materials, Exchange Act Release No. 55146 (March 30, 2007), at pp. 32-42

<sup>2</sup> Subtitle A of Title V of the Gramm-Leach-Bliley Act requires financial institutions to protect certain nonpublic personal and financial information provided by their clients. As noted above, the Commission has interpreted the statute to protect a client’s personal contact details along with information on share positions. See Regulation S-P Rule 3(t); see also Final Rule: Privacy of Consumer Financial Information (Regulation S-P), Exchange Act Rel. No. 42974 (June 22, 2000), at pp. 19-20.





a. Series Consents

The proposal to obtain investor consent to electronic access to mutual fund reports on an investment-by investment (or series) basis would require significant changes to the existing systems for collecting consents. Existing systems focus on accounts rather than on specific portfolio investments. The new process in operation would be burdensome to both investors and their brokers. Investors would be compelled to continuously update their preferences as they purchased and sold new portfolio positions, and brokers would have to continuously inquire as to their clients' preferences. Accordingly, the new system would be costly to establish and to implement going-forward, and could be time-consuming and confusing to investors. We believe that most investors would approach their entire portfolios in a consistent manner, and would urge the Commission, if it were to proceed with a series-by-series approach, to first obtain appropriate evidence through surveys or otherwise to substantiate the number of investors who would actually wish to register consents on such a basis. We recommend that the Commission tie any affirmative or implied consent requirements on an account or whole portfolio basis.

b. Affirmative Consents

The proposal to permit the use of affirmative consents to online access, likewise, would add unnecessary cost. Under the proposed rules, brokers may rely on implied consent under the conditions outlined in the rule. Like the current system for implementing "notice and access" for proxy, we believe that the availability of implied consent alone (together with the alternative option to choose paper on a one time or ongoing basis) is sufficient. The incorporation of affirmative consent to the new rules will impose costs on brokers associated with the collection, maintenance and updating data on affirmative consents. We recommend that the Commission eliminate from the proposed rule the process for the collection of affirmative consents from investors. Alternatively, we suggest that the Commission permit brokers to use existing customer preferences obtained for implementing proxy notice and access as supporting a consent to electronic access in the delivery of interim and annual mutual fund reports. Investors could be provided advance notice that their proxy consents will be interpreted in this manner.

c. Postage-Paid Envelopes

The proposed rules, additionally, would require that a brokerage firm make available a toll-free number and postage-paid envelope for requesting that paper copies be mailed. Under the current rules governing "notice and access" for proxy materials, investors are generally provided with several alternatives to request paper copies including toll- free numbers, online through websites, and email addresses. We believe that few investors would make use of postage-paid envelopes, and we recommend that the postage-paid obligation be eliminated from the final rules, or at least only be required in the first year.

d. Multiple URLs



The proposed rules appear to require that a notice card include multiple URLs or website addresses, one for each current and historical report that must be made available to download. This approach would be confusing to investors, who would have to retype each URL into his or her own browser, given that the information is conveyed on paper, and the need for numerous URLs means that they will become lengthy. If an investor wished to see an older report, would he or she have to hunt around for the specific URL? The requirement to use multiple URLs would also be costly to administer, as older reports are dropped, and newer reports are added. Investors are used to using a single webpage to locate documents, where documents are listed in an orderly manner.

Along the same lines, while the role of brokers in the process remains unclear, the participation of brokers, mutual funds, and other parties in the process could become confusing if investors are required to access multiple web pages when they access information required by the rules. We believe that investors are used to a single landing page, which contains all of the information that they may need or wish to access.

### 3. The Proposed Rules Should Include A Transition Period

We recommend that the Commission modify the proposed rules to provide a transition period so that brokers have sufficient time to invest in new infrastructure, and get ready to commence operations. We recommend an effective date that is 6 months from the date that the final rules are published in the federal register, followed by a period of at least 24 months after the effective date during which larger brokerage firms can implement new processes in stages. Under the new rules as proposed, the use of the new processes and its timing appears to be in the hands of mutual funds, leaving brokers and their intermediaries with an obligation to be ready operationally but potentially without sufficient lead time to do so. Accordingly, adequate transition periods should be built into the new framework.

### 4. As Simplified, The Proposed Rules Could Foster Significant Cost Savings

If the proposed rule is simplified in a manner consistent with our recommendations, and those of others who have provided comments, we believe that the cost savings could be significant. For example, even assuming that the final rules require the sending of a paper notice card, the printing and mailing costs of a paper notice card are significantly lower than printing and mailing a full set of materials. We agree with other commenters that broker EBIP platforms offer an even less expensive approach, but in our view the proper focus is on existing paper deliveries, and the proper question is how to save money on those deliveries by leveraging the growing acceptance (and indeed preference) among investors for electronic rather than paper transmission. We believe that the proposed rules will accelerate growth in electronic delivery in tandem with the growth of EBIP platforms.





As noted above, we expect that the proposed rules, if streamlined, will be well received among investors. More and more investors prefer to engage through digital means and this trend we expect will continue and accelerate as younger generations (a.k.a., “millennials”) become active investors.

5. The Proposals Should Not Be Adopted Prior to Adoption of a Reimbursement Mechanism

The proposals are silent on how brokers will be reimbursed for the initial investment and ongoing costs of implementing the proposals. Even if some of the proposals’ costly features are simplified as recommended above, brokers will incur significant costs in creating and operating a new system contemplated by the proposed rules. The proposed rules would impose significant upfront and ongoing costs, including related to the initial mailing of a notice card in advance of the anticipated availability of an interim or annual mutual fund report, collection of the responses, storage and updating of investor preferences and consents, and continued processing.

The costs that brokers would incur in implementing the proposed rules are solidly within a category that has historically been subject to reimbursement. In fact, Rule 451 does already provide for reimbursement for the delivery of interim reports. However, just as had been the case when the Commission adopted notice and access for proxy delivery, Rule 451 does not yet address reimbursement rates for an online notice and access feature, including the collection of preferences and consents and the storage and delivery of paper materials when requested.

We do not recommend an approach whereby the reimbursement rates are left unregulated. We believe that the Commission’s recent experience with “notice and access” for proxy – where rates were initially left unregulated -- suggests that the rates are better set by regulation. Following the adoption of notice and access for proxy delivery, the Commission first determined not to regulate reimbursement rates that brokerage firms and their agents would charge issuers, but subsequently approved rule amendments to NYSE Rules 451 and 465 to provide for the reimbursement of costs associated with the use of the notice and access option by issuers, including mutual funds.<sup>3</sup> The setting of rates under proposed Rule 30e-3 should be subject to a process that is public and transparent and where all interested parties have an opportunity to comment.

We believe that the rates that should apply to distribution under proposed Rule 30e-3 should be substantially similar to those set for proxy “notice and access.” INVeSHARE would be happy to participate in an effort to recommend applicable rates, which presumably would be led by the New York Stock Exchange.

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<sup>3</sup> See Order Granting Approval to Proposed Rule Change Amending NYSE Rules 451 and 465, and the Related Provisions of Section 402.10 of the NYSE Listed Company Manual, Exchange Act Release No. 70720 (Oct. 18, 2013).



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We appreciate the opportunity to comment on the proposal. If you have any questions concerning these comments or would like to discuss these comments further, please feel free to contact me at [REDACTED].

Respectfully submitted,

Leonard E. Belvedere  
Chief Compliance Officer and Sr. VP Industry Relationships

cc: The Honorable Mary Jo White, Chair  
The Honorable Kara M. Stein, Commissioner  
The Honorable Michael S. Piwowar, Commissioner  
David Grim, Director, Division of Investment Management