

February 27, 2014

Mr. Norm Champ
Director
Division of Investment Management
Securities and Exchange Commission
100 F Street, NE
Washington, D.C., 20549

Dear Mr. ~~Champ~~, Norm

Chair White recently requested the staff of the Division of Investment Management to develop for the Commission's consideration a request for comment on a standardized risk-based glide path illustration for target date funds.^{*} As you know, Institute staff has met with Division staff on multiple occasions to express concern that if the Commission were to mandate a risk measure and specify how to calculate this measure, it would unduly elevate its importance. Moreover, such a requirement would be akin to requiring bonds to have credit ratings and the Commission specifying the metrics for these ratings. It also would be a sharp departure for the Commission, which in the past has provided investors with quantifiable information but has not told investors how to interpret the information and has never suggested that the information provided be predictive. We believe that the current requirement that funds include in prospectuses and summary prospectuses a bar chart of year-by-year total returns over a ten year period and narrative about risks of the portfolio as a whole provides the right balance of mandatory information.

Given the complexity associated with this topic, we believe that the Commission's request for comment should incorporate a comprehensive discussion of all facets of this issue. We recommend that, among other matters, the Commission seek public comment on the following:

1. Should a target date fund be required to identify the risk profile of the fund using a standardized risk metric and be managed in an effort to adjust the fund's portfolio to comport with that risk metric?
2. What are the limitations and vulnerabilities associated with managing a fund portfolio to a standardized risk metric?

^{*} See Letter from Mary Jo White, Chair, Securities and Exchange Commission, to Joseph Dear, Chairman, Investor Advisory Committee, dated November 20, 2013, which is available at <http://www.sec.gov/spotlight/investor-advisory-committee-2012/chair-white-letter-target-date-funds.pdf>. The letter responded to a request from the Investor Advisory Committee that the Commission consider requiring a risk-based glide path in marketing materials.

3. If you believe that a target date fund should be managed to a standardized risk metric, should—
 - a. Such a requirement should be reflected in the fund's investment objectives?
 - b. If so, would it first have to be approved by a shareholder vote?
 - c. It be identified through a risk-based glide path?
4. Given that target date funds are essentially marketing the expertise of their managers in designing appropriate allocations over the long term, would it be appropriate for target date funds to modify their glide paths to match targeted risk levels (which could mean significant and frequent modifications to asset allocations over the life of the fund)?
5. If so, where should the risk-based glide path be required to appear (*e.g.*, marketing materials, prospectus, educational materials, materials provided to plan sponsors)?
6. How effective are annual, essentially after-the-fact, adjustments to the glide path to limiting investment risk?
7. Should the Commission's goal be to prescribe a single metric that can be used by investors to compare target date funds and select among them? If so, how should the Commission ascribe risk criteria to the underlying assets of a fund in a manner that would allow "apples to apples" comparisons?
8. Should the risk metric be backward-looking (like the European risk model) or forward looking (like the Australian risk model)?
9. To the extent it is forward-looking, what liability issues would be raised and what relief would be necessary to allow funds to make such predictive disclosures?
10. To what extent might a risk-based glide path cause investors to prioritize volatility risk over longevity risk, inflation risk, or other risks?
11. What are the potential consequences for investors if they were to place too much emphasis on volatility risk without giving appropriate consideration to longevity, inflation, or other risks?
12. In this respect, if the Commission's focus is on volatility risk only, how should it identify such risk in a way that does not lead to investor confusion? For example, would labeling a particular fund "aggressive" appropriately inform an investor? On the other hand, would using the terms "risk" or "greater risk" without clarification suggest to the investor that all "risks" (including inflation risk and longevity risk) are meant to be captured by the label?
13. As an alternative, should funds be permitted, but not required, to provide a risk-based glide path?
14. As another alternative, should only target date funds that choose to manage the fund to meet a particular risk metric be required to include a risk-based glide path? As a corollary, should target date funds that choose to manage the fund consistent with an asset allocation glide path be required to include an asset allocation glide path instead of a risk-based glide path?
15. Can an asset allocation glide path as proposed by the Commission in 2010 adequately depict investment risk?

Mr. Norm Champ

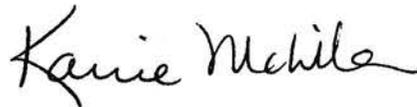
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16. Will investors be able to adequately comprehend an asset allocation glide path that includes sub-asset classes (*e.g.*, small cap stocks, emerging market stocks, high yield bonds)?
17. Can investors be adequately informed of the different approaches to target date fund management through narrative disclosure (*i.e.*, target date funds that follow asset allocation glide path without adjustment, those that make periodic adjustments, and those that make annual adjustments to match risk levels)?

We appreciate your consideration of our views. If you have questions or need additional information, please contact Dorothy Donohue at (202) 218-3563 or David Abbey at (202) 326-5920.

Sincerely,



Karrie McMillan
General Counsel

cc: Chair Mary Jo White
Commissioner Luis A. Aguilar
Commissioner Daniel M. Gallagher
Commissioner Kara M. Stein
Commissioner Michael S. Piwowar
Jennifer McHugh, Senior Advisor to the Chair

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