



MUTUAL FUND DIRECTORS FORUM

The FORUM for FUND INDEPENDENT DIRECTORS

October 31, 2018

Mr. Brent J. Fields
Secretary
United States Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Re: Fund Investor Retail Experience and Disclosure (File No. S7-12-18)

Dear Mr. Fields:

The Mutual Fund Directors Forum (“the Forum”)¹ welcomes the opportunity to respond to the Commission’s request for comment on Fund Retail Investor Experience and Disclosure.²

The Forum is an independent, non-profit organization for investment company independent directors and is dedicated to improving mutual fund governance by promoting the development of concerned and well-informed independent directors. Through education and other services, the Forum provides its members with opportunities to share ideas, experiences and information concerning critical issues facing investment company independent directors and also serves as an independent vehicle through which Forum members can express their views on matters of concern.

We are very encouraged by the Commission’s program of reaching out to mutual fund investors to ask them directly how they decide to make an investment in a mutual fund and what information is helpful to them as part of their decision-making process. Millions of Americans rely on mutual funds (including traditional open-end funds, ETFs and other products regulated under the Investment Company Act) to save for their retirements, for their children’s educations, for the purchase of a house or for other long-term goals. Hence, deciding in which funds to invest is one of the most important and fundamental decisions that the typical American makes. Whether the investor makes the decision on her own or with the help of a financial adviser, information

¹ The Forum’s current membership includes over 887 independent directors, representing 122 mutual fund groups. Each member group selects a representative to serve on the Forum’s Steering Committee. This comment letter has been reviewed by the Steering Committee and approved by the Forum’s Board of Directors, although it does not necessarily represent the views of all members in every respect.

² Request for Comment on Fund Retail Investor Experience and Disclosure, Release No. 33-10503; 34-83376; IC-33113 (June 5, 2018) (“Request for Comment”).

about funds that is clear, transparent and qualitatively strong is critically important to that investor's ultimate success.

The independent trustees of mutual funds, who represent the shareholders of the funds they oversee, thus also have a strong interest in providing accurate, complete and understandable disclosure to investors and potential investors. While we agree that the current system is generally well-designed and successfully provides necessary information to fund investors, many developments warrant reexamining the current approach to disclosure from the top down in order to develop an approach that is more flexible and more responsive to the needs of investors.

By seeking broad-based comments from the millions of investors, we believe that the Commission is taking an important step toward achieving this goal and ultimately improving the quality of disclosure. But as the Commission goes through this process, we strongly believe that it should not focus solely on what information should (or must) be included in mandated disclosure. We are therefore pleased that the Commission's release focuses on the "delivery, design and content" of fund disclosures rather than solely on its content. From our perspective, characterizing the issue in this way shifts the focus of debate away from a checklist of mandated information toward a discussion of how disclosure can be made accessible, comprehensible and usable for fund investors. Recognizing the importance of this goal thus opens the door for important discussions of how, for example, technology, the Internet and other electronic forms of communication can be used effectively to improve the experience of individual investors who need information about funds.

Hence, we believe that the questions that the Commission poses in this release should lead it to consider whether there is a correct "form" or "type" of disclosure. While we certainly agree that there are certain types of information that must be conveyed to investors, we believe that the disclosure system should more robustly recognize that different investors seek different types of information as part of their individual investment decision-making process; investors have individual preferences about how that information is presented and individual investors process the information they do obtain differently.

We encourage the Commission to explore the different preferences and different needs regarding disclosure, and thereby avoid assuming that the form of disclosure must always be prescribed by regulation. Indeed, a number of the questions the Commission proposes in its request for comment suggest this possibility. For example:

- The Commission asks whether it should consider committees or roundtables to engage investors and other market participants on disclosure. We agree that this is a crucial first step to better understanding how investors use disclosure and what types of information is most valuable to them. In this process, the Commission also should engage representatives from the asset management industry, including fund independent directors, when determining whether and how to change the current disclosure regime. The input of asset managers is crucial in balancing the desires of fund shareholders for information about their funds with the limitations of what is reasonable to ask fund companies to provide.

- The Commission seeks comment on “how to rationalize and improve the requirements associated with the location and order of fund information” – in part to make it easier for investors to “compare multiple funds.”³ As part of this request, the Commission also asks whether there are separate regulatory documents that should be provided as part of a “single, unified document.” While there are certainly historical reasons for placing mandated disclosures in specific documents and then requiring that that information be presented in set order, we question whether these concepts make sense given the evolution of electronic and Internet-based disclosure, which permit investors to obtain that information they want from a common source. Investors could then use the information for whatever purpose they see fit, including comparing different funds that they are considering. We thus urge the Commission to consider whether it should do more to enable investors to access information in this manner in addition to (or instead of) focusing on the content of distinct disclosure documents. Indeed, the Commission recognized that tools such as FINRA’s Fund Analyzer provide a means for investors to review and compare funds. The Commission could improve access to and sharpen the technological capabilities and manipulability of the vast repository of fund data in EDGAR to allow investors to search for and compare funds in a similar manner.
- The Commission also seeks comment on whether there are ways to improve the quality of disclosure about such fundamental issues as strategies, risks, fund performance and fund fees and expenses while still maintaining the ability of investors meaningfully to compare different funds across these factors. We agree that the Commission should question whether current disclosure around these issues is unnecessarily lengthy, technical or insufficiently related to the actual strategies employed by and risks posed by the actual investment strategy employed by a fund. We are encouraged by the Commission’s desire to explore whether, for example, “visual presentations” of strategies would be useful for investors. Again, beyond the question of what information disclosure should contain, this is an area in which the growth of electronic methods of communication provide numerous possibilities for designing and presenting information in a manner that improves the overall quality of the disclosure. While disclosure of this type is not easy either to regulate or design, we again encourage the Commission to remain open to allowing funds to present relevant information in different ways (textually, visually or even interactively) as a way of giving individual investors access to the information in the manner that each investor can best understand and use.⁴

³ Request for Comment at 31-32.

⁴ While we believe that flexibility in design and presentation should be the cornerstone of any new disclosure regime, we encourage the Commission to establish principles to guide fund sponsors. Such a principles-based approach could help avoid unnecessary costs and confusion for the industry and fund investors that may otherwise be created by unfettered flexibility in this area.

- The Commission further seeks comment on the “timing” and “method” of delivery. As the Commission continues to work with investors to better understand their preferences around disclosure, we encourage the Commission to grant funds greater flexibility and consider permitting them to employ multiple approaches to actually providing disclosure to investors. Put simply, while there are undoubtedly some investors who will wish to continue to receive paper-based periodic disclosure, other investors may well wish to access and collate information now contained in different regulatory documents and updated at different times from a common source. Additionally, in considering how to provide up-to-date information to fund investors, we ask that the Commission recognize the challenges of providing timely fund-specific disclosure to fund shareholders who hold their shares in omnibus accounts. In engaging with investors, we believe that the Commission should seek to understand how different investors’ approaches to obtaining fund information should be reflected in an updated regulatory structure.

We could cite other questions posed in the Commission’s release that raise similar issues. But most importantly, we believe that this is the appropriate moment for the Commission to take steps to give funds the flexibility to use modern approaches to disclosure to improve the ability of investors to obtain and make use of the information that they find most important in their decision-making process. While funds likely will continue to need to provide a suite of basic disclosure materials to their investors in paper form at set intervals, opening up the discussion around disclosure permits the Commission to identify ways of breaking down implicit barriers to effective communication with investors. We hope this process leads to a system that gives funds the flexibility to provide necessary information to their investors in multiple formats and in a much more holistic manner. The Internet, other forms of technology, and the increased usage and sophistication of mobile devices require us all to better understand that investors have different preferences for the type and presentation of information that may factor in to an investment decision.

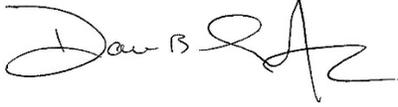
We are not proposing answers to the many important questions posed by the Commission. We also recognize that many of the questions posed by the Commission ask necessary questions about how to improve, at a more granular level, how specific types of information are described and disclosed to investors. Trustees are as interested as the Commission in gaining a better understanding of how investors “currently seek, receive, view, and digest information.”⁵ But most broadly, we are greatly encouraged by the Commission’s apparent willingness to seriously explore a broad-based updating of the system of disclosure.

Independent fund trustees have an important role to play in shaping how disclosure is provided to fund investors. We therefore look forward to continuing to participate in this process and to having an opportunity to respond as the Commission develops more specific proposals. We would welcome the opportunity to further discuss our views with you. Please feel free to contact

⁵ Request for Comment at 6.

Susan Wyderko, the Forum's President, at [REDACTED] or David Smith, the Forum's General Counsel, at [REDACTED] to continue this important discussion.

Sincerely,

A handwritten signature in black ink, appearing to read "David B. Smith, Jr." with a stylized flourish at the end.

David B. Smith, Jr.
Executive Vice President and General Counsel