

**RESULTS OF FOCUS GROUPS  
WITH INDIVIDUAL INVESTORS  
TO TEST PROPOSED RULES  
15c2-2 AND 15c2-3**

**Reported to the Securities and Exchange Commission**

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# RESULTS OF FOCUS GROUPS WITH INDIVIDUAL INVESTORS TO TEST PROPOSED RULES 15c2-2 AND 15c2-3

## Executive Summary

### Overview

This report describes the results of four focus groups conducted with investors – two each in Baltimore and Denver. The purpose of these groups was to get a sense of how comfortable investors are with the cost information currently available to them, and to get reactions to the new disclosure attachments that the SEC is evaluating with proposed Rules 15c2-2 and 15c2-3\*. These attachments describe information that investors who purchase A-Class and B-Class funds would receive from their broker at point of sale and confirmation.

### Methodology

In each city, we conducted one focus group with investors who purchased mutual funds only and a second with those who had variable annuities, variable life insurance or a 529 plan. The latter group could have mutual funds as well. To qualify for the study investors needed to:

- be the primary decision maker in the household when it comes to investments,
- have at least a high school education,
- have purchased a mutual fund product in the past five years, including variable products and 529s,
- have at least a recognition of the concept of A and B shares,
- pass an articulation test.

Investors were asked to describe the extent to which they understood the fees they pay for mutual funds and how the fees compare to those charged by comparable funds. They were also asked their comfort level in the quality of recommendations they get from their brokers and the extent to which they believe that their brokers are looking out for the client's best interest.

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\*"Confirmation Requirements and Point of Sale Disclosure Requirements for Transactions in Certain Mutual Funds and Other Securities, and Other Confirmation Requirement Amendments, and Amendments to the Registration Form for Mutual Funds."

Following this general discussion, participants were told about what the SEC is trying to accomplish with the new disclosure regulations. They were then shown the attachments. Two groups saw Attachments 1 and 2 first, while two saw Attachments 4 and 5 first. Participants were asked to mark up the attachments and rate them on a series of scales. They then discussed each of the attachments, describing general reactions and specific comments. Finally, participants were asked for overall comments on the attachments and on the SEC's efforts in general.

## **Key Observations and Insights**

### General Views toward Fees and the Proposed SEC Effort

1. Investors report varied levels of knowledge regarding the fees they pay for fund products, but almost all have at least some degree of uncertainty regarding their understanding of these fees. They are even less apt to know how the fees they pay for fund purchases compare to those charged for rival products.
2. Investors are mostly unaware of the incentives that brokers may receive for recommending one fund over another. When this issue is raised, many realize it is something that they need to know a lot more about, and perhaps an issue they should have raised with their broker.
3. Investors are split about the level of trust that they have in brokers when it comes to hidden fees. Some are bothered by a nagging feeling that they are being taken advantage of, while others feel that as long as they achieve a competitive net return, they don't care what percentage the broker takes.
4. There is clear investor support for the SEC's efforts to require fee and incentive disclosure for mutual fund, 529, and variable product purchases for several reasons:
  - Most feel that education is an important goal for the SEC to pursue.
  - Some acknowledge that the existence of disclosure documents would exert pressure "to keep their broker honest".
  - There is a sense of appropriateness – if HUD truth in lending statements exist, then so should "truth in investing" statements.
5. After reading the various attachments, participants have a strong consensus that the SEC is on the right track and should continue with this effort. However, most also believe that the attachments in their current form need quite a bit of modification.

6. A number of participants would have liked to see some type of supporting materials for the forms. These include brochures that explain basic concepts, a frequently asked questions (FAQ) handout, 800 numbers, and instructions on how to access the SEC web site to get the information needed to support the attachments and collateral material.
7. Investors want the information to be offered at the point of sale so that they can use this information to make a decision. Most feel that the amount of information the proposed rule offers to provide at the point of sale is not adequate. They particularly want to know how the fees for the fund they are considering compare to those in the marketplace at point of sale.

### Key Suggestions for the Attachments

Participants offered suggestions for major changes to the attachments. A number of these suggestions made intuitive sense, and in many cases, were remarkably consistent across groups:

1. There is too much jargon, as well as a number of words or phrases for which the SEC cannot assume that the readers know the definition:
  - Investors would like simpler words used for front-end load, back end load, revenue sharing, and portfolio brokerage commissions.
  - They need definitions for A-Class, B-Class, asset-based sales charge, proprietary, affiliate, public offering price, conflicts of interest, broker-dealer, shares outstanding, public offering price.
2. The use of pronouns (e.g., “we”) creates confusion. While some of this confusion may have been caused by the lack of a real brokerage name on the test forms, the use of the brokerage and mutual fund company name in the text would likely make the attachments easier to follow.
3. There needs to be a much clearer delineation between what is a one-time only charge and what is a continuing charge. The attachments do not provide this distinction, and the participants were unable to figure it out.
4. On top of this delineation, the numbers for first year charges and continuing charges need to add to the total. For example, every piece of the front-end charge (\$321.18) should be accounted for. The continuing charges should add to a total percentage or estimated dollar figure expected each year given certain assumptions.
5. The lack of delineation between first year and continuing charges makes it impossible to assess the cost of an A-Class versus a B-Class fund. If both funds are available, investors want a year-by-year chart that allows them to

estimate what the total fees for the fund would be in any given year – perhaps with several scenarios of fund performance. The current system that shows up-front fees for A funds and first year exit fees for B funds does not provide for a fair comparison.

6. The SEC cannot take for granted that investors are getting a sense of the “conflict of interest” concept from this form. A significant number fail to understand that Section C is not about what they are paying out of pocket, but rather what the brokerage is receiving. This section has to be much more clearly defined. Also, some would like to see revenue sharing and portfolio brokerage commissions collapsed into one total figure.
7. There should be some type of instructions offered at the top of the attachments that explains what the attachments are about. One interesting suggestion was to pull the “Ask Before You Buy” paragraph to the top. This paragraph needs to define dealer incentives and explain that there will be separate sections that show cost and incentives.
8. Another suggestion was to change the tone of the attachments to be more two-sided – that the forms are not just there to show when a broker is “ripping someone off” but also to recognize brokers who seek good value for their clients. These comments applied to some of the “yes/no” boxes. For those who have relationships with brokers, they don’t want their brokers to view the attachments as purely negative.
9. Investors expressed an interest in seeing alternatives to text. Several wanted to see numbers presented in tables and graphs. Others wanted to see more “scenarios” of how fees change in different situations.
10. Investors found it hard to cross-reference the definitions on the second page to the text on the first page. There needs to be some way to more easily see which terms are defined where – perhaps bolding or italicizing words that are going to be defined.
11. Investors in general liked the idea of having comparison ranges so they could assess how fees and incentives of the fund they were considering compared to others in the marketplace. In one Baltimore group in particular, they felt that this would provide a great deal of meaning to the data. However, the ability of participants to respond to this aspect of the forms was hampered by (1) not having real numbers, and (2) needing a better grasp of what the fees and incentives meant (and how the numbers added up) before they could begin dealing with the ranges.

### Other Specific Suggestions

- Provide calculators on the SEC web site that allow investors to plug in and play with the numbers to better understand them
- Use “charge” or “fee” in place of “load”
- Add “one-time” in front of sales fee on the \$300 line
- Greatly simplify and perhaps bullet the “asset-based fees” definition
- Remove the second paragraph in Section D for Attachment 1 since it is not applicable to an A-Share
- Provide an example of what a breakpoint discount might be and how it would work for a family
- Customize the “Ask Before You Buy” paragraph to the specific product being bought and eliminate the other product names from the description
- Include “non-cash” comp (e.g., trips) in the special comp definition.

## **SUMMARIES OF INDIVIUDAL GROUPS**

The following pages provide individual summaries of each of the four groups for documentation purposes. Much of this information is similar across the four groups, suggesting that there was a remarkable amount of consensus on a number of key issues.

### **Baltimore 6PM Group – Mutual Fund Investors**

#### General Reactions to Mutual Fund Fees

When asked what issues were most important to them when it came to mutual funds, fees were among the first issues that came up. Most participants felt that they really didn't know what fees their mutual fund company charged and were concerned about what these fees might be. They reported being even less certain about how the fees they paid for their funds compared to other similar funds available in the marketplace.

Most had a vague idea of how fees applied to mutual funds and realized that some funds charge up front fees while other funds charge an ongoing fee and an exit fee. A few were aware of the concept of A-shares and B-shares, with one reporting that he had felt stuck in a B-share fund he had purchased.

When probed further, no participant had a solid grasp of what incentives their broker might have been offered to sell them the mutual funds they purchased. Some were aware that this behavior probably happened, while others had previously given it little thought.

A few participants felt that they trusted their brokers and thought that the broker would work in their best interest. But even these participants were concerned about their vulnerability and felt that it was still important for them to understand why the broker sold them particular products.

#### Reaction to the Proposed Rule

Participants were very positive about the idea of the SEC providing disclosure regarding the fees that brokers charged for mutual funds and the incentives they received for selling one fund over another. They felt that this information would be useful for the consumer to have and that any effort to educate the public is a good idea.

## General Suggestions to Improve the Forms

Given a general belief in the importance of educating investors, participants felt that it was important for the forms to be self-sufficient so that the investor did not have to rely on the broker to walk them through the forms and bias their interpretation. For the forms to accomplish this objective, participants had several general suggestions:

- Offer some type of primer or instruction manual prior to the sale that the consumer could read to better understand the attachment
- Provide a web site that they could go to ahead of time to get instructional information
- Provide a template on the web site where investors could plug in numbers and get more extensive calculations
- Use graphs to illustrate some of the numbers
- Provide an 800 number to discuss the attachments with someone
- Provide more definitions of various terms
- Make some of the jargon more consumer friendly
- Make it clear which charges were one-time and which were ongoing
- Use percentages in lieu of calling the dollar amounts based on NAV “estimates”
- Collapse the conflicts of interest and special comp rows into one figure
- Provide scenarios and examples.

## Reaction to Attachments 4 and 5

While respondents liked the general idea of the Point of Sale attachment, they had two major concerns regarding the document:

- They felt that the document was too complex and had too much financial jargon associated with it. As one participant put it, “this needs to be written at a 5<sup>th</sup> grade level.”
- At the same time, they felt that there was not enough specific information in the document for them to have what they needed to know to make a buying choice. They felt that the more extensive information given at confirmation should be provided at the point of sale when consumers could still make a decision.

Participants had a number of specific comments on ways to improve the document. Starting from top to bottom on Attachment 4, these included:

- Change the word “load” to something else such as charge or fee
- Add “one-time” in front of “sales fee” on the \$300 line.
- Explain what “estimated” first year means or again use percentages

- Explain who “we” means by inserting brokerage name on the \$19.20 line
- Under “Conflicts of Interest,” explain who “fund’s affiliate” and “us” are in clearer terms such as “mutual fund company” and “brokerage firm” or “agency”
- Provide dollar amounts or percentage to quantify payments to the brokerage
- Explain what “proprietary” security means
- Define broker-dealer
- In last paragraph change “investors” to “investments”
- More specifically explain what “sales load discounts” are and when they kick in – including at what dollar amounts
- More specifically explain how family holdings work and what funds can be combined to meet discounts
- Bullet the asset-based fee section.

### Reactions to Attachments 1 and 2 Received at Confirmation

Participants felt that they would like to receive Attachment 1 or 2 at the point of sale rather than at confirmation. They found this document to be much more thorough and explanatory. Participants particularly liked the idea of having ranges to compare how the various fees compared to what was in the marketplace.

One suggestion was for the broker to have formulas loaded on a laptop that could process fund information and print out a form with the illustrations available. As one participant put it, the document would be like a “settlement sheet” that the consumer received at closing.

Most of the specific suggestions made on Attachments 4 and 5 apply to these attachments as well, and we did not test further on overlapping material. One concern expressed about Attachment 4 was that the B section number did not add up. Participants wanted to be shown where the missing \$1.98 went (\$321.18 - \$300 = \$21.18 versus the \$19.20 shown)

One caution here: these attachments were presented last in the groups after participants received an extensive education on Forms 4 and 5 and how they worked. This may have made them more receptive to these forms.

## **Baltimore 8PM Group – Variable Products, 529 and Mutual Fund Investors**

### General Reactions to Mutual Fund Fees

This group did not have as strong a consensus on concerns regarding mutual fund fees. Some felt that fees were an important factor to consider when purchasing any type of mutual fund product. Some were suspicious of brokers, particularly one who felt that his broker had encouraged him to buy a 529 plan from out of state.

However, others felt that they trusted their brokers and only looked at net return. If their broker could figure out a way to get them better returns than expected, then they really did not care how much of a cut the broker was taking. To some it was the quality of the investment that mattered the most. These participants admitted that they did not know that much about what the fees actually were.

### Reaction to the Proposed Rule

All of the participants liked the idea of what the SEC was doing – even those who were not that concerned with fees. They felt that educating the public was an important thing to accomplish. Several brought up Enron and Martha Stewart, feeling that there was a need for the SEC to undertake activities such as this one.

### Reactions to Attachments 1 and 2 Received at Confirmation

Participants had a positive reaction to Statements 1 and 2. They found them to be clear and understandable and felt the attachments did a good job of condensing the information nicely. They felt that it provided a good starting point from which to talk to their brokers.

However, with further questioning, it became apparent that their appreciation of the forms was based on an inaccurate understanding of what the numbers actually meant. The most egregious aspect of this was the confusion between the Section B and the Section C costs. Participants clearly misinterpreted that the Section C costs were not out of pocket costs but rather an indication of the commission incentives that the broker received for selling the funds. After this was pointed out to participants, they suddenly became far less comfortable with the clarity of the attachments.

Specific suggestions included:

- Show all of the components of the \$321.18 fee, including the small piece that goes to the mutual fund company
- Remove pronouns (“we”, “us”) and clearly use terms such as broker and mutual fund or investment company
- More clearly label that Section C is not out of pocket costs but rather dealer incentives
- Clearly delineate one-time costs from ongoing annual expenses
- To add some type of cross-referencing so that readers could more easily see which definitions applied to which section
- Show a schedule of fees and payments over time for both A and B shares
- Provide a clearer definition of NAV and how fees are calculated from it
- Remove the second paragraph of Section D for Class A share (Attachment 1) – it is superfluous and confusing.
- Make the definitions more succinct
- More clearly explain breakpoint discounts and what they mean, including what it means to combine family assets to qualify.

#### Reactions to Attachments 4 and 5 Received at Point of Sale

After seeing Attachments 1 and 2 first and getting comfortable with them, participants found Attachments 4 and 5 easier to understand because of the sheer reduction in information. At the same time, they found these forms to be somewhat less informative. They felt that the form provided enough information to ask their broker additional questions, but several wanted to get a better sense of what questions to ask.

Specific comments included:

- Like the sense that the purchaser had “rights”
- That “potential conflicts of interest” did not need to be broken out between commission and revenue sharing rows
- Use the word “fees” rather than loads
- Use specific information on the conflict of interest fees
- Want a little more of the information from Attachments 1 and 2 included here

## **Denver 6PM Group – Mutual Fund Investors**

### General Reactions to Mutual Fund Fees

Participants, for the most part, felt that they did not have a clear understanding of mutual fund fees or how the fees for the funds they purchased compared to those available elsewhere. Several expressed the view that they would be able to absorb this information, but they don't have the time and inclination to search for it. The exception to these viewpoints came from two participants who used Schwab. These participants felt that Schwab was quite good at showing what all the fees would be.

Most of the participants in the room expressed a moderate level of trust for their financial advisor. Most felt that their advisors look out for their interest to a moderate to large extent. However, most also had some nagging uncertainty about whether this commitment was 100% -- whether the advisor might make some decisions to enhance commission at their expense. They felt that the availability of disclosure information might make this person less apt to do this.

### Reaction to the Proposed Rule

Participants felt that it was important for the SEC to provide disclosure statements on investment costs. As a couple of participants noted, these types of disclosures are as important here as HUD truth-in-lending statements are for mortgagees. They liked the idea that all of the information was on one page and felt that the information provided would be useful. While some felt that they would use the information to evaluate their advisors' recommendations, others were more inclined to use it as a starting point to ask questions of their advisor. Several also realized that they had never thought of asking the broker about incentives, but that it made sense to do so. As one put it, "I never thought about asking my broker what's in it for him."

### Reactions to Attachments 4 and 5 Received at Point of Sale

Participants generally liked attachments 4 and 5, feeling that these attachments serve to level the playing field with the broker. They found the attachments to be simple to follow, although several expressed an interest in getting some sort of auxiliary information such as a definition of some of the basic concepts or some type of document that offered frequently-asked questions. One suggested that the attachment should pose the FAQs on the second page, putting more of the definitions in the form of questions.

The biggest complaint about Attachments 4 and 5 was the inability to compare costs for A versus B shares. Some complained that it was like comparing

“apples and oranges” to compare a front-end load to a first year charge for selling the fund. Also, participants wanted to know if A&B shares were available for a particular fund – otherwise, what was the point of setting up a comparison. Some also felt that they might be skeptical when this form came from their broker.

There were some concerns about the “Ask Before You Buy” paragraph, with some wanting to know more about exactly what they should be asking. One also raised the point that providing this question might protect the broker from liability, since he or she could always say that the consumer was warned to ask.

Specific comments included:

- The need for an up-front definition of Class A and B shares, which falls under “timing of sales load” but is not tied to the A and the B appearing on the front page of the document
- Removing the “back-end load – NA” row from the sales load description on Attachment 4 – some felt that this only led to confusion.
- More clearly delineating who was getting the fee – the broker or the mutual fund company rather than using such pronouns as “we”
- Make the numbers add up to \$321.18, showing all of the components
- Itemize the A and B fees on an annual basis so that the investor can compare them each year.
- Under *Special Comp*, define the words “proprietary” and “affiliate”
- Under the “Ask Before You Buy” paragraph to customize the form for the product being sold (e.g., mutual fund, 529, annuity)
- When describing things to know about loads, to more specifically differentiate between A and B shares
- The need to know what “shares outstanding” and “public offering price” means under the NAV definition
- More definition of exactly what “special comp” means, including non-cash incentives the broker might receive

## Reactions to Attachments 1 and 2 Received at Confirmation

As in previous groups, participants found these attachments to be much more informative, but some found there to be too much information in them.

As in previous groups, one of the major suggestions for these attachments was to show percentage rather than showing the dollar figures with a disclaimer that they might change as NAV changes.

One major suggestion that one participant had was to show Attachments 1 & 2 in the form of graphs or tables that showed how fees changed every year. In particular, Attachment 2 would show not only how the exit fee shrinks, but also the annual fees paid each year. They wanted to see an annual payment schedule “like you might see for a Honda.” The table would show total cost for the year (the \$60 and the \$20) and how the costs accumulated each year.

Another concern expressed by participants was that these forms gave a number of good warnings, but these warnings came too late – after the fund was already purchased. Participants agreed that these warnings were useless unless done at time of sale, and that they actually served to create doubt about a product already purchased.

Other specific comments included:

- Showing the \$321.18 on top up front for Attachment A so that the investor can see how the \$7,678.82 figure is derived.
- Do a better job of explaining that the NAV changes
- More clearly explain what are service fees and what are sales fees

## **Denver 8PM Group – Variable Products, 529s and Mutual Fund Investors**

### General Reactions to Mutual Fund Fees

Initially, participants felt that the information necessary to understand fees was available but too hard to find and review. Some felt that the information was too technical and that it was particularly hard to compare one fund to another without a great deal of research.

As in earlier groups, about half of the participants felt that as long as their broker is helping them to make money, they do not care that much about what fees the broker might be taking. Their focus is on the net return. However, others felt that there was a “climate of cynicism” out there, and that it was hard to know the extent to which they could do better if, in fact, their broker was looking out for their best interest.

### Reaction to the Proposed Rule

Participants were very positive on the whole concept of the proposed rule. They felt that this was good information for the investor to know. They were particularly interested in information that focused on the conflict of interest the broker had in offering one fund over another. For most, this was simply something that they had not thought of before. They felt that the publication of this information would make the broker think twice before choosing an option that was not in the best interest of the investor.

### Reactions to Attachments 1 and 2 Received at Confirmation

Participants were mixed on how easy they felt the forms were to read. Some found it tedious while others found the forms easy to understand and useful. One participant strongly felt that there should be a distinction between sales fees and management fees and that both need to be shown.

As with other groups, several participants suggested that there should be some type of graph that shows the comparison between the A and B share costs on an annual basis. One person suggested that this graph might actually show the impact of these fees on an annual rate of return over time. Most felt that in its present form, it was very hard to compare the cost of A versus B shares and that it was hard to identify which costs were one-time only and which were ongoing.

Also, as with previous groups, participants were not able to easily discern that Section B implied out of pocket costs and that Section C referred to broker

incentives. Participants also wanted to know ahead of time whether both A and B shares were available.

Another central comment was that the Attachments were too negative and worked on the assumption that the broker would not look out for their client's best interest. One suggestion was that the Attachments should also point out instances where the broker was selling funds for less than might typically go for in the marketplace as a way of pointing out positive broker behavior.

Specific suggestions included:

- Better defining what “front-end sales load” means or using other terminology
- Identifying whether the \$19.20 on Attachment 1 is one-time or ongoing
- Distinguishing between sales fees and service fees on Section B
- Identifying the bottom items on section C in both forms as ongoing
- Clearly label that Section C are broker incentives that do not come directly out of the investor's pocket
- In Section D, also specifying if the broker gets **less** for selling a specific fund
- Taking out the second paragraph in Section D if for Attachment 1 when there is no back end load
- As with previous groups, participants wanted a better roadmap as to how the definitions on page two corresponded to page one
- Specify that asset based charges may change as the NAV changes
- The NA appearing in section D needs to be explained

#### Reactions to Attachments 4 and 5 Received at Point of Sale

As with previous groups, this group found Attachments 4 and 5 easier to follow, but also felt that it did not provide enough information. While understanding that the broker may not be able to provide more at this time, participant's wanted to see other information to supplement what was provided – for example a brochure or a reference to the SEC web site. They also wanted to know ahead of time if both A and B shares were available and more explicit information on how the costs of the two differed.

Perhaps the biggest new idea to come from this group was the suggestion that the “Ask Before You Buy” paragraph be put up front or on a separate form, with that paragraph used to explain the cost and conflict of interest issues. Participants also wanted to be told what questions they should ask in this up front piece to be sure that they got the answers they needed.

Other specific suggestion included:

- Some wanted to see percentages as well as numbers
- Participants were not clear what the term “estimated” meant and suggested that if percentages were shown, it wouldn’t be an estimate
- Several agreed that it was misleading and myopic just to show the charge incurred in a B-Share if it was sold the first year
- Once again participants wanted first year and annual charges delineated and for all of the components of the \$321.18 to be shown
- Several wanted to know exactly what the broker conflicts of interest and incentives were on an annual basis
- Participants were confused about the family discount and wanted to know more about what this discount was, and how household holdings led to a discount
- One participant suggested that there be a line for the investor to sign that they read the information

## APPENDIX A

### DISCUSSION GUIDE

#### Focus Groups on SEC Investor Education

##### I. Introduction/Warm-up (10 Minutes)

A. Introduction of moderator – independent research company from Washington, D.C. Research and financial planning background.

B. Purpose of the group: To learn about reactions to proposed information to be given to investors. No one will sell anything.

C. Procedures / "RULES"

1. Group discussion; be candid; no right or wrong answers
2. Audiotaping and videotaping
3. Everyone talks, but one at a time
4. Role of the moderator
5. Backroom: Observers and videotaping
6. Anonymity protected

D. Introduction of Participants

1. First Name
2. Family situation
3. Experience with and interest in investing

##### II. General discussion on investments/mutual funds (15 Minutes)

**PRODUCT INTRO:** In our discussion tonight, we'll be mentioning different kinds of investments. How many of you are at least a little familiar with mutual funds?

**[FOR VARIABLE/529 GROUPS ONLY]** Our discussion may also touch on variable annuities or variable life insurance. The term "variable" means that the annuity or life policy is placed in an investment that can go up in value or down in value, like mutual funds can. How many of you have some familiarity with variable annuities?

Our discussion will also touch on 529 plans. These are special plans for college savings. They are tax-advantaged plans that are offered by each state. We don't need to know much of the detail for our discussion tonight. How many of you are familiar with 529 plans?

Our discussion tonight applies to mutual funds and these other products.

- A. When you purchase products such as mutual funds (variable annuities or life insurance/529) from a broker or agent, how aware do you feel you are about the fees and commissions associated with your purchase? For purposes of this discussion, I am not referring to no-load products here. **(Probe:** How aware are people in general?)
- B. How comfortable are you that you have a good understanding of how the fees you paid for what you purchased from a broker or agent compare with fees for other similar investments? **(Probe:** How do you know if the fees you are paying are greater or less than those paid by others for similar investments?) How effective are people in general in knowing this?
- C. How comfortable are you that the broker or agent recommended the best product for your needs **(Probe:** How do you know if you are paying reasonable fees? Do people in general tend to get good recommendations?)

### **III. Discussion of Reasons for Rules 15c2-2 and 15c2-3 (5-10 Minutes)**

- A. One issue that the Securities and Exchange Commission has thought about is whether investors fully understand the various costs they incur when they purchase mutual funds, variable annuities, variable life insurance, or 529 plans. Do you think that investors need to know more about these charges?
- B. A related issue is how fees and commissions can bias what investments brokers or agents recommend – and if consumers really understand that there is the potential for brokers to be motivated to recommend an investment that may not be in the investors' best interest. The SEC wants to address this issue as well. Do you think that investors need to know more about that?

#### **IV. Review of Attachments 4 and 5 – A and B-Share Point of Sale (30 minutes)**

As a result of these concerns, the SEC is proposing new rules that would require more disclosure of the fees and charges involved with these products. Investors would be informed about both front end and deferred sales charges, which investors must pay directly. Their brokers also would inform them about the ongoing annual expenses that are paid out of the fund's assets. This information would be provided both at the time of sale (so that investors can make a more knowledgeable decision), as well as when the sale is confirmed.

The SEC has prepared draft forms that contain the disclosures brokers would have to give to investors who purchase mutual funds, variable annuities, variable life insurance, and 529 plans. You may have had a chance to look at these before you came in. What I want to do today is to show you some of these forms and get your reaction to them.

The forms would be available to investors during the point of sale. The first form I will show you will be for a Class A share. A Class A share is one where you pay an up front sales charge (commonly referred to as a sales load) for the product but no further sales loads.

The second form is for a Class B share. A Class B share is one where you pay a sales load when you sell your share (not when you buy it). The amount of the sales load you pay depends on how long you hold your share and the sales load you pay declines over time. There is also an added sales charge every year that continues as long as you hold the investment.

#### **SHOW ATTACHMENT 4 AND 5**

I want you to read over this form carefully and do three things. First, I want you to circle items that you find to be useful and informative. Second I want you to put a light line through items that you find confusing or hard to understand. Finally, I want you to rate it on the small questionnaire that I have provided.

#### **MODERATOR VISITS CLIENTS**

- A. Let's go to the questionnaire first. **[SEE APPENDIX 1]**. Discuss the ratings on each dimension and why they gave those ratings. **[START WITH THOSE WHO GAVE HIGH RATINGS]**

- B. Discuss the items that they circled and why they circled them.
- C. Discuss the items that they crossed out and why they did so.
- D. As B and C are being done, walk through and explain aspects about the forms that they may or may not understand. [Note that the broker can give the point-of-sale disclosures orally as well as in writing.]
- E. What suggestions do you have as to improve this form?
  - 1. What information needs to be clarified?
  - 2. How should statements be written differently?
  - 3. What additional information should be included?

**V. Review of Attachment 1 – A Share Confirmation (35 minutes)**

This second set of forms would be sent to investors after they have made the purchase. The form I will show you first will be for a Class A share.

**SHOW ATTACHMENT 1**

I want you to read over this form carefully and do the same three things. First, I want you to circle items that you find to be useful and informative. Second I want you to put a light line through items that you find confusing or hard to understand. Finally, I want you to rate it on the small questionnaire that I have provided.

**MODERATOR VISITS CLIENTS**

- A. Let's go to the questionnaire first. **[SEE APPENDIX 1]**. Discuss the ratings on each dimension and why they gave those ratings. **[START WITH THOSE WHO GAVE HIGH RATINGS]**
- B. Discuss the items that they circled and why they circled them.
- C. Discuss the items that they crossed out and why they did so.
- D. As B and C are being done, walk through and explain aspects about the forms that they may or may not understand.

- E. What suggestions do you have as to how to improve this form?
  - 1. What information needs to be clarified?
  - 2. How should statements be written differently?
  - 3. What additional information should be included?

## **VI. Review of Attachment 2 – B Share Confirmation (15 minutes)**

This second form would also be sent to investors after they have made the purchase. This form is used for Class B shares.

### **SHOW ATTACHMENT 2**

I want you to read over just sections A, B, and C of this form carefully and do the same three things. First, I want you to circle items that you find to be useful and informative. Second I want you to put a light line through items that you find confusing or hard to understand. Finally, I want you to rate it on the small questionnaire that I have provided.

- A. Let's go to the questionnaire first. Discuss the ratings on each dimension and why they gave those ratings. **[START WITH THOSE WHO GAVE HIGH RATINGS]**
- B. Discuss the items that they circled and why they circled them.
- C. Discuss the items that they crossed out and why they did so.
- D. As B and C are being done, walk through and explain aspects about the forms that they may or may not understand.
- E. What suggestions do you have as to how to improve this form?
  - 1. What information needs to be clarified?
  - 2. How should statements be written differently?
  - 3. What additional information should be included?

### **MODERATOR VISITS CLIENTS IF TIME ALLOWS**

**VII. Wrap-up (5 minutes)**

- A. Now that you have read these forms what is your overall impression of what the SEC is trying to accomplish?
- B. What can the SEC do with these materials to make their education of shareholders as effective as possible?
- C. You may want to look at the SEC web site to see more. Don't talk to next set of respondents. Collect premiums.

## RATING FORM

Please rate this form on the following scales....

**A.**

1	2	3	4	5	6	7	8	9	10
Very Hard to Understand									Very Easy to Understand

**B.**

1	2	3	4	5	6	7	8	9	10
Not at All Useful									Very Useful

**C.**

1	2	3	4	5	6	7	8	9	10
Not at All Well Written									Very Well Written

**D.**

1	2	3	4	5	6	7	8	9	10
Not at All Informative									Very Informative

**E. How likely would you be to read this?**

1	2	3	4	5	6	7	8	9	10
Not at All Likely									Very Likely

## APPENDIX B

### SCREENER

Securities Exchange **LOW + ASSOCIATES** INC.  
April 13, 2004—Baltimore, MD

Group 1 – Mutual Funds  
6:00pm [ ]

Group 2 – Variable Annuities and 529 Plans  
8:00pm [ ]

Respondent Name: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_

Telephone: Work: \_\_\_\_\_ Home: \_\_\_\_\_ Fax: \_\_\_\_\_  
\_\_\_\_\_

E-mail: \_\_\_\_\_

Hello, I'm \_\_\_\_\_ calling from \_\_\_\_\_, a marketing research firm. I am calling on behalf of the Securities and Exchange Commission. We are looking for people to take part in a research discussion **about what investors need to know about the investments they purchase**. It will be with about 8-9 people like yourself. We are willing to pay people who qualify for the discussion and who take part in it **\$100.00** for their time. This is strictly a research study and has nothing to do with sales.

The discussion will last two hours and take place at our offices in Baltimore, MD on **Tuesday, April 13, 2004**. I need to ask you a few brief questions to see if you qualify to participate.

1. First, previous surveys have shown that people who work in certain jobs may have different opinions and reactions to certain products. Given this, please tell me do you, or does any member of your immediate family work...(READ LIST)?
  1. In the area of advertising, marketing, marketing research or public relations?
  2. In **ANY CONNECTION** in the financial field, such as a financial planner, broker, financial reporter, a financial trade association, or as an employee of a financial services company such as an insurance company, bank, or brokerage house?
  3. As an Attorney?
  4. For the Securities and Exchange Commission?

**IF YES TO ANY OF THE ABOVE, THANK AND TERMINATE**

2. Have you participated in any focus group discussions in the past 6 months?

- 1. Yes **THANK AND TERMINATE**
- 2. No **CONTINUE**

3. Who in your household is primarily responsible for making decisions regarding purchases of investments, such as mutual funds, 529 plans, variable annuities or life insurance?  
**(DO NOT READ LIST)**

- 1. Self
- 2. Self and other jointly
- 3. Other **ASK TO SPEAK WITH THAT PERSON,  
IF NOT AVAILABLE, THANK AND TERMINATE**

4. In the last 5 years, have you personally bought any mutual funds, 529 plans or variable annuities or life insurance, through any type of broker or agent? Do not count investments that you have acquired through retirement savings plans from work such as 401K plans?

**[As needed: A 529 plan is a specific kind of plan for college education savings. If you do not recognize the term "529 plan" you probably do not have one.]**

- 1. Yes
- 2. No **THANK AND TERMINATE**
- 3. Don't know **THANK AND TERMINATE**

5. Did you spend less than \$10,000 or more than \$10,000 in total purchasing those products?

- 1. Less than
- 2. More **THANK AND TERMINATE**
- 3. Don't know **THANK AND TERMINATE**

6. Which of the following have you purchased or made contributions to in the past 5 years?  
Have you purchased or made contributions to...

		Yes	No	DK
a.	Mutual funds	1	2	3
b.	A 529 Plan	1	2	3
c.	A variable annuity	1	2	3
d.	Cash value life insurance	1	2	3

**IF NO OR DK TO EACH OF THE ABOVE, TERMINATE.**

**IF THEY HAVE PURCHASED 529 OR VARIABLE ANNUITIES, OR CASH VALUE LIFE INSURANCE, RECRUIT FOR 8PM GROUP.  
IF MUTUAL FUNDS ONLY, RECRUIT FOR 6PM.**

*(Recruiter: If there is trouble recruiting for the 8pm group, you may fill the 8pm group with Mutual Fund buyers. Contact L+A first if there are any recruiting problems.)*

7a. When purchasing mutual funds or other investments like them, there are different fee arrangements for different types of shares. For example, a person could purchase "Class A" shares or Class B shares, How familiar are you with the differences between these two types of shares? Would you say very familiar, somewhat familiar, not too familiar, or have you never heard these terms?

- |                        |                    |
|------------------------|--------------------|
| 1. Very Familiar       | <b>SKIP TO Q8</b>  |
| 2. Somewhat familiar   | <b>SKIP TO Q8</b>  |
| 3. Not too familiar    | <b>READ Q7b</b>    |
| 4. Never heard of them | <b>[TERMINATE]</b> |

7b. I'll explain briefly how they differ. When you purchase Class A shares, you pay a commission up front. On Class B Shares, you can pay a sales charge every year for 6 or 7 years. If you sell after that, you pay no added sales charges, but if you sell before that, you do have additional sales charges that will decrease each year. Do you know whether the investments you bought were Class A shares or Class B shares?

- |             |                  |
|-------------|------------------|
| 1. Yes      | <b>CONTINUE</b>  |
| 2. No       | <b>TERMINATE</b> |
| 3. Not sure | <b>TERMINATE</b> |

8. What is the highest level of education you have completed?

- 
- |                           |                  |
|---------------------------|------------------|
| 1. Less than High School  | <b>TERMINATE</b> |
| 2. High School Graduate   |                  |
| 3. Some college/Technical |                  |
| 4. College Graduate       |                  |
| 5. Post-Graduate Degree   |                  |

9. **ARTICULATION QUESTION:** How comfortable are you discussing your opinions in a group situation? Imagine a group discussion in which you feel very comfortable speaking up. What would that group be like? When would you be less likely to participate?

*Recruiter:* **Please assess the respondent's answers to Question 9 on the following scale. Do not recruit people who have trouble expressing their ideas or are difficult to understand.**

1    2    3    4    5    6    7    8    9    10

---

Assessment must be at least 7 and above to be recruited.

**INVITATION**

I would like to invite you to participate in the discussion. **The purpose of the research is to gather views for consumer education relating to financial investments.** You will not be asked to buy anything and you will not receive any marketing calls as a result of participating in this discussion. The session will last about 2 hours. We realize your time is valuable and will pay you **\$100.00** for participating

The discussion will be held at \_\_\_\_\_ in Baltimore, MD on **Tuesday, April 13, 2003 at 6:00pm/8:00pm.** Will you be able to attend the discussion group?

No---Thank and terminate

Yes---We will send you a letter to remind you of the date, time, location of the interview and directions on how to get to the facility.

Please be sure to arrive at least 15 minutes early for a sandwich buffet (6pm)/light snack (8pm). You will be reading through some materials so please be sure to bring reading glasses, if necessary.