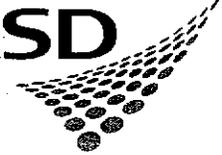


Mary L. Schapiro
Vice Chairman, NASD
President, Regulatory Policy and Oversight

SECURITIES AND EXCHANGE COMMISSION
RECEIVED

AUG 11 2005

NASD



August 3, 2005

DIVISION OF MARKET REGULATION

The Honorable Cynthia Glassman
Acting Chairman
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549
Mail Stop: 10-40

Re: Research Report on Internet Delivery of Mutual Fund Point of Sale Disclosure

Dear Acting Chairman *Cynthia* Glassman:

As you know, both NASD's Mutual Fund Task Force, and NASD itself, have recommended that firms be allowed to use the Internet to deliver proposed point of sale disclosure in mutual fund transactions. We recognize, however, that the feasibility of web-based delivery depends on the ability and willingness of investors to access the Internet from home. At your request, we arranged for additional usability testing to: a) gauge the level of in-home computer and Internet usage generally - including the simultaneous use of telephone and Internet; and b) survey investor use and comprehension of the proposed mutual fund fee disclosure form in a more "real world" context. We conducted the testing through Applied Research & Consulting, LLC (ARC).

The full report is enclosed. The quantitative portion of study, which was based on participation in a national telephone survey, revealed that:

- 64% of American adults access the Internet from home
- The percentage of Internet users increases with education and income levels; 88% of adults with household incomes over \$75,000 and 83% of adults with college graduate degrees access the Internet from home
- 70% of adults who access the Internet from home are able to use the internet and the telephone at the same time; 57% report that it would not be difficult for them to talk on the telephone and receive information from their broker via the Internet at the same time
- A significant percentage of American adults, including 63% age 65 or older, do not access the Internet from home

ARC also held in-depth telephone interviews with twenty Internet-enabled investors from a cross-section of demographics to gauge their reaction to Internet delivery of point of sale disclosure. The results of this qualitative survey reveal that investors who do regularly use the Internet would strongly prefer to receive the fee disclosure information electronically, rather than through the mail or over the telephone from their brokers.

Cynthia Glassman
August 3, 2005
Page 2 of 2

Based on these findings, NASD continues to believe that the Internet would be the most effective and efficient method of delivery for those who use the Internet, but that firms should be required to use alternate delivery methods for those who do not.

We plan to send a package of information regarding this initiative to Chairman Cox and hope to meet with him as well.

Sincerely,

A handwritten signature in cursive script, appearing to read "Mary".

Mary L. Schapiro
Vice Chairman, NASD
President, Regulatory Policy and Oversight

**MUTUAL FUND POINT OF SALE DISCLOSURE
IMPLEMENTATION RESEARCH**

PREPARED FOR

NASD

BY

APPLIED RESEARCH & CONSULTING LLC

August 18, 2005

BACKGROUND & OBJECTIVES

The SEC has proposed a mutual fund point of sale fee disclosure form to be used by brokers and investors. One of the recommendations of the NASD Mutual Fund Task Force was to deliver this disclosure form to investors through the Internet. NASD wanted to test the proposed online delivery method and process for effectiveness. To this end, NASD engaged Applied Research and Consulting LLC (ARC) to conduct research that would:

- Gauge the level of in-home computer and Internet usage;
- Determine attitudes, capacity and facility regarding simultaneous use of telephone and Internet;
- Observe investor comprehension of the mutual fund fee disclosure form, when delivered over the Internet, in a more “real world” context.

OVERALL APPROACH AND METHODOLOGY

In order to determine the viability of an online mode of delivery for the fee disclosure form, a mixed methodology was employed. Quantitative research, conducted through participation in an omnibus, national telephone survey, was used to evaluate the broader questions of computer and telephone usage. Qualitative research, consisting of twenty in-depth telephone interviews with investors, provided insight into the effectiveness of the proposed process. Detailed below is the explicit process for each methodology.

Quantitative Methodology

In an effort to reach the broadest audience, most representative of the larger populace, ARC submitted four questions to be included in an omnibus survey, conducted by Opinion Research Corporation (ORC). The findings of the research reflect a telephone survey conducted among a national probability sample of 1005 adults comprising 505 men and 500 women 18 years of age and older, living in private households in the continental United States.

Interviewing for ORC's omnibus survey, known by the product name, CARAVAN® Survey, was completed during the period of June 30 – July 3, 2005. All data collection efforts took place at ORC's Central Telephone Facility, where interviewers are continuously supervised, monitored and reviewed in order to maintain the highest quality interviewing standards.

The most advanced probability sampling techniques were employed in the selection of households for telephone interviewing. This study utilized an unrestricted random sampling procedure that controlled the amount of serial bias found in systemic sampling to generate its random-digit-dial sample. The sample was fully replicated and stratified by region. Only one interview was conducted per household. All sample numbers selected were subject to up to four attempts to complete an interview.

Completed interviews were weighted by four variables: age, sex, geographic region, and race, to ensure reliable and accurate representation of the total population, 18 years of age and older. The raw data was weighted by a custom designed program, which automatically develops a weighting factor for each respondent. Each respondent was assigned a single weight derived from the relationship between the actual proportion of the population with its specific combination of age, sex, geographic characteristics and race and in the CARAVAN® Survey sample that week.

Qualitative Methodology

The qualitative research consisted of twenty in-depth telephone interviews with investors from four regions of the country centered around but not limited to major cities (New York, Chicago, Atlanta and Los Angeles). Respondents were recruited through research facilities located in these cities; however, they were selected to be representative of urban, suburban and rural regions. Respondents were screened to ensure eligibility according to several criteria, incorporating several requirements used by the SEC in their usability testing, including:

- Having sole or shared responsibility for making decisions regarding purchases of investments;
- Being a user of a Windows PC (ARC was advised by NASD that the test prototype of the online disclosure form would not work correctly on a Macintosh platform, but that the final production version will work across operating systems). However, one respondent used both a PC and MAC and conducted the interview using their MAC computer, which did result in problems with the fee calculator feature later in the interview;
- Having access to the Internet (all forms of connection to the Internet were included) from home;
- Having recently purchased at least one of the following:
 - “loaded” mutual funds,
 - variable annuities, or
 - 529 plans where the underlying investment are mutual funds;
- Being a high school or college graduate (excluding persons with graduate degrees).

[See Appendix for Screening Questionnaire]

Profile of Qualitative Research Respondents						
Gender	Age	Region	Education	Computer Competence	Broker/ Direct	Invested Assets
Female	52	West	College Graduate	Highly	Broker	\$2-\$24K
Female	42	Southeast	College Graduate	Moderately	Broker	\$2-\$24K
Male	24	Midwest	College Graduate	Highly	Broker	\$2-\$24K
Male	33	Midwest	College Graduate	Moderately	Broker	\$2-\$24K
Male	40	Southeast	College Graduate	Moderately	Broker	\$25-\$99K
Male	43	West	College Graduate	Highly	Both	\$25-\$99K
Female	33	West	College Graduate	Highly	Both	\$25-\$99K
Female	34	Southeast	Some College	Minimally	Broker	\$25-\$99K
Female	24	Northeast	Some College	Highly	Broker	\$25-\$99K
Male	55	Northeast	College Graduate	Highly	Broker	\$25-\$99K
Female	53	Southeast	College Graduate	Moderately	Both	\$100-\$499K
Male	56	West	College Graduate	Highly	Both	\$100-\$499K
Female	45	Southeast	College Graduate	Moderately	Both	\$100-\$499K
Female	37	West	College Graduate	Minimally	Both	\$100-\$499K
Male	34	Northeast	College Graduate	Moderately	Both	\$100-\$499K
Female	34	Midwest	College Graduate	Highly	Both	\$100-\$499K
Male	61	Midwest	Some College	Moderately	Both	\$100-\$499K
Female	55	Southeast	College Graduate	Moderately	Broker	\$100-\$499K
Male	72	Midwest	High School	Highly	Both	\$100-\$499K
Male	68	Midwest	High School	Minimally	Broker	\$100-\$499K

All respondents were called at a prescheduled time. Each interview began with a discussion about the respondent's experience with and usage of computers, particularly their home computer. [See Appendix for complete Interview Guideline.]

Respondents were asked to describe:

- The type of computer they used (desktop, laptop operating system),
- What type of Internet connection they had,
- The type of printer they used (laser or inkjet) and whether they had it hooked up all the time.

Responses to these questions, in terms of amount of detail, knowledge and perceived competence were used to provide a context for later responses to their experiences with the fee disclosure form.

During this portion of the interview, respondents were also asked about their level of comfort with reviewing materials online while simultaneously speaking on the telephone. This question was posed in a more general way during the quantitative research but was used in this portion of the research to probe for responses in a more "real world" setting.

If respondents indicated they were not comfortable reviewing materials online while simultaneously speaking on the telephone they were given the option to review the fee disclosure form and use the fee calculator on their own. A follow-up call was scheduled for later to complete the interview.

Following the introductory section, respondents were asked to characterize their experience and orientation toward investing, including their investment background and history of working with brokers as well as the perceived benefits and drawbacks.

Respondents who chose to participate in the interview while simultaneously viewing the form were asked to provide the interviewer with a commentary regarding their overall impressions of the process of receiving the link and opening the form, to what they noticed on the form itself. They were asked to imagine that this link was sent to them by their broker prior to investing in a mutual fund. Respondents were encouraged to indicate if they experienced difficulty with any part of this process, technically or otherwise. Researchers were instructed to ask respondents to describe difficulties if they encountered them, but not to offer solutions. Only after the problem had been accurately described and if the respondent was unable to solve it were researchers allowed to provide minimal assistance in order to allow the interview to continue.

After reviewing the form freely, respondents were asked (if they had not noticed already) to look at the automatic Fees and Expenses section. They were first asked what fees they would expect to pay on an investment of \$2,500. If they did not immediately use the automatic fee calculator they were asked to explain why. Once respondents were aware of and had used the automatic fee calculator, they were then asked what they would expect to pay on an investment of \$50,000. Following that exercise they were asked to

describe what they had noticed about the fees related to the different investment levels in the exercise as well as their overall impressions of the automatic fee calculator feature.

Respondents were then prompted to review the Potential Conflict of Interest section, if they had not already done so, and asked to discuss its meaning.

Finally they were asked to elaborate on the process itself, and their expectations of actually utilizing this website and disclosure form if their broker were to send it to them. They were also asked several questions about their preferences in terms of mode of delivery of this information as well as for recommendations for improving delivery of the form.

RESEARCH FINDINGS

Quantitative Findings from the CARAVAN® Survey

- 64% of American adults access the Internet from home. This percentage increases sharply as income and education increase.
 - For example, 83% of college graduates access the Internet from home, and 88% of adults with household income above \$75K access the Internet from home.
 - Seniors are the least "wired" segment: 63% of people aged 65+ do not access the Internet from home.
- Of those adults who access the Internet from home, 56% use a high-speed service, such as DSL or cable modems. The other 44% use traditional dial-up service.
- Of those adults who access the Internet from home, 70% say they have accessed the Internet while simultaneously talking to someone on the telephone.
 - 47% say they do it at least once a week.
 - 30% say they have never accessed the Internet while simultaneously talking to someone on the telephone.
 - An additional 12% say they almost never do so.
- Of those adults who DO access the Internet from home, 57% say it would be not at all difficult to talk on the phone to a broker or financial adviser while reviewing online information.
 - 14% say it would be somewhat difficult.
 - 24% say it would be very difficult.
- Of those adults who access the Internet from home, when asked how they would respond if their broker/adviser asked them to review online information while staying on the phone:
 - 42% say they would review the information while staying on the phone.
 - 54% say they would not.
- Of those adults who access the Internet from home, 39% say they have purchased shares of a mutual fund through a broker or financial adviser.
 - This percentage rises to 49% for people between the ages of 45 and 54.
 - It rises to 61% for people aged 55 and above.
 - This percentage also rises with income and education.

Qualitative Findings from the In-Depth Interviews

Respondents were generally very comfortable with computers.

Respondents ranged from people who built their own computers to those who learned the minimum they needed to function online.

- All respondents, even the self-professed “technophobes” said they used their computers regularly to perform multiple functions both off and online.

“I use it for everything, from doing financial research to grocery shopping.”

“Initially, I bought this so I could just get email at home, but now I am finding that I can use it for much more than that.”

“I have had a computer in my home since 1985. Now everyone I know has a computer in their home and can at least do email.”

A large majority of respondents, sixteen of twenty, had more than one computer in their household. One respondent said she had five computers in her household including laptops for each member of the family plus one desktop for an in-home business.

- One respondent has had the same computer for approximately nine years.
- All other respondents had their computers for an average of two-three years.

“It just got too difficult to share one computer, it was causing fights.”

“I know it is ridiculous, but the kids are expected to do so much of their homework using the computer and my husband and I really need to have our own, so we just kept adding computers.”

- Four respondents had one computer in their household, but two of these respondents planned to purchase an additional computer in the near future.

“I thought this one would be more than enough, but now I want a laptop.”

Generally respondents were comfortable in varying degrees maintaining their computers, either by recognizing changes in performance or knowing if they should update software.

“I know when it is not running right.”

“If it is taking longer to download something or open a web page, I think I might need to update the software I use for that.”

- Approximately half felt comfortable addressing these issues themselves, others said they would have someone else, usually a more technologically savvy family member, do it.

"I am comfortable with my computer that I can usually figure out what's wrong if it is not working right and fix it."

"I think I can figure out what is wrong, but just to be sure I usually wait for my husband."

- Only one respondent did nothing to maintain her computer, either inspecting hardware or installing or updating software, such as virus protection. (Not surprisingly, this respondent had some difficulty receiving the email and opening the link.)

"My friend set up my computer a few years ago and other than use it I have done nothing to it since then. As long as it runs I am not going to mess with it."

Seventeen respondents out of twenty said they have printers in their homes. All seventeen have at least one computer that is hooked up to the printer at all times.

- While most had inkjet printers, two respondents said they had laser printers in their homes.

"It would be too much hassle to set it up every time. If I need to print something quickly I always have one place ready to do that."

Respondents demonstrated considerable comfort with and dependence on the Internet.

- The Internet is an integral part of the lives of most respondents.
 - Almost all said they were accustomed to receiving information via email or accessing information online.
 - Many said they logged on at least "one or two times a day," while others claimed they were online either checking email or performing other functions upwards of six times a day.
 - A small number described their Internet usage as "constant."

"Since I stopped working to be a full-time mom I go online much less than I used to when I worked at an office but I still go online at least once a day."

"I don't necessarily count how many times I am online, but I would say at home I go online in the morning and then again at night."

"I am online all the time."

Almost all respondents used a high-speed Internet connection.

Three respondents used a dial-up Internet connection. The other seventeen said they had some form of high-speed connection.

- The 85% penetration of high-speed Internet access among these respondents is considerably higher than the 56% measured in the CARAVAN® Survey. This may be a reflection of the fact that the population of active investors skews somewhat upward socio-economically compared to non-investors.

"I know I have not always had a high-speed connection, but I am so used to it I can't remember when I had dial-up."

"I have a high-speed connection through my cable company. I am online so much, I would go bananas if I didn't have it."

Nearly all respondents were able to open the link easily and navigate quickly regardless of the method they used to connect to the Internet including the dial-up users.

- All three with a dial-up connection had an additional phone line or a "splitter," which allowed for them to be online and talk on the phone at the same time.

"I have been happy with my dial-up, it has not been a problem for me."

All respondents had a personal email account, which they accessed via their home computer. A couple of respondents had multiple accounts that they used strategically to manage the information they receive.

"I have an email account other than my work address because I want personal information to come to me."

Respondents acknowledged the trade-offs between do-it-yourself investing and using a broker.

Most respondents checked their bank balances online and some performed other finance functions online.

- Ten out of the twenty respondents used a broker as well as invested directly. Most of these respondents had handled their own mutual fund allocations for their retirement accounts.
 - Brokerage fees were the most commonly cited motivation for investors to begin purchasing mutual funds and stocks without a broker.

"I didn't start doing this right away, but the fees were getting to me. I built my knowledge and confidence and now I think I can handle my investments better than someone else."

- Those who continue to work with brokers said they didn't mind having to pay fees because they preferred someone who knew their goals "looking out for them" and did not have the time to do the investment research themselves.

"I know it probably costs me more, but I just don't have time to be doing all of that research."

"I think I am a smart investor because I know my own limitations. I am happy to have someone help me with these things."

- When asked, all respondents cited unexplained fees as the biggest drawback to working with brokers. Generally fees were viewed as being a part of the "service," however respondents were bothered by not knowing exactly how fee allocation worked.

"I guess the fees are the biggest drawback, but then again I have to look at it as paying for a service, all the research and expertise."

"Sometimes I will ask what the fees are but I never understand what they are talking about."

- A smaller number of respondents cited brokers receiving higher commissions for some investments as a potential drawback to working with brokers.

"I know they get more money for some investments than others, so it is up to the investor to watch out for that."

Respondents were generally comfortable with participating in a telephone interview and viewing materials online simultaneously.

While a handful of respondents said this [talking on the phone while online] was not something they did as matter of routine, they had done it before and did not find the request to be unusual.

"I don't do it all the time, but I can."

"I think it is rude, so I usually don't surf and talk at once, but if I have to then I have no problem doing it."

- Early in the interview, respondents were given a choice to review the online information independently and schedule a time to resume the interview after they finished reviewing the information.
 - Of the twenty interviews, four respondents requested the "call back" option. The remaining sixteen chose to do the interviews "in real time."

"If it is okay, I think I would like to take my time and read this through."

"Since I have a choice I am going to look at this on my own and you can call me back."

Overall, respondents appreciated the form, citing the mode of delivery, easy accessibility and clarity of content as reasons for praise.

"If they are sending this to you via email before investing, that implies they want you to get this and look at it."

"It opened right up, no problem."

"I like the layout. It gives you all the information up front and there are no access problems."

"It's pretty organized. There's not a lot of digging around. They are not hiding anything. It is right here for you."

"No link problems it's all right here."

Disposition was a factor in how respondents interacted with the form.

- A few respondents indicated that they might not look at this information every time they received it.

- Respondents, however, were unanimous in their preference for being provided with this information so they could decide how they used it on their own,

"I might not look at it, but I would rather decide that on my own."

"Of course I would read this. I am happier with more information than less."

- Almost all respondents were more likely to notice information at the top of the form, particularly the information in the "Risks to You" section, as well as the fund performance graph and table.
 - Those who self-described as "thorough" or "detail-oriented" were more likely to read through the whole form, click on links and also appeared to be comfortable taking their time while on the telephone with another person.
 - Respondents who wished to review the information independently seemed very comfortable expressing this preference and said they would do so with their broker as well.

"If they are sending this to me I am going to look at it and take my time doing it."

- Respondents who "skimmed" the form were less likely to notice all of the information presented and had to be prompted to look at specific sections during the interview.
 - These tended to be people who either preferred "not to think" about the details of investing or believed they were already aware of this information.

"I know I am paying fees to my broker. I didn't know how much I paid, but I don't want to do all of the things he does myself."

"I get the picture, but this is not news to me."

There was a clear preference for receiving this fee disclosure information electronically rather than via traditional postal delivery or being given the information over the phone by their broker.

- Many respondents indicated that having the information available electronically was "more direct" than receiving it either in the mail, where they "might not look at it" right away, or over the phone, where they "risked" missing critical information.

"I definitely prefer receiving this electronically."

"I get so much junk mail, I might never see this if it was sent snail mail."

"If my broker wants to tell me about the fees that is great, but this way it is in writing, I don't have to file it myself and I could go back and look at it whenever I need to access that information."

"I think he's tried to explain this before and it just goes in one ear and out the other. No, this is much better and I can print it out if I want to."

➤ Even the three respondents who had difficulty accessing the form online, the preference for online information remained.

- Two of these respondents were able to view the form either by diagnosing the problem or by entering the URL.

"I had a little trouble, opening the link, but you gave me the URL and I would much rather be looking at this online than getting a hardcopy."

- One respondent, who did not have difficulty receiving or accessing the link suggested a return receipt notification so the broker would know if the investor had received it.

"They can't make someone read the form, but they should do everything they can to make sure they get it."

The Fee Calculator was universally appreciated for the information it provided.

Not all respondents noticed the calculator right away.

"I didn't see that right away, but now that you pointed it out I can't believe I missed it."

"Next time I will know it is there."

Respondents were mostly unsurprised by the breakpoint discount. Some already knew about it, others said they were not aware of the specific amounts involved before using the calculator, but that it "made sense" and were appreciative to have it provided to them in a manner that was "straightforward" and easy to understand.

"This is great! It takes all the guess work out of those fees now."

"I respect that they are telling you this stuff up front and give you a way to access the information."

- The interactive feature did not work for three respondents; however, they were able to glean the essential information from the table provided in the "Fees and Expenses" section.

"I can see from the table what the percentage is and use my own calculator. Either way, this is more information than I usually have."

- Respondents were almost unanimous in their preference for receiving this information "in writing" as opposed to orally, and having it accessible to either "print out" and review or "look at online."

"They are giving you the information and you can handle it however you want. I like to print things out, but my husband would be happy just to be able to go to the website."

"They are giving you something. It makes it much less suspicious if they are willing to put the information out there."

Generally, respondents were less likely to notice the "Potential Conflicts of Interest" section than the other sections.

- Many respondents indicated that the position of this information at the bottom of the form made them less likely to notice it.

"I am glad to see this posted somewhere, but if they really want to you to know about it they would put it up front."

- Once asked to review this section most respondents appreciated having this information communicated "in writing."

"I would not have expected to find this information provided so publicly."

- Several respondents indicated that they were already aware of such conflicts, but appreciated it being communicated in a public way that would protect novice investors.

"I knew about his already, but I had to learn it over time, I am glad that more inexperienced investors could have access to information like this directly."

"I am not surprised. I knew things operated this way, but I think this information should be public in a way that is clear and easy to understand, as it is here."

- Most respondents expressed appreciation for having access to this type of information, particularly during the process of a mutual fund transaction, when it is most "relevant."

"You would not think to ask for this information when you are hot to buy something or when you are not thinking about investing."

APPENDIX

Qualitative Research Screener

We are offering \$XX incentive for participation in this interview. Each interview will last about 45 minutes.

1. Would you be interested in participating and sharing ideas with us?
Yes
No **THANK and TERMINATE**

2. Have you participated in a focus group discussion or research project with any research firm within the past 6 months?
Yes **THANK and TERMINATE**
No
Don't Know/Don't remember **THANK and TERMINATE**

3. Are you the person in your household responsible for making decisions regarding purchases of investments, such as stocks, bonds, retirement accounts, college savings plans or mutual funds? [If this is not the person, ask to speak with that person]. If person responsible for investment decisions is not available **TERMINATE.**

4. What kind of computer do you use?
MAC **THANK and TERMINATE**¹
PC

5. Do you have Internet access?
Yes
No **THANK and TERMINATE** – [Track # who terminate here]

6. Please tell me which describes the highest level of education you have attained:
Some high school **THANK and TERMINATE – GROUP IS FULL**
High School
Some College
College degree
Graduate degree **THANK and TERMINATE – GROUP IS FULL**

¹ ARC, had been advised by NASD, that the test prototype of the online disclosure form would not work correctly on a Macintosh platform, but that the final production version will work across operating systems.

7. Which of the following statements best describes your experience with making investments in things like stocks, bonds, retirement accounts, college savings plans or mutual funds?

	A	I have made investments like this through a broker over the phone.
	B	I have made investments like this through a broker in person.
	C	I have made investments in stocks or bonds through a broker online.
	D	I have made investments in mutual funds or 529 plans through a broker online.
	E	I have made investments like this directly (not through a broker).
	F	I have never made investments like this [THANK and TERMINATE]
	G	Don't know/Don't remember [THANK and TERMINATE]

Note: If respondents are only in C or only in E or only in C&E, then **THANK and TERMINATE**.

Note: Do not recruit more than 1/3 of participants in category C.

8. Which of the following have you purchased from your broker or financial representative in the past two years?

	A	Individual Stocks
	B	Mutual Fund
	C	Section 529 Plan where the underlying investment is a mutual fund
	D	Variable Annuity
	E	No-load Mutual Fund
	F	Don't know/Don't remember [THANK and TERMINATE]

Note: If respondents are in only A or only E or in A&E then **THANK and TERMINATE**.

9. How would you describe you criteria for deciding which stocks, bonds or mutual funds to invest in? **TEST FOR ARTICULATENESS**

10. What is the total of all assets you have invested in stocks, bonds or mutual funds, outside of 401(k)s but including IRAs? I will read several ranges to you. Please tell me which range includes your assets: [RECRUIT A GOOD MIX]

	A	Less than \$2,000 [THANK and TERMINATE]
	B	\$2,000 - \$24,000
	C	\$25,000 - \$99,000
	D	\$100,000 - \$499,000
	E	\$500,000 – or more [THANK and TERMINATE]
	F	Don't know/Don't remember [THANK and TERMINATE]

11. I will read several age ranges to you. Please tell me which range includes your age: Recruit for good mix.

Under 25

25-39

40 – 54

55 and over

Thank you for agreeing to take part in this research. We will schedule a day and time where it will be convenient for you to be called at home by one of our researchers. At that time, you will be asked to open a URL link for a form sent to you via email. You will be interviewed specifically about this form, its mode of delivery and your ability to navigate it using your home computer.

**NASD Mutual Fund P.O.S. Disclosure Forms Research
Interactive "In-Home" Interviews
Interview Guide**

Introduction

- Explain/review research process and purpose.
 - Evaluation of interactive version of form that brokers would be required to provide prior to purchase of mutual funds
- Assure respondent of confidentiality.
- Confirm receipt of URL and ability to get online during phone call.

Context: Computer usage

Before we get started, I want to ask you a few questions about how your computer system is set up and how you tend to use the Internet.

1. How long have you had a computer in your home? How many people in your home regularly use the computer you're using today? Do you have more than one computer in your home?
2. Generally, how comfortable are you using computers? [PROBE to determine level of proficiency vis-a-vis issues such as software used, Internet, virus protection, etc.]
3. Are you able to access the Internet and talk on the phone at the same time? Is this something you do relatively often? If no, ask the respondent why not? (If the respondent answers that they are uncomfortable or simply don't like to work this way, offer to have them review the URL independently and schedule a time to call them back – complete the first section of the interview).
4. How old is your computer? [IF RELEVANT: What about the other computers in your home – what kind are they and how old are they?] When do you think you will next be considering a new computer purchase? [PROBE for specifics: type of computer, reason for purchase, etc.]
5. Do you have a printer? What kind – laser or inkjet? Is it hooked up all the time or do you have to hook it up whenever you need to print something? How often, on average, do you print documents?
6. What kind of Internet connection do you have?
7. Do you have an online e-mail account at home? How often do you use your e-mail?
8. What about your phone connection? Are you using a second line right now or a cell phone?
9. How often do you go online to access information through the Internet? What kind of web sites do you typically visit? What kind of information are you usually looking for?

10. Do you buy merchandise online? What kind? How often?
11. Do you conduct your banking or other financial transactions online? Please describe. What are the benefits of doing those kinds of transactions online? What are the downsides?
12. What about stock purchases, sales, trades or allocations in retirement accounts? Have you done that type of transaction online? What are the pros and cons? Do you receive account statements for these or any other investments electronically?

If respondent has asked to review URL independently and has scheduled the interview for a later time instruct them as follows:

Describe to the respondent a hypothetical scenario in which the respondent is working with a broker who has recommended an investment in the John Doe Fund. Before deciding to invest, the broker asks his client to review a form that can be accessed online. Inform them that the later interview will include questions about their experience accessing and using this form.

Instruct them to approach the form initially based on a \$2,500 investment and then again based on a \$50,000 investment. Ask them to make note of the fees they would expect to pay based on these amounts—they will be asked about them in the later interview.

Also instruct them to look at the Potential Conflict of Interest section and be prepared to discuss their impressions.

Resume Interview with the next section.

Context: Experience with and orientation toward investing

1. What is your investment background?
2. What is your history of working with brokers?
3. What do you feel are the biggest benefits of working with a broker? What are the problems?

Overall impressions

- Describe to the respondent a hypothetical scenario in which the respondent is working with a broker who has recommended an investment in the John Doe Fund. Before deciding to invest, the broker asks his client to review a form that can be accessed online. (If respondent has already reviewed URL skip instructions and begin with questions).
 - Ask the respondent to access the form on his/her computer. (If respondent is viewing form separately from interview – ask if they were able to access the form?)
 - Invite the respondent to take a few minutes to explore the form. Encourage the respondent to click on all of the links.
1. Did you have any trouble accessing it? How long did it take to load on your computer? Was the process slow or fast compared to other online materials that you have accessed in the past?
 2. Tell what links are visible on your screen. Did you have difficulty accessing the links or any other part of the form on your computer?

Automatic fee calculation

Now, let's assume that you are thinking of investing \$2,500 in this particular fund.

1. Based on this form, how much would you expect to pay in fees?
2. Did you use the fill-in-boxes that automatically calculate your fees? [IF NO, PROBE the reason and then ask respondent to use the boxes.]

Now, please re-calculate the number for an investment of \$50,000.

3. Based on this investment, how much would you expect to pay in fees? Did you notice anything about the fees for the different investment amounts? What did you notice? Is that something you expected? Why or why not?
4. What is your reaction to the fee calculation feature? Was there anything confusing about it? Was it helpful or not helpful?

Conflict of Interest

1. Now I would like you to take a look at the Potential Conflict of Interest section (prompt only if respondent has not mentioned this). Please take a moment and read the information provided there.
2. Is this new information to you? Does it surprise you to see it in this form? Ask respondent to elaborate on this information, the form, and method of delivery.

Wrap-up

1. If your broker were to send you this web address before you invested in a fund, how likely would you be to actually go to the web site?
2. Would you prefer receiving this information by mail rather than by e-mail with an Internet link? Why or why not?
3. Would you be more likely to look at the form if it were sent to you by mail or e-mail? Why?
4. Would you prefer to be given the information over the phone? Why or why not?
5. Do you have any recommendations for improving the delivery of this form? Any other comments?

Thank you very much for your participation. We appreciate it.

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NASD Disclosure Form
Omnibus Survey Questions

- A1. Which of the following best describes your access to the Internet from your home?
1. I do not access the Internet from home. [SKIP REMAINING QUESTIONS]
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2. I access the Internet from home using a traditional "dial-up" service.
 3. I access the Internet from home using a "high-speed" service, such as DSL or cable modem.
- A2. How often, approximately, do you access the Internet at home while simultaneously talking to someone on the telephone?
1. Daily
 2. Weekly
 3. Monthly
 4. Less than monthly, but more than once a year
 5. Never, or almost never
- A3. Have you ever purchased shares of a mutual fund through a broker or financial adviser?
1. Yes
 2. No
- A4. If you were talking on the phone to your broker or financial adviser, and he or she asked you to review some information on the Internet, which of the following best describes how difficult it would be for you to review this information while staying on the phone with him or her?
1. Very difficult
 2. Somewhat difficult
 3. Not at all difficult
- A5. If you were talking on the phone to your broker or financial adviser, and he or she recommended an investment to you, which of the following best describes how you would respond if he or she asked you to review some information about the investment on the Internet while staying on the phone with him or her?
1. I would review the information on the Internet while staying on the phone.
 2. I would not review the information on the Internet while staying on the phone.