Annual and Semiannual Investment Company Reports
Enhanced Notice Approach

Investor Advisory Committee Discussion
October 12, 2017
Enhanced Notice Approach

An Enhanced Notice approach provides a smooth transition to greater use of technology without leaving any investors behind.

- A better disclosure experience than the content-free notice that was originally proposed in SEC rule 30e-3.
- “Layered” disclosure, similar in some respects to the SEC’s successful Summary Prospectus Delivery Option

Discussions with investment companies, trade associations, consumer groups, regulators and others have pushed the thinking on the Enhanced Notice approach.

- Provide key information from fund report filings; and a link to the full report on a central site
- Use standard formats, respectively, for annual and semiannual reports
- Provide a link to the SEC website on how to read a mutual fund shareholder report
- Easy sign-up for e-delivery; mobile-first design
- Option for investors to request free copies of full report

Benefits to investors and investment companies can be realized more fully and more quickly with an Enhanced Notice approach.

- The Enhanced Notice approach would eliminate the costs of “Initial Statement” mailings and return envelopes/forms without leaving any investors behind.
- By improving the electronic experience, more investors will be encouraged to shift to e-delivery.

A pilot can accelerate benefits and provide meaningful data.

- Actual data on adoption rates by funds, cost savings on printing and postage, enrollments in e-delivery, and other key factors including how well the information works, qualitatively, for individual investors.
- A pilot could support any and all investment companies that choose to participate.
The notice that was originally proposed in rule 30e-3 contains none of the key content from the fund report. (Illustrative)

A single sheet of paper (illustrative)
Enhanced Notice (Annual Report)

- More attractive and engaging
- Key content provided in charts, tables, and graphs
- Standardized formats, different for Annual and Semiannual Reports
- Easy sign-up for e-delivery
- Mobile-enabled version (scrollable) has similar information
Discussions with investment companies, broker-dealers, consumer advocates, regulators, and others have pushed the thinking on the Enhanced Notice approach.

The design of the Enhanced Notice approach is informed by many factors and considerations, including the following, among others:

- It contains many of the same elements of proposed rule 30e-3, without the unintended negative impact on viewing fund report information.
- Key information from fund reports is delivered without a change in the underlying default for how that key information is provided.
- Detailed information is accessible on the Internet with a minimum number of “clicks.”
- SEC publication, “How to Read Mutual Fund Shareholder Reports” (e.g., use of graphical information on performance, expenses, and portfolio holdings)
- Survey of individual investors (True North Market Insights, July, 2016): respondents indicated the data they most want to see, and showed a clear preference for the enhanced notice.
- Investor Advisory Committee roundtable (July 14, 2016)
- Best practices from the SEC’s Evidence Summit (March 10, 2017), e.g., prominence, graphical representation, familiarity
- Consumer Federation of America, including CFA’s Investor Issues Dialogue group (July 19, 2017)
- Operational and systems requirements
- Economic analyses (ongoing) – to maximize potential use by investment companies and individuals
Broadridge continues to invest aggressively in e-delivery and digital, together with broker-dealers and investment companies.

Investment companies are on track to realize record savings on printing & postage in 2017, under the SEC’s current guidance based on investors’ affirmative consent to e-delivery.

- E-delivery has grown from 19% of fund report deliveries in 2010 to over 50% as of June, 2017 (to investors holding shares in street name), with incremental savings on printing & postage of $40 million over last year. Each 1% increment provides additional savings of $7-8 million.
- Digital delivery is now enabled in personal cloud solutions, e.g., Evernote, Amazon, Google, and Microsoft, among others.
- E-delivery rates for direct-sold accounts lag those of the street.
“Awareness” Studies Are Consistent Over the Past 5 Years:
The vast majority of fund investors are aware of receiving fund reports.

**True North Market Insights Study, Mutual Fund Email Options Concept Test, 2016**
Do you recall receiving a mutual fund annual or a semi-annual report in the past 12 months, either on paper in the mail or via an email? (n=1,811)
- 94% Yes
- 6% No

**True North Market Insights Study, 2015**
Do you recall receiving an AR or SAR report in last 12 months? (n=1,002)
- 89% Yes
- 11% No

**FINRA National Financial Capability Study, 2015 (Responses of Mutual Fund/ETF Investors)**
Have you ever received any disclosures regarding your investments (such as mutual fund summary prospectuses, potential conflict of interest disclosures, disclosures of risks of specific financial products, etc.)? (n=1331)
- 68% Yes
- 21% No
- 11% Don’t Know/Prefer Not to Say

**SEC Investor Testing of Mutual Fund Shareholder Reports, Homework Assignment/Questionnaire and Online Survey; (Siegel + Gale, 2012)**
Do you recall ever receiving an annual report from any of the mutual funds you hold? (Homework Assignment Survey; n=105)
- 91% Yes
- 4% No
- 5% I don’t remember

For any of your current or past mutual fund investments, do you recall ever receiving a mutual fund annual report? (Online Survey; n=400)
- 86% Yes
- 6% No
- 8% I don’t remember
“Readership” Studies Are Consistent Over the Past 10 Years. The majority of investors look at some/most/all of the information.

**True North Market Insights Study, Mutual Fund Email Options Concept Test, 2016**
Which of the following best describes what you typically do with the paper reports you receive in the mail? (n=1133)
- 21% Read thoroughly
- 53% Skim
- 10% Do not read; file
- 15% Do not read; throw away

**True North Market Insights Study, 2015**
How often do you look at the annual- and semi-annual reports that are mailed to you? (n=407)
- 36% Always
- 31% Most of the time
- 26% Some of the time
- 8% Never

**FINRA National Financial Capability Study, 2015 (Responses of Mutual Fund/ETF Investors)**
Which of the following best describes what you usually do when you receive a disclosure regarding your investments? (n=914)
- 14% Do not read the disclosure
- 58% Skim the disclosure
- 28% Read the entire disclosure

**Forrester Research and Broadridge Custom Survey, 2015**
When you receive or get shareholder reports, how often do you look at them? (n=1,037)
- 24% Always
- 26% Most of Time
- 37% Sometimes
- 13% Never

**ICI Study: Understanding Investor Preferences for Mutual Fund Information, 2006**
Overall readership of shareholder reports (percent of recent fund investors):
- 10% Read all
- 17% Read most
- 24% Read some
- 26% Read very little
- 11% Do not read but save
- 12% Do not read and throw it away
“Delivery Preference” Studies on Receiving Fund Reports
Results are consistent with actual processing data.

**True North Market Insights: Mutual Fund Email Options Concept Test, 2016**
How did you receive the mutual fund annual or a semi-annual report(s)? (n=1,811)

- 43% Mail
- 28% Email with a link
- 24% Both mail and email with a link
- 2% I searched the Internet to access the report
- 4% My broker or financial advisor gave me a copy

How would you prefer to receive AR/SAR? (Note: asked before full description of Notice concept) (n=1,002)

- 47% Mail
- 41% Email w/ link
- 7% Notice
- 5% Don’t want to receive

Thinking about all the options presented here, which method of delivering annual- and semi-annual reports do you prefer (Note: after presenting Notice concept)? (n=1,002)

- 43% Current method
- 22% Notice
- 35% Summary

**FINRA National Financial Capability Study, 2015 (Responses of Mutual Fund/ETF Investors)**
By which method would you prefer to receive mandatory disclosures regarding your investments (of those who recall receiving)? (n=914)

- 13% In-person meetings with a broker or adviser
- 47% Paper documents physically mailed to you
- 29% Documents delivered to you electronically by email
- 8% Documents that you access on the Internet (not via email)
- 2% None of the above/Don’t know/Prefer not to say

**Forrester Research and Broadridge Custom Survey, 2015**
How do you currently prefer to receive your annual and semiannual fund reports” (n=1,037)

- 55% In the mail
- 43% By email with a link

**SEC Investor Testing of Mutual Fund Shareholder Reports – Online Survey; (Siegel + Gale, 2012)**
How would you prefer to receive info about mutual fund investments? (n=400)

- 26% Online through link in email w/ option to request paper
- 20% In print, with web address for online
- 19% Online through link in email
- 17% Print summary w/ address for full online version
- 14% Print via mail
- 6% No preference