

SEC Committee Advocates for Summary Mutual Fund Shareholder Reports

December 29, 2017

On December 7, the Investor Advisory Committee of the Securities and Exchange Commission (SEC) adopted a recommendation that the SEC seriously explore the development of a summary disclosure document for mutual fund companies to use to satisfy their shareholder report delivery requirements. Such summary documents would be relevant to many insurance companies and their affiliates, because they would, for example, reduce the costs of delivering mutual fund shareholder reports to holders of variable insurance products that invest in such funds. The committee's recommendation comes on the heels of the SEC's failure late last year to adopt a rule allowing electronic delivery of periodic shareholder reports unless the shareholder opted for paper delivery. The SEC's inaction last year was probably influenced by investor advocates who opposed the rule because its reliance on implied consent to electronic delivery reduced transparency and investor access to the reports, and by many consumers' continued preference for paper delivery of disclosure documents. Importantly, the committee characterized its recommendation as a stop-gap of sorts that could significantly improve on the status quo while the SEC continues to explore ways to transition more comprehensively to electronic delivery. The summary disclosure document envisioned by the committee would include high-level information investors care about and need to know: e.g., fund costs, performance, and fund holdings. It would also prominently notify investors about the availability of the full report and where to find it. The summary document would be designed for mail or email delivery depending on the individual investor's preferences. And, for electronic users, the committee encouraged a "layered disclosure approach" under which users could "click through" to obtain more detailed disclosures on desired topics. Lastly, the committee recommended the SEC seek public comment on the concept, content, and format of such a summary disclosure document, as well as conduct investor testing of the summary disclosure.

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