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March 14, 2016
Delivered Electronically

Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-9303

Re: *Supplemental Comments on Investment Company Reporting Modernization (File No. S7-08-15)*

Dear Mr. Fields:

The Investment Company Institute[1] is pleased to provide additional data and comment on the Securities and Exchange Commission's investment company reporting modernization proposal—more specifically, the proposal to permit website transmission of mutual fund shareholder reports.[2] The proposal would provide mutual funds[3] with an important new online option for delivering shareholder reports. We strongly support that option. It would provide potentially substantial cost savings to funds and their shareholders and allow for innovation that takes advantage of technology for the benefit of investors—all while ensuring that funds honor every shareholder's delivery preferences.[4]

[1] The Investment Company Institute (ICI) is a leading, global association of regulated funds, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI's U.S. fund members manage total assets of $16.9 trillion and serve more than 90 million U.S. shareholders.

[2] *Investment Company Reporting Modernization*, 80 Fed. Reg. 33590 (June 12, 2015), available at http://www.gpo.gov/fdsys/pkg/FR-2015-06-12/pdf/2015-12779.pdf ("Fund Reporting Proposal") (proposing new rule 30e-3 under the Investment Company Act of 1940).

[3] We use "mutual fund" and "fund" interchangeably to refer to mutual funds throughout this letter. Although proposed rule 30e-3 applies to registered investment companies, our cost savings analysis focuses on mutual funds, which constitute the majority of registered investment companies.

[4] *See* Letter from David W. Blass, General Counsel, Investment Company Institute, to Brent J. Fields, Secretary, U.S. Securities and Exchange Commission, dated August 11, 2015, available at http://www.sec.gov/comments/s7-08-

Unfortunately, new information has come to our attention that has the potential to negate the cost savings from the Commission's proposal that ICI estimated in our August letter. In a nutshell, unless the Commission intervenes, processing fees for delivery of fund shareholder reports to broker-held accounts could erase an estimated ***$1 billion*** in potential cost savings for fund shareholders over the next 10 years alone.[5] This letter discusses the reasons for these concerns and how the Commission can prevent this absurd and unintended result. We also explain why certain comments the Commission received in opposition to the proposal lack merit and should not cause the Commission to change its proposed course.

In summary, our comments are as follows:

- We disagree with the view that New York Stock Exchange (NYSE) rules permit the application of processing fees in a way that will require funds to pay more for ***not delivering*** paper shareholder reports than they currently pay to print, mail and deliver paper reports. We understand that Broadridge Financial Solutions, Inc., the vendor that handles the delivery of shareholder reports for the majority of broker-sold funds, takes this view. If the Commission allows Broadridge's interpretation to prevail,[6] funds likely will not use the optional new delivery mechanism—an outcome that would thwart the Commission's goals in proposing rule 30e-3. It is critical that the SEC make clear exactly how the NYSE fees would apply to the rule 30e-3 delivery mechanism.

- Broadridge's views highlight a more fundamental issue—the need to revisit how the fee schedule established under the NYSE rules applies to delivery of fund materials. Even a casual reading of the rules demonstrates that the application of these NYSE processing fees to delivery of fund materials is opaque at best. At worst, the application of the schedule results in obligating funds to pay fees for services, some of which have questionable or no apparent value.[7] A significant problem is that there are no checks and balances on what in essence is monopolistic pricing. This system by its very terms fails to create an incentive to reduce fees, because the broker chooses the service provider who delivers the shareholder report and who the fund then pays. We urge the Commission to consider whether fund shareholders would be best served by a separate, specially tailored fee schedule for processing costs associated with fund shareholder report delivery. We also ask the Commission to direct the Financial Industry

15/s70815-315.pdf ("ICI August Letter"). ICI's letter included a detailed analysis of potential cost savings under proposed rule 30e-3.

[5] *See infra* discussion in Section I.B.

[6] As a practical matter, in the absence of Commission guidance specifying how the fees will apply to delivery of fund shareholder reports under rule 30e-3, Broadridge's interpretation will function as the default.

[7] The SEC approved this portion of the fee schedule without adequate analysis of how these fees impact mutual funds. *See infra* note 33 and accompanying text.

Regulatory Authority, Inc. (FINRA) to assume primary responsibility for the rules regarding these fees since NYSE appears to have little regulatory interest in fees brokers charge for delivery of fund materials. FINRA is the only appropriate self-regulatory organization for developing and scrutinizing these fees, as investor protection is integral to its mandate.

- Many other commenters that are critical of the proposed rule have significant business and financial interests in paper products and therefore in maintaining the current, paper-based system for fund shareholder reports. The SEC should consider these commercial interests as it weighs comments seeking to retain reliance on the manufacture, purchase, and delivery of paper.

- Proposed rule 30e-3 aligns with important national and global environmental initiatives. It would save about 2 million trees each year. It also would reduce the air, water, and land pollution associated with the production of paper products.

- We disagree with specific comments submitted to the SEC that:
    - Incorrectly characterize the degree of the fund shareholder population's Internet access and usage and ignore the public and private sector shifts towards online information access;
    - Inaccurately call into question funds' ability to fulfill shareholder requests for mailed, paper reports;
    - Inappropriately reference a drop in proxy voting rates after the SEC permitted a "notice and access" approach to delivering proxy materials, disregarding that shareholder proxy voting behavior is not analogous to or predictive of fund shareholder report readership; and
    - Ineffectively argue that fund shareholder report readership would decrease if the SEC adopts the rule.

We discuss all of these points in greater detail below.

I. NYSE Processing Fees Threaten to Eliminate an Estimated $1 Billion in Fund Shareholder Cost Savings

A. Background

Shareholder report production and delivery is a fund expense that mutual fund shareholders bear. A reduction in that expense (such as logically would be associated with a decrease in the number of paper shareholder reports that funds, or broker-dealers, must print and mail), therefore, would benefit fund shareholders. It would provide shareholders with cost savings, a goal the Commission specifically contemplated in proposing rule 30e-3.[8] The cost savings analysis we presented in our August letter sought to measure this anticipated benefit.

Our August cost savings analysis projected that reliance on the proposed rule would result in savings of $89 million annually after the first year.[9] If the SEC adopted ICI's suggested "postcard" modification,[10] we estimated that funds would realize even larger savings—$101 million in the first year of the rule and $182 million annually thereafter.[11]

Our cost savings estimate relied in part on reasonable assumptions about the amount of certain NYSE-sanctioned processing fees that will apply to delivery of mutual fund shareholder reports to broker-held accounts. A fee schedule set forth in the NYSE rules governs these processing fees, and sets the maximum (and in practice, the standard) processing fee rates that brokers can charge funds for shareholder report delivery.[12]

B. Broadridge's Interpretation of NYSE Processing Fees Eliminates Cost Savings

Broadridge suggests it would apply the NYSE processing fees in a manner that produces a preposterous result: it would cost funds **more** to use website transmission of shareholder reports than

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[8] *See* Fund Reporting Proposal, *supra* note 2, at p. 33626 ("Funds and their shareholders would benefit from the reductions in related printing and mailing costs.").

[9] We estimated a one-time added cost of $39 million in the first year of the rule. To rely on the proposed rule, the Commission would require the fund to mail an Initial Statement to each shareholder from whom the fund is seeking implied consent. Thereafter, the Commission would require funds to mail two Notices annually to each shareholder who has provided implied consent, one in connection with the publication of each fund report. As a result, in the initial year, funds would be required to conduct three mailings to shareholders—the Initial Statement and two Notices. For subsequent years, we assumed funds would conduct two mailings (one Notice per report) to shareholders.

[10] Proposed rule 30e-3 would require funds wishing to rely on the rule to send shareholders a mailed notice containing a link to the shareholder report's online location (URL) and to provide a pre-addressed, postage-paid reply form that shareholders could use to express their preference to receive a paper copy of shareholder reports. In our August letter, we recommended that the SEC eliminate the proposed requirement to include a pre-addressed, postage-paid reply form with the mailed notice, which would permit funds instead to mail a postcard to fulfill the notice requirement. *See* ICI August Letter, *supra* note 4, at p. 78-79.

[11] *See* ICI August Letter, *supra* note 4, at Appendix B, Table 3. Our initial cost savings analysis of rule 30e-3 assumed that NYSE processing fees for "suppressed" accounts would not increase under rule 30e-3.

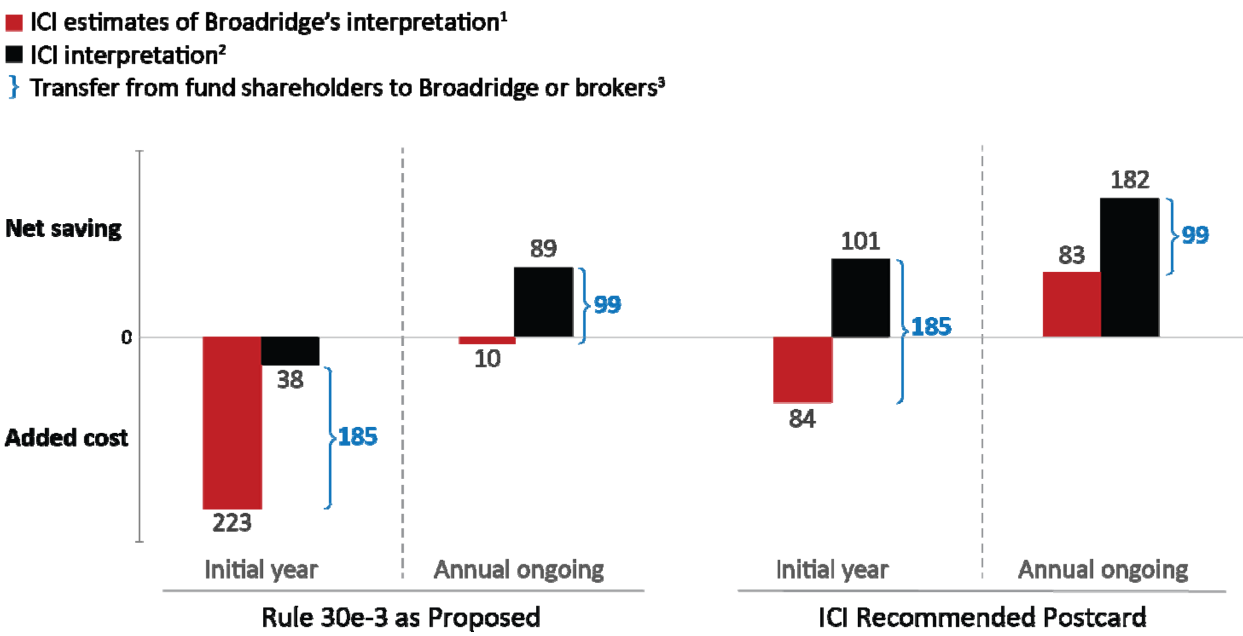
[12] *See* NYSE rule 451.90, "Schedule of approved charges by member organizations in connection with proxy solicitations," and NYSE rule 465, "Processing and transmission of Interim Reports and Other Material." *See also* ICI August Letter, *supra* note 4, at p. 79-80 (discussing NYSE processing fees).

to print and mail paper copies of those reports.[13] In other words, instead of providing cost savings, proposed rule 30e-3 would cost funds ***far more*** than the current paper delivery framework. As shown in Figure 1 below, ICI estimates funds would spend an estimated $223 million more (than under the current framework) in the first year of adoption and an estimated $10 million more on an annual ongoing basis. Even with ICI's recommended "postcard" modification, fund shareholders would save considerably less than our August analysis projected—spending $84 million more in the first year of adoption before experiencing savings of $83 million on an annual ongoing basis. By contrast, under our interpretation, fund shareholders will experience an additional $99 million per year in estimated potential cost savings, adding up to an estimated $1 billion over 10 years.[14]

[13] *See* Letter from Charles V. Callan, SVP Regulatory Affairs, Broadridge Financial Solutions, Inc., to Brent J. Fields, Secretary, U.S. Securities and Exchange Commission, dated January 13, 2016, available at https://www.sec.gov/comments/s7-08-15/s70815-540.pdf ("Broadridge January Letter"). Broadridge's letter states that proposed rule 30e-3 will provide cost savings only to a small segment of funds. The letter does not provide the details of this estimate. We base our representations about how Broadridge intends to apply NYSE processing fees to rule 30e-3 on detailed conversations with Broadridge.

[14] As shown in Appendix A, we estimated that if the SEC adopted ICI's suggested "postcard" modification (*see supra* note 10 and accompanying text), funds would realize savings of $101 million in the first year of the rule and $182 million annually thereafter.

Figure 1: Broadridge's Interpretation of NYSE Fees Transfers Rule 30e-3 Savings Away from Fund Shareholders to Broadridge or Brokers (*Millions of dollars)*



1. Sum of print and mail and NYSE processing fee net saving/added cost (*see* Appendix A, Table 6).
2. Estimates from ICI's August cost savings analysis.
3. Represents higher NYSE fees, as print and mail costs are identical in both estimates.

Although our print and mail estimates remain the same as in ICI's August cost savings analysis, Broadridge's interpretation of how NYSE processing fees apply would result in substantially higher fees that have a dramatic, negative impact on ICI's estimate of net savings.[15] In fact, the NYSE processing fees (under the Broadridge interpretation) would cancel out the proposed rule's substantial print and mail savings.[16]

C. <u>How Broadridge's Interpretation of NYSE Processing Fee Costs Differs from ICI's</u>

As explained above, we learned subsequent to filing our August letter that Broadridge anticipates applying certain NYSE processing fees in ways that we did not envision (and strongly disagree with) and therefore did not include in our August cost savings analysis. More specifically, our August cost savings analysis estimated annual ongoing NYSE processing fees at $46 million; under Broadridge's interpretation, estimated annual ongoing NYSE processing fees will skyrocket to $188

[15] *See infra* Table 2.

[16] *See* Appendix A, Table 6.

million—quadrupling the cost.[17] As summarized below and detailed in Appendix A, this $142 million difference arises from the manner in which Broadridge would apply two types of NYSE processing fees: a $0.15 per account "interim report" fee[18] and a tiered, blended rate per account "notice and access" fee.[19] Broadridge's interpretation of these fees differs from our analysis as follows:

1. **<u>$0.15 Interim Report Fee ($79.5 million increase[20])</u>**: Our August cost savings analysis logically applied the $0.15 interim report fee only to mailed shareholder reports.[21] Broadridge has informed us that it intends to apply this $0.15 fee to *all* accounts, including accounts receiving rule 30e-3 notices by mail and accounts for which mailing is "suppressed" (*e.g.*, e-delivered, householded, and managed accounts).[22]

2. **<u>Blended "Notice and Access" Fee ($62.7 million increase)</u>**

   a. **<u>Estimation of Fee ($19.2 million increase[23])</u>:** We originally estimated a blended $0.07 "notice and access" fee for funds that opt to rely on rule 30e-3, based on the current NYSE "notice and access" fee schedule for distribution of proxy materials.[24] This fee schedule has tiers based on "job" size, so that the per account rate charged decreases as the size of the "job" increases. Broadridge's estimate of a blended rate utilizes a smaller "job" size, since it has informed us that it determines the size of processing "jobs" based on share class rather than based on the fund as a whole. As a result, Broadridge estimates a blended

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[17] *See infra* Table 2. *See also* Appendix A, at note 4 and accompanying text.

[18] *See* NYSE rule 451.90(3). Interim report fees apply to the distribution of funds' annual and semi-annual shareholder reports.

[19] NYSE Rule 451.90(5) sets forth tiered rates for proxy distribution "notice and access," based on the number of broker-held accounts involved in the distribution.

[20] (240 million mailed notices*$0.15) + (290 million "suppressions" *$0.15) = $79.5 million.

[21] *See* ICI August Letter, *supra* note 4, at Appendix B.

[22] "Suppressed" accounts are accounts for which mailings are suppressed, *e.g.*, because the accountholder has opted for electronic delivery ("e-delivery") or due to "householding" (*i.e.*, sending one mailing to all of the accountholders sharing a single household), as well as for managed accounts.

[23] (240 million mailed notices*$0.08) = $19.2 million.

[24] Although the NYSE processing fee schedule does not contemplate the use of "notice and access" for shareholder reports, NYSE Rule 451.90(5) sets forth tiered rates for "notice and access" distribution of proxy materials. We used these proxy distribution "notice and access" tiered rates to develop an approximate estimate for the cost of processing the rule 30e-3 mailed notices. In so doing, we were taking a fee schedule written for proxy delivery and using it to estimate generally how NYSE processing fees might apply to delivery of notices associated with shareholder reports. *See* ICI August Letter, *supra* note 4, at Appendix B, at note 13 and accompanying text.

average "notice and access" fee of $0.15—more than double our estimate.[25]

b. **<u>Application of Fee to "Suppressed" Accounts ($43.5 million increase[26])</u>**: In our initial cost savings analysis, we applied the "notice and access" fee only to the mailed paper notices.[27] Since then, we have learned that the presence of any rule 30e-3 mailed notices in a Broadridge processing "job" will cause Broadridge to apply the "notice and access" fee to *all* accounts in the entire "job," including "suppressed" accounts that are not receiving rule 30e-3 mailed notices (*e.g.*, e-delivered, householded, and managed accounts).

As shown in Table 1 below, Broadridge's layering of multiple fees would increase the estimated per-report processing fee costs associated with shareholder report delivery under rule 30e-3 from $0.10 to $0.40 for "suppressed" accounts (*e.g.*, e-delivery, householded, and managed accounts) and from $0.07 to $0.30 for accounts receiving a rule 30e-3 paper notice. Table 1 outlines the differences between the processing fees projected in our August cost savings analysis and the processing fees that Broadridge has indicated it will seek to charge under the rule 30e-3 delivery mechanism.

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[25] For funds with multiple share classes, this will result in a higher blended rate than if Broadridge created the "job" based on the total number of accounts for the fund as a whole. This distinction is instructive. The NYSE rules do not address how to apply fees to funds with multiple share classes, and so, predictably, Broadridge's interpretation of fees will become the de facto outcome.

[26] (290 million "suppressions"*$0.15) = $43.5 million.

[27] *See* ICI August Letter, *supra* note 4, at Appendix B.

Table 1: Comparison of NYSE Processing Fees Applicable to Rule 30e-3 Delivery Mechanism

Type of NYSE Processing Fee	ICI Analysis of Applicable NYSE Fees per Rule 30e-3 Notice			Broadridge Interpretation of Applicable NYSE Fees per Rule 30e-3 Notice	
	"Suppressed"	Paper notice		"Suppressed"	Paper notice
Interim report fee	n/a	n/a		$0.15	$0.15
Preference management fee	$0.10	n/a		$0.10	n/a
Notice and access fee	n/a	$0.07		$0.15	$0.15
Total NYSE fees per unit	**$0.10**	**$0.07**		**$0.40**	**$0.30**
Total annual ongoing cost of NYSE processing fees*	**$29 million**	**$17 million**		**$116 million**	**$72 million**
	$46 million			**$188 million**	

* Total annual cost of NYSE processing fees estimated on an ongoing basis. *See* Appendix A, Section I.A. Totals assume annual processing of 240 million rule 30e-3 mailed notices and 290 million "suppressions."

D. The SEC Can Preserve Cost Savings for Fund Shareholders

As the above comparative analysis amply shows, the amount of cost savings that rule 30e-3 can provide for fund shareholders ultimately depends on how the NYSE processing fees will apply. The existing fee schedule was designed before the Commission proposed rule 30e-3, and it does not contemplate the delivery mechanism the rule would permit for fund shareholder reports. How the SEC resolves this issue will have very real financial consequences for fund shareholders.

Given that one of the stated purposes of proposed rule 30e-3 is to achieve cost savings for fund shareholders, it is imperative that the Commission take action to ensure that fund shareholders are afforded these savings. The Commission should do this by expressly stating in any adopting release its view of the application of the existing NYSE rules to the new rule 30e-3 paradigm.

More specifically, we urge the Commission to conclude—as we did for purposes of our August cost savings analysis—that:

(i) the $0.15 interim report fee applies solely to accounts receiving paper shareholder reports, and not to accounts receiving mailed paper notices or "suppressed" accounts;
(ii) the $0.10 preference management fee applies solely to "suppressed" accounts, and not to accounts receiving mailed rule 30e-3 notices;[28] and
(iii) a tiered "notice and access" fee[29] applies only to mailed 30e-3 notices, not to "suppressed" accounts or accounts receiving mailed paper reports.

Our interpretation, which the plain language of the NYSE rules supports, will help maximize cost savings for fund shareholders. If instead the SEC does not clarify how these fees apply under rule 30e-3, this will lead to the nonsensical result that it would cost funds *more* to mail simple paper notices than to mail lengthier paper shareholder reports.[30] Broadridge itself highlights the negative impact of its view on net cost savings.[31] In fact, under Broadridge's approach it would cost significantly more to "suppress" a rule 30e-3 notice mailing than it currently costs to "suppress" a mailed shareholder report.[32] One significant problem is that this is an area with no practical checks and balances—it is one

[28] *See* NYSE rule 451.90(4)(b). In our August letter, we asked the SEC to confirm that the $0.10 "preference management" fee is not applicable to, and therefore would not be paid by, funds utilizing the delivery mechanism under rule 30e-3. Broadridge has informed us that they currently do not plan to interpret the NYSE fee schedule as permitting them to charge the "preference management" fee for accounts receiving mailed rule 30e-3 notices. We still strongly urge the SEC, however, to confirm that the fee does not apply. The uncertainty around the application of the NYSE fee schedule warrants specific direction from the SEC clarifying the non-applicability of this "preference management" fee. *See, e.g.*, Memorandum from the Division of Investment Management regarding an August 4, 2015, meeting with representatives of Broadridge Financial Solutions, Inc. and Davis Polk & Wardwell LLP and attached presentation, available at https://www.sec.gov/comments/s7-08-15/s70815-128.pdf, at p. 5 (noting that any notice distribution should include a control number or unique identifier "to support fulfillment and preference management").

[29] One possible approach for the Commission's consideration would be to authorize the application of the current proxy "notice and access" fee schedule to rule 30e-3 mailed notices (consistent with the approach in ICI's August cost savings analysis). *See* NYSE rule 451.90(5).

[30] Setting aside the particular absurdities created by Broadridge's view of the application of NYSE processing fees and speaking more broadly, this system by its very terms fails to create an incentive to reduce fees, because the broker chooses the service provider who delivers the shareholder report who the fund then pays. *See* Letter from Karrie McMillan, General Counsel, Investment Company Institute, to Ms. Elizabeth M. Murphy, Secretary, U.S. Securities and Exchange Commission, dated October 20, 2010, available at http://www.ici.org/pdf/24637.pdf.

[31] *See* Broadridge January Letter, *supra* note 13, at p. 7.

[32] This is because Broadridge's interpretation of NYSE processing fees would layer three distinct fees onto each "suppressed" rule 30e-3 notice mailing—the $0.15 interim report fee, the $0.10 preference management fee, and the blended "notice and access" fee, estimated at $0.15—for a total of $0.40 per "suppressed" mailing. *See supra* Table 2. The Broadridge January Letter, *supra* note 13, at note 16 and accompanying text, indicates that it received third-party confirmation of the applicable NYSE fees. However, this third-party confirmation consists only of a description of the NYSE fees that currently apply to delivery of fund shareholder reports, as well as a note that the NYSE rules currently do not address whether a "notice and

of effective monopolistic pricing. We see no NYSE regulatory interest in reducing fees charged for providing mutual fund materials to shareholders. Indeed, the NYSE processing fee schedule was not designed for mutual funds—it was created for operating company proxy materials.[33]

Moreover, certain ongoing practices that strike us as abusive have been permitted to evolve under the NYSE fee framework.[34] These practices include: (1) "vendor remittances" (in effect, kickbacks) to brokers in situations where the costs of distributing required materials are less than the amount for which the vendor bills the fund;[35] and (2) the continued application of "incentive fees" (*i.e.*, "preference management" fees) in perpetuity, long after elimination of the need to mail materials in paper format.[36] We continue to question the appropriateness of these vendor remittances and of

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access" processing fee would apply to the proposed rule 30e-3 delivery mechanism. *See* Broadridge January Letter, *supra* note 13, at Attachment C.

[33] NYSE initially created the Rule 451.90 fee schedule with the distribution of operating company proxy materials in mind. The NYSE rule governing reimbursement for broker delivery of "interim reports" (*i.e.*, shareholder reports) was intended to cover the rare occasion where an operating company releases an "interim" shareholder report outside of the company's annual proxy distribution. *See Self-Regulatory Organizations; Order Approving Proposed Rule Change and Amendment No. 1 Thereto by the New York Stock Exchange, Inc. Amending Its Rules Regarding the Transmission of Proxy and Other Shareholder Communication Material and the Proxy Reimbursement Guidelines Set Forth In Those Rules, and Requesting Permanent Approval of the Amended Proxy Reimbursement Guidelines*, SEC Rel. No. 34-45644, available at https://www.sec.gov/rules/sro/34-45644.htm#P23_3387; *see also Self-Regulatory Organizations; New York Stock Exchange LLC; Notice of Filing of Proposed Rule Change Amending NYSE Rules 451 and 465, and the Related Provisions of Section 402.10 of the NYSE Listed Company Manual, which Provide a Schedule for the Reimbursement of Expenses by Issuers to NYSE Member Organizations for the Processing of Proxy Materials and Other Issuer Communications Provided to Investors Holding Securities in Street Name and to Establish a Five-Year Fee for the Development of an Enhanced Brokers Internet Platform*, SEC Rel. No. 34-68936, at p. 46-47, available at http://www.sec.gov/rules/sro/nyse/2013/34-68936.pdf (noting that the Proxy Fee Advisory Committee was formed with business corporations in mind—business corporations that have annual meetings and therefore deal with proxy solicitations at least once a year). Mutual funds do not conduct annual proxies, so funds consistently pay for shareholder report delivery twice a year. As a result, processing fees that NYSE developed for operating companies have a disproportionate impact on funds.

[34] *See* Letter to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, from Dorothy M. Donohue, Deputy General Counsel, Investment Company Institute, dated June 20, 2013, available at https://www.ici.org/pdf/27325.pdf; Letter to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, from Dorothy M. Donohue, Deputy General Counsel, Investment Company Institute, dated March 15, 2013, available at https://www.ici.org/pdf/27124.pdf; Letter from Karrie McMillan, General Counsel, Investment Company Institute, to Ms. Elizabeth M. Murphy, Secretary, U.S. Securities and Exchange Commission, dated October 20, 2010, available at http://www.ici.org/pdf/24637.pdf.

[35] In situations where the broker has negotiated processing fees that are lower than the NYSE maximum processing fee, the broker generally still charges the fund the maximum fee, and the vendor remits the difference back to the broker. These remittances are sometimes referred to as "cost recovery payments," although, in practice, the broker is pocketing any difference between the NYSE maximum fee and the actual cost. ICI remains concerned about the possibility that brokers may be charging funds more than what would constitute "reasonable" reimbursement for actual costs.

[36] "Preference management" or "incentive fees" are assessed when the need to mail materials in paper format has been eliminated, for instance, when duplicative mailings to multiple accounts at the same address have been eliminated. It makes

"evergreen" incentive fees that function as an annuity for vendors at the expense of fund shareholders. The level and structure of the fees reflected in the NYSE rules are neither "reasonable" nor an "equitable" allocation of fees, as required by Section 6(b)(4) of the Securities Exchange Act of 1934.[37]

We urge the Commission to consider whether fund shareholders would be better served by a separate, specially tailored fee schedule for processing costs associated with delivery of fund materials. The Commission should direct FINRA to assume primary responsibility for developing and administering that fee schedule.[38] FINRA is the primary self-regulatory organization for broker-dealer oversight and has investor protection as an integral part of its mandate.[39] At a time when the investing public and regulators are so sensitive to the impact of fees on investors' ability to meet their retirement savings or other financial goals, these processing fees and the system under which the fees are charged cry out for more robust oversight. These fees represent costs which may amount to billions in potential lost savings for investors. FINRA has every capability of conducting an examination of these fees, making robust cost benefit analysis an important part of its process.[40] The resulting FINRA rule would untangle mutual fund shareholder report delivery from the current NYSE proxy distribution paradigm designed for operating companies and allow mutual fund shareholders to pay fair fees designed for fund shareholder reports.

II. Some Rule 30e-3 Critics Are Motivated by Self-Interest

Many of the commenters expressing concerns with the Commission's proposal are associated with the paper, envelope, and related industries. These commenters therefore have a business and financial incentive to oppose the adoption of proposed rule 30e-3. It seems that many of these commenters advocating for continued paper delivery are cloaking themselves in the interests of elderly shareholders. In fact, we are aware of several individual commenters who posed as concerned senior

no sense for funds to pay these incentive fees *ad infinitum*. If these fees are charged at all, it should be on a one-time basis upon the elimination of paper mailings for an account.

[37] *See supra* note 34.

[38] We understand that the SEC delegated the determination of reasonable costs to self-regulatory organizations, and that NYSE historically has taken the lead in regulating these costs. *See* SEC Rel. No. 34-20021, 48 Fed. Reg. 35082 (July 28, 1983). We submitted letters to FINRA and NYSE on March 14, 2016, strongly urging them to work to transfer responsibility for these fees to FINRA.

[39] *See* FINRA website at http://www.finra.org/investors/protect-your-money (accessed Feb. 26, 2016).

[40] *See* FINRA, *Framework Regarding FINRA's Approach to Economic Impact Assessment for Proposed Rulemaking* (Sept. 2013), available at https://www.finra.org/sites/default/files/Economic%20Impact%20Assessment_0_0.pdf.

citizens without disclosing their paper industry ties.[41]

Given these commenters' commercial interests, we are deeply skeptical of the paper industry's contention that a large number of individual investors are avid readers of their paper shareholder reports. Mutual fund shareholder reports, as currently configured under SEC regulations, are long and technical documents that include financial statements, performance information, pages and pages of portfolio holdings, and various regulatory disclosures, such as discussion of the reasons the fund board approved any investment advisory contract during the reporting period. While they contain important information, many shareholders likely find the contents and length of these reports quite daunting. Consolidated fund reports may contain information for many different funds, extending to hundreds of pages in length. ICI reviewed shareholder reports from the largest 5 funds of each of the largest 20 U.S. mutual fund complexes (measured by assets under management). Our review found that consolidated reports ranged from 65 to 651 pages, and were on average 189 pages in length. Even unconsolidated shareholder reports ranged from 32 to 160 pages, and were on average 60 pages in length. While these characteristics make today's shareholder reports especially daunting reading material, they also reflect the size of the business opportunity they represent for paper purveyors. The Commission must keep this in mind in evaluating these comments.

III. Rule 30e-3 Aligns with National and Global Environmental Initiatives: The Rule Would Preserve About 2 Million Trees Each Year

The environmental impact of moving toward greater use of electronic communications and away from paper serves as an additional consideration in the compelling case for proposed rule 30e-3. In fact, mitigating environmental damage has become a global and national policy concern, with nearly 200 countries signing the recent Paris agreement to reduce greenhouse gas emissions and combat climate change.[42] Elimination of the mandatory printing and mail delivery of mutual fund shareholder reports is consistent with the Paris Agreement. It also responds to President Obama's challenge to

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[41] For example, one individual posed as an investor preferring paper versions of shareholder reports, both in a comment letter to the SEC and in a press interview. Neither the comment letter nor the press article indicated this person's apparent experience as an executive officer at an envelope company. *See* Letter from Bob Broadbear to U.S. Securities and Exchange Commission, dated July 20, 2015, available at http://www.sec.gov/comments/s7-08-15/s70815-18.htm; *see also Paper Lovers Slam SEC Modernization Proposal*, Ignites (July 24, 2015).

[42] *See* Office of the Press Secretary, *U.S. Leadership and the Historic Paris Agreement to Combat Climate Change*, Dec. 12, 2015, available at https://www.whitehouse.gov/the-press-office/2015/12/12/us-leadership-and-historic-paris-agreement-combat-climate-change.

American companies to reduce their carbon footprints.[43]

Reducing reliance on paper reduces our carbon footprint.[44] The paper production process not only contributes to climate change, but also pollutes our air, water, and land.[45] Paper manufacturing emits nitrogen dioxide, sulfur dioxide, and carbon dioxide, contributing to acid rain and greenhouse gas effects.[46] Paper mills discharge wastewater that may contain heavy metals, chlorine, alcohols, and other materials that can harm severely the ecology of our waterways.[47] A significant portion of the paper produced through this ecologically harmful process results in paper waste. In fact, paper waste accounts for up to 40% of total waste in the United States.

Reducing our need for paper also reduces deforestation, which can contribute significantly to climate change.[48] With the move to rule 30e-3, we stand to save 1.87 million trees annually—trees currently cut down to make the paper we use to create hard-copy shareholder reports.[49] Each of these trees supplies an estimated day's worth of oxygen for two people, while absorbing an estimated 48 pounds of carbon dioxide each year, improving air quality and reducing greenhouse gas emissions.[50]

We commend the Commission for properly balancing the significant environmental and cost savings that website transmission affords while ensuring that the important information in mutual fund

[43] Office of the Press Secretary, *Fact Sheet: White House Launches American Business Act on Climate Pledge*, July, 27, 2015, available at https://www.whitehouse.gov/the-press-office/2015/07/27/fact-sheet-white-house-launches-american-business-act-climate-pledge.

[44] *See* U.S. Environmental Protection Agency, *Paper Products* (Oct. 28, 2010), available at http://www3.epa.gov/climatechange/wycd/waste/downloads/paper-products10-28-10.pdf.

[45] *See* U.S. Environmental Protection Agency, *National Emission Standards for Hazardous Air Pollutants for Source Category: Pulp and Paper Production; Effluent Limitations Guidelines, Pretreatment Standards, and New Source Performance Standards: Pulp, Paper, and Paperboard Category,* 63 Fed. Reg. Vol. 18504 (Apr. 15, 1998), available at https://www.gpo.gov/fdsys/pkg/FR-1998-04-15/pdf/98-9613.pdf ("EPA Guidelines").

[46] *See id. See also* U.S. Environmental Protection Agency, *Causes of Acid Rain*, available at https://www3.epa.gov/region1/eco/acidrain/causes.html.

[47] *See* EPA Guidelines, *supra* note 45.

[48] U.S. Environmental Protection Agency, *Causes of Climate Change*, available at http://www3.epa.gov/climatechange/science/causes.html.

[49] 1.87 million trees = [240 million shareholder reports per year * (114 page average report length / 1.75 to account for reports with double-sided pages)] / 8,333 pages in a tree. We base the average shareholder report length of 114 pages on our review of reports of funds representing approximately one-quarter of mutual fund industry assets under management. Our estimation of 8,333 pages per tree comes from Conservatree statistics available at http://conservatree.org/learn/EnviroIssues/TreeStats.shtml.

[50] Urban Forestry Network, *Trees Improve Our Air Quality*, available at http://urbanforestrynetwork.org/benefits/air%20quality.htm.

shareholder reports continues to be readily accessible to investors and to the general public.

IV. Criticisms of Rule 30e-3 Lack Merit

We now turn to a discussion of certain comments the Commission received in opposition to proposed rule 30e-3. Several commenters voiced concern that rule 30e-3 would disadvantage certain groups with lower levels of Internet access, such as the elderly.[51] There are several reasons to question the validity of these and other concerns articulated in response to the proposal, as we explain below.

A. Rule 30e-3 Critics Incorrectly Characterize the Degree of Fund Shareholders' Internet Access and Usage

1. *Mutual Fund Shareholders Have Greater Access to the Internet and Make More Use of It for Financial Purposes than the General Population*

An important point for the Commission to consider is that these commenters base their concerns on characteristics of the general population rather than those of mutual fund investors. Almost all mutual fund investors have Internet access. A 2015 ICI survey found that 91 percent of U.S. households owning mutual funds had Internet access (up from 68 percent in 2000), with widespread use among various age groups, education levels and income levels.[52] By comparison, 84 percent of American adults used the Internet in 2015 (up from 52 percent in 2000).[53] ICI also found that with increased ease of access, investors also increasingly prefer enhanced availability of financial information on the Internet. In fact, in 2013 (latest data available), an ICI survey found that 82 percent of U.S. households owning mutual funds used the Internet for financial purposes.[54]

The difference in Internet adoption rates is even more pronounced for older mutual fund shareholders as compared to the general population. Mutual fund shareholders 65 or older have an 84

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[51] *See, e.g.*, Letter from Paul Noe, Vice President, Public Policy, American Forest & Paper Association, to Brent J. Fields, Secretary, U.S. Securities and Exchange Commission, dated August 7, 2015, available at http://www.sec.gov/comments/s7-08-15/s70815-178.pdf. *See generally* comments on the Fund Reporting Proposal, *supra* note 2, at http://www.sec.gov/comments/s7-08-15/s70815.shtml.

[52] *See* Burham, Kimberly, Michael Bogdan & Daniel Schrass, *Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2015*, ICI Research Perspective 21, no. 5 (November), available at www.ici.org/pdf/per21-05.pdf ("ICI 2015 Research Perspective"), at p. 20.

[53] *See Americans' Internet Access: 2000-2015*, Pew Research Center, available at http://www.pewinternet.org/files/2015/06/2015-06-26_internet-usage-across-demographics-discover_FINAL.pdf, at p. 2 ("Pew Research").

[54] *See 2014 Investment Company Fact Book, 54th edition,* Investment Company Institute, available at https://www.ici.org/pdf/2014_factbook.pdf, at 115-117.

percent rate of Internet access,[55] as compared to 58 percent of the general population of senior citizens.[56] This puts mutual fund shareholders 65 or older at the same Internet usage rates as the general population as a whole. Although Internet access traditionally has been greatest among younger people—in both mutual fund-owning households and the general population—increasing access among older shareholders has narrowed the gap considerably.[57] The proportion of mutual fund households with heads of household age 65 or older with Internet access, grew from 30 percent in 2000 to 84 percent in 2015.[58] This dramatic increase is substantially greater than for the general senior population, where the percentage of seniors using the Internet has increased from 14 percent in 2000 to 58 percent in 2015.[59]

Some critics of proposed rule 30e-3 have focused on the small percentage of fund investors who do not have Internet access. The Commission should not fail to move forward, however, simply because a small percentage of individuals would not be able to view their reports online. After all, the SEC requires funds to provide only written reports to investors despite a recent study from the U.S. Department of Education showing that the U.S. adult literacy rate remains at 86 percent.[60] The SEC does not require that funds offer audio disclosures upon request to those 14 percent of adults who are unable to read paper disclosures. But proposed rule 30e-3 will give shareholders the opportunity to request paper reports if they are unable or unwilling to access the reports online.

Beyond Internet access, mutual funds are seeing shifts in how shareholders actually use fund websites—*i.e.,* not only for information access but also to handle their investment transactions. For example, there is anecdotal evidence that mutual fund shareholders are handling their transactions electronically in increasing numbers. One ICI member has seen the percentage of electronic transactions the firm processes from direct shareholders increase from 65 percent in 2005 to 89 percent in 2014.[61] This increase suggests a continuing trend toward greater mutual fund shareholder interest in

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[55] *See* ICI 2015 Research Perspective, *supra* note 52.

[56] *See* Pew Research, *supra* note 53.

[57] Notably, groups such as AARP, which advocates on behalf of the senior population, have robust websites, online memberships, and online gateways to financial products, services and discounts from various companies. This is at odds with attempts to portray America's senior citizens as unable or unwilling to access the Internet.

[58] *See* ICI 2015 Research Perspective, *supra* note 52, at p. 21.

[59] *See* Pew Research, *supra* note 53, at p. 4.

[60] U.S. Department of Education, Institute of Education Sciences, National Center for Education Statistics, National Assessment of Adult Literacy, *Literacy, Numeracy, and Problem Solving in Technology-Rich Environments Among U.S. Adults* (Oct. 2013), available at http://nces.ed.gov/pubs2014/2014008.pdf.

[61] *See* Letter from David Oestreicher, Chief Legal Counsel, T. Rowe Price, to Brent J. Fields, Secretary, U.S. Securities and Exchange Commission, dated August 21, 2015, available at https://www.sec.gov/comments/s7-08-15/s70815-324.pdf, at p. 6.

and comfort with managing their fund investments online.[62]

Moreover, it strains the imagination to contend—as many of these opponents of rule 30e-3 do—that America's older mutual fund shareholders are enthusiastic readers of their shareholder reports but do not have the wherewithal to make a toll-free phone call to request a hard copy of the report, after being prompted by an intentionally conspicuous paper notice to do so. As the Commission is aware, proposed rule 30e-3 would *increase* investor choice as those shareholders who have genuine interest in perusing their reports in paper still will be able to receive paper. As discussed in our August letter, ICI supports the proposal's requirement that funds both deliver paper notices and mail paper versions of shareholder reports to those shareholders who affirmatively desire them. And if the rule 30e-3 delivery mechanism preserves or increases investor choice while also offering the potential for significant cost savings—as we believe it does—there is no basis for simply assuming, as one commenter did, that any impact on seniors would be negative.[63]

2. *U.S. and International Governments Are Moving Financial Disclosure Online in Response to Public's Behavioral Shift*

In recognition of the movement toward providing information access online, the federal government increasingly interacts with individuals online as well.[64] Certain federal agencies also have reflected this trend in their rulemaking, including the Consumer Financial Protection Bureau ("CFPB"), which Congress specifically established to ensure that all consumers have access to markets for consumer financial products and services and that markets for consumer financial products and

[62] An Institute survey from 2006 found that more than 80 percent of recent fund investors who use the Internet go online to gather financial information, including 60 percent who go online to monitor their fund investments. *See Understanding Investor Preferences for Information*, Investment Company Institute (2006), available at https://www.ici.org/pdf/rpt_06_inv_prefs_full.pdf ("ICI Survey"). These figures almost certainly have increased since 2006 as more and more individuals become comfortable with the Internet and accessing financial information online.

[63] *See* Broadridge January Letter, *supra* note 13, at p. 4-6 (asserting that the rule 30e-3 delivery mechanism would affect a disproportionate number of seniors and assuming that the impact would be negative). Broadridge also asserts that rule 30e-3 would affect a disproportionate number of "low income" investors. Broadridge's demographic analysis, however, broadly categorizes fund investors earning less than $50,000 as "low income," even though this category appears to include individuals whom one could hardly consider "low income," such as older, retired investors with substantial assets, living on investment income.

[64] *See, e.g., Government Paperwork Elimination Act*, Pub. L. 105–277, Title XVII, 112 Stat. 2681 (Oct. 21, 1998) (requiring federal agencies to allow individuals or entities that deal with the agencies the option to submit information or transact with the agency electronically and to maintain records electronically); *see also Implementation of the Government Paperwork Elimination Act*, Office of Management and Budget, available at https://www.whitehouse.gov/omb/fedreg_gpea2/ ("As public awareness of electronic communications and Internet usage increases, demand for on-line interactions with the Federal agencies also increases.").

services are "fair, transparent, and competitive."[65] Taking a strikingly similar approach to that of proposed rule 30e-3, the CFPB finalized a rule in 2014 permitting financial institutions under its jurisdiction to satisfy certain privacy notice transmission requirements by posting the privacy notice online and informing consumers annually via U.S. mail about the availability of the notice.[66] In moving to a notice and access model for delivery of required privacy notices, the CFPB noted that U.S. household Internet access increased drastically from 2000 to 2012, thus making easy access to electronic notices significantly more widespread.[67]

The CFPB's and the SEC's moves toward online financial disclosure (with paper available on request) are consistent with a global movement in this direction. For example, similar to proposed rule 30e-3, the European Union permits funds to post shareholder reports on a website, with paper annual or semi-annual reports available by mail on request.[68] In Canada, fund shareholders have choices for how to receive regulatory documents.[69] Canadian law permits funds to send a negative consent letter to shareholders on an annual basis. A shareholder may request to receive a copy of the shareholder report by mail if desired. Similarly, under Australian law, funds can make shareholder reports available on a website, as long as in the first year of doing so they notify shareholders, explain how to access the website, and provide the option to request a mailed copy of the report.[70]

B. Rule 30e-3 Critics Inaccurately Call into Question Funds' Ability to Fulfill Shareholder Requests for Mailed, Paper Reports

We are confident that fund companies stand ready to fulfill shareholder requests to receive

[65] *See* 12 U.S.C. § 5511 (Dodd-Frank Act § 1021).

[66] *Amendment to the Annual Privacy Requirement under the Gramm-Leach-Bliley Act (Regulation P)*, 79 Fed. Reg. 64057 (Oct. 28, 2014), available at http://www.gpo.gov/fdsys/pkg/FR-2014-10-28/pdf/2014-25299.pdf ("CFPB Final Release").

[67] *Amendment to the Annual Privacy Requirement under the Gramm-Leach-Bliley Act (Regulation P)*, 79 Fed. Reg. 27214 (May 13, 2014), available at https://www.gpo.gov/fdsys/pkg/FR-2014-05-13/pdf/2014-10713.pdf, at p. 27218 (citing to U.S. Census data and the Pew Internet Research Project). *See also U.S. Census data, Households with a Computer and Internet Use: 1984 to 2012*, available at https://www.census.gov/hhes/computer/publications/2012.html and Pew Research Internet Project, available at http://www.pewinternet.org/2014/02/27/summary-of-findings-3/. Similar to proposed rule 30e-3, the CFPB's privacy notice delivery option requires a financial institution to mail a current privacy notice promptly to those customers who request it by telephone. The CFPB implemented this requirement to assist customers without Internet access and customers with Internet access who would prefer to receive a hard copy of the notice, so that all customers could receive the privacy notice in the form they prefer. CFPB Final Release, *supra* note 66, at p. 64070-71.

[68] *See* Undertakings for Collective Investment in Transferable Securities Directive 2009/65/EC, Article 75.

[69] *See* Ontario Securities Commission, *Investment Fund Continuous Disclosure*, National Instrument 81-106, Section 5.2.

[70] *See* Australian Corporations Act S1017DA and reg 7.9.75BA.

paper reports by mail, notwithstanding the concerns that one rule 30e-3 critic has raised.[71] Funds already have robust processes in place to handle similar fulfillment requests—either through an internal party or by contract with an external vendor. Funds subject their current fulfillment processes, whether internal or external, to rigorous oversight. This oversight may include periodic reviews of the internal unit or external vendor, vendor reporting on literature requests and outcomes, call monitoring, training supervision, "secret shoppers" who periodically test the existing process, complaint tracking, and shareholder and prospect surveys.

A recent survey of our members found that they have specific, highly effective processes in place to handle requests under Rule 498 under the Securities Act of 1933 (the "Summary Prospectus Rule") for a paper copy of a fund's statutory prospectus, statement of additional information, or most recent shareholder reports.[72] These processes include training fund company representatives to handle fulfillment requests (including requests from investors who hold the fund through an intermediary), routing the fulfillment requests to the appropriate internal or external party, and then monitoring the request to ensure compliance with applicable timeliness requirements (*i.e.*, requirement to send requested materials within three business days after receipt of a request). For other fund literature fulfillment requests, where there is no specific legal obligation to send copies of these documents by mail upon request, it is common practice for our members to set a standard turnaround time and track fulfillment performance against this standard. Our surveyed members have standard turnaround timeframes ranging from same day to three business days, and they reported perfect or almost-perfect performance against the standard.

We also surveyed our members regarding complaints received about literature fulfillment requests during the past year. Broadly speaking, members receive an extremely small number of complaints and conduct immediate, thorough follow-up to find the reason for the complaint.[73] Although any process will have occasional lapses, we believe the lack of fund shareholder complaints is indicative of the high level of service that our members are providing.

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[71] One commenter on the proposal questioned the readiness of mutual fund firms to deliver paper shareholder reports upon request. *See* Broadridge January Letter, *supra* note 13, at Attachment A. This commenter based its concerns on an ill-conceived "mystery shopper" exercise that it appears to have conducted in-house. This questionable exercise lacks any apparent methodology, and we consider it to have no validity. It is unclear how the commenter selected the "mystery shopper" investors, which fund companies the investors contacted, and how the investors identified themselves to the fund companies. Moreover, there appears to be no rhyme or reason as to which documents the investors requested, how they posed their requests, and which means of contact they used to request the documents (*e.g.*, website, e-mail, phone, mail).

[72] We received responses from 33 fund complexes, representing approximately 41 percent of U.S. mutual fund assets under management. *See* Appendix B for survey questions.

[73] For the 30 members that reported the number of complaints received related to a failure to deliver requested regulatory documents, there was a collective total of three complaints in 2015.

Members anticipate leveraging their current Summary Prospectus Rule fulfillment processes for rule 30e-3 delivery of paper shareholder reports upon request. The success of members' existing fulfillment programs indicates that rule 30e-3 fulfillment will require a simple extension of current industry practices.

C. Rule 30e-3 Critics Inappropriately Point to Disappointing Experience with a "Notice and Access" Model for Proxy Material Delivery

Some commenters on the proposal expressed concerns about the decline in shareholder voting rates after the SEC changed its rules to permit delivery of proxy materials using a "notice and access" model. Even assuming such a decline, it has little relevance here. One would expect mutual fund shareholders to interact differently with proxies than they do with shareholder reports, making proxy voting data an inapt predictor for the level of shareholder report readership. A very basic difference between proxy and shareholder report notice and access is that under the SEC's "notice and access" rules for proxy materials, a shareholder receives a notice about the availability of the proxy materials and then must take two additional actions, first to review the proxy materials and then to cast a proxy vote.[74] By contrast, a shareholder report is simply available for review and does not require further action on the part of the shareholder.

Another difference is that, unlike operating companies, mutual funds do not solicit proxies annually.[75] Instead, these funds solicit proxies on an occasional basis, perhaps most often for uncontested fund director elections where the same directors will be elected regardless of whether a given shareholder votes.[76] An uncontested director election by its nature is highly unlikely to elicit strong interest or participation from rank and file mutual fund shareholders.[77] On the other hand, mutual fund shareholders receive annual and semi-annual reports on a regular schedule—every six months—and these reports contain information more likely to be of interest, such as fund performance, portfolio holdings and expense information.

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[74] *See generally* Concept Release on the U.S. Proxy System, Rel. Nos. 34-62495; IA-3052; IC-29340 (Jul. 14, 2010), available at https://www.sec.gov/rules/concept/2010/34-62495.pdf.

[75] Although closed-end funds do solicit annual proxies, mutual funds (*i.e.,* open-end funds) do not.

[76] Mutual fund directors serve a very different role than operating company directors, so their election is not typically a matter for contest. *See, e.g.,* Letter from Karrie McMillan, General Counsel, Investment Company Institute, to Elizabeth M. Murphy, Secretary, U.S. Securities & Exchange Commission, dated March 27, 2009, available at https://www.ici.org/pdf/23362.pdf, at p. 3-4.

[77] *See* ICI Survey, *supra* note 62. This survey found that only fifteen percent of mutual fund shareholders ascribe significance to information about a mutual fund's directors when selecting a mutual fund.

D. Critics of Rule 30e-3 Ineffectively Argue that Fund Shareholder Report Readership Would Decrease

A few commenters opposing proposed rule 30e-3 suggested that the new delivery option would reduce the number of shareholders who read their funds' shareholder reports. There are no current figures, however, on the percentage of shareholders who currently read their hard copy reports and there is no reliable means of obtaining these figures.

Surveys, while useful for measuring some types of investor behaviors, offer a much less precise means of gauging investor readership behavior. Overall, surveys that ask shareholders to self-report their level of readership run the risk of overestimating actual readership behavior since shareholders may be less willing to admit low readership to a third party. That said, the most relevant survey we could identify was the one mentioned above that ICI conducted in 2006. That survey of mutual fund shareholders found that 27 percent of shareholders reported reading all or most of their shareholder reports. Twenty-four percent reported reading "some" and 49 percent reported reading "very little" or that they "do not read" the reports.[78] Other surveys recently submitted to the SEC did not ask respondents specifically about their report readership, or have other methodology problems.[79]

Given the lack of reliable data, it is not possible to conclude that fewer shareholders will read reports online, since we do not know, and cannot reliably measure, what percentage of shareholders currently read their reports. Rather, it is more relevant for the Commission's consideration of the proposal's costs and benefits to take into account the high numbers of fund investors who use the Internet to gather financial information. Our data—which likely understate the Internet usage habits of today's mutual fund shareholder population—indicate that mutual fund shareholders are comfortable obtaining financial information from online sources such as mutual fund websites.[80]

E. Rule 30e-3 Critics, Ironically, Support a Similar Online Delivery Approach in a Much Riskier Context

Some critics of rule 30e-3 have been curiously inconsistent in their views on the public's ability to access financial information online. For example, some critics have supported electronic disclosures in a context that implicates considerably more investor protection concerns than shareholder reports—

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[78] *See id*. at p. 9.

[79] For example, one survey provided to the SEC simply asked respondents whether they "look" at their reports rather than whether they "read" them. *See, e.g.*, Broadridge January Letter, *supra* note 13, at p. 46. This survey reported that 87 percent of shareholder report recipients "looked" at their reports. The survey sample, however, did not include mutual fund shareholders who could not recall receiving a report. Exclusion of those respondents skews the survey results, making any inference made about the population of mutual fund shareholders biased and potentially meaningless.

[80] *See* ICI Survey, *supra* note 62, at p. 12.

i.e., so-called "crowdfunding.[81] One group submitted a letter in March 2014 supporting the Commission's proposed requirement that crowdfunding investors agree to accept electronic delivery of disclosures as a condition of participating in a crowdfunding offering.[82] They supported providing investors with access to disclosure online via an e-mailed link to the disclosure, while specifying that they did not think it was adequate for an email notice simply to state that disclosure was available on the website of the funding intermediary without providing a link. Of note, similar to the crowdfunding proposal, the proposed rule 30e-3 mailed notice would include a specific reference to the shareholder report's online location (URL).

Ironically, this critic of proposed rule 30e-3 supported online disclosure for crowdfunding investors despite observing that crowdfunding investors would face risks ranging "from the high failure rate of small start-up companies, to liquidity and valuation risks, to risks of expropriation."[83] Highly regulated funds (and their shareholder reports) are a decidedly less risky context by comparison, given the extensive investor protection provisions that apply to funds under the Investment Company Act of 1940 and other federal securities laws.

In addition to supporting online disclosure for crowdfunding investors, this same critic has expressed strong support for a Department of Labor proposed rule that, if adopted largely as proposed (as we anticipate), likely will precipitate shifting a large number of investors with smaller accounts from their human financial advisors over to robo-advisors.[84] An investor's interaction with a robo-advisor likely would take place entirely online. Depriving investors of their human personal financial advisor in favor of obtaining financial advice online is an enormous leap with potentially huge ramifications for investors as they save for retirement. In contrast, asking investors to view their shareholder reports online is a small step indeed, and one that is in line with the general shift towards online disclosure. We

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[81] The Consumer Federation of America ("CFA") submitted a comment letter supporting disclosure "through an electronic message that contains the information or through an electronic message that includes a specific link to the information as posted on the intermediary's platform." *See* Letter from Barbara Roper, Director of Investor Protection, Consumer Federation of America, to Elizabeth M. Murphy, Secretary, U.S. Securities and Exchange Commission, dated February 2, 2014, available at http://www.consumerfed.org/pdfs/CFA-crowdfunding-comment-letter.pdf, at p. 16.

[82] *See id.*

[83] *See id*.

[84] DOL's proposed fiduciary rule would make retirement investment advice more expensive and difficult to obtain for many investors with small accounts. *See* Letter to Office of Exemption Determinations, Employee Benefits Security Administration, U.S. Department of Labor, from David M. Abbey, Deputy General Counsel – Retirement Policy, and David W. Blass, General Counsel, Investment Company Institute, dated July 21, 2015, available at https://www.ici.org/pdf/15_ici_dol_fiduciary_best_interest_ltr.pdf. Secretary Perez has proposed robo-advisers as the solution to this problem. *See* Remarks by U.S. Secretary of Labor Tom Perez, Brookings Institution Public Meeting, "How Should Retirement Investment Advice Be Regulated?" Washington, DC, dated October 16, 2015, available at http://www.dol.gov/_sec/media/speeches/20151016_Perez.htm.

fail to understand how a supporter of online financial advice also could truly believe that investors are incapable of viewing shareholder reports online.

We urge the Commission to bear these inconsistencies in mind as it evaluates the comments it received on proposed rule 30e-3.

*   *   *   *   *   *

ICI applauds the Commission for proposing balanced reforms that will modernize the current shareholder report delivery regime while still ensuring that fund shareholders' delivery preferences will be honored. We strongly disagree with any suggestions that fund shareholders are not ready or willing to continue the move toward increased online disclosure, especially given the absence of any persuasive evidence. We therefore urge you to address the application of NYSE processing fees in a manner that preserves significant cost savings for fund shareholders and to move forward expeditiously with adoption of the proposed reforms, including the modifications we recommended in our initial comment letter. It is imperative that the SEC not miss this important opportunity to modernize its rules, to the benefit of fund investors.

We appreciate the opportunity to submit additional comments on this proposal. If you have any questions regarding our comments or would like additional information, please contact me at (202) 326-5901, David Blass, General Counsel, at (202) 326-5815, or Dorothy Donohue, Deputy General Counsel – Securities Regulation, at (202) 218-3563.

Sincerely,

/s/ Paul Schott Stevens

Paul Schott Stevens
President and CEO
Investment Company Institute

cc: The Honorable Mary Jo White, Chair
The Honorable Michael S. Piwowar
The Honorable Kara M. Stein
Rick A. Fleming, Investor Advocate
David W. Grim, Director, Division of Investment Management
Diane C. Blizzard, Associate Director, Division of Investment Management
Stephen I. Luparello, Director, Division of Trading and Markets
Gary L. Goldsholle, Deputy Director, Division of Trading and Markets
U.S. Securities and Exchange Commission

Richard G. Ketchum, Chairman and CEO
Financial Industry Regulatory Authority

Jeffrey C. Sprecher, Chairman
New York Stock Exchange

Appendix A

Proposed Rule 30e-3: Cost Savings Analysis Showing Impact of Broadridge's Interpretation of How NYSE Processing Fees Apply

This appendix provides a detailed analysis that reflects a different interpretation of how New York Stock Exchange ("NYSE") processing fees[1] would apply, based on discussions with Broadridge Financial Solutions, Inc., the vendor who delivers shareholder reports on behalf of the majority of broker-dealers. Since we filed our August letter, our discussions with Broadridge revealed that it anticipates applying certain additional NYSE processing fees that we did not include in our August cost savings analysis. Broadridge's view of the application of NYSE processing fees to the rule 30e-3 delivery mechanism causes estimated annual ongoing NYSE processing fee costs to jump from $46 million to $188 million—quadrupling the cost. Our analysis shows that if the specified NYSE processing fees apply in this manner, the considerable increase in NYSE processing fees will cancel out the substantial print and mail savings from moving to the rule 30e-3 delivery mechanism.

The proposed rule 30e-3 delivery mechanism then would cost *more* than the current paper delivery framework, both in the first year of adoption and on an ongoing basis.[2] Using Broadridge's interpretation of applicable NYSE processing fees, funds would spend an estimated $223 million more than under the current delivery framework in the first year of adoption and an estimated $10 million more on an annual ongoing basis. Even with ICI's recommended postcard modification,[3] fund shareholders would save considerably less than our August analysis projected—spending $84 million more in the first year of adoption before experiencing savings of $83 million on an annual ongoing basis.

We provide below a cost savings analysis that uses Broadridge's interpretation of applicable NYSE processing fees. This analysis differs in three respects from our August cost savings analysis and reflects the impact of these additional NYSE processing fees on the unit cost to the fund for each

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[1] As we explained in our August letter, under the current system, brokers are entitled to receive certain processing fees (referred to as "NYSE processing fees") from funds for delivering shareholder reports to mutual fund shareholders who hold shares in brokerage accounts. A fee schedule set forth in the NYSE rules governs these processing fees, which sets the maximum processing fee rates that brokers can charge funds for shareholder report delivery. *See* NYSE rule 451.90. The fees are paid for each broker-held fund shareholder account.

[2] To rely on the proposed rule, the Commission would require the fund to mail an Initial Statement to each shareholder from whom the fund is seeking implied consent. Thereafter, the Commission would require funds to mail two Notices annually to each shareholder who has provided implied consent, one in connection with the publication of each fund report. As a result, in the initial year, funds would be required to conduct three mailings to shareholders—the Initial Statement and two Notices. For subsequent years, we assumed funds would conduct two mailings (one Notice per report) to shareholders.

[3] In our August letter, we recommended that the SEC eliminate the proposed requirement to send shareholders a postage-paid reply form with the Initial Statement and Notice, and permit funds instead to mail a postcard to fulfill the notice requirement. *See* Letter from David W. Blass, General Counsel, Investment Company Institute, to Brent J. Fields, Secretary, U.S. Securities and Exchange Commission, dated August 11, 2015, available at http://www.sec.gov/comments/s7-08-15/s70815-315.pdf ("ICI August Letter"), at p. 78-79.

broker-held account and on overall estimated cost to fund shareholders.

I. Estimated Costs of Website Delivery of Shareholder Reports Using Broadridge's Interpretation of Applicable NYSE Processing Fees

ICI's analysis of the impact of Broadridge's interpretation of applicable NYSE processing fees separates costs incurred into two components: print and mail, and NYSE processing fees. Our estimates of print and mail costs associated with delivery of shareholder reports and rule 30e-3 notices remain unchanged from our August cost savings analysis. For reference, these estimated print and mail costs are summarized briefly in Section B below. Although the print and mail cost prong of our revised estimate remains the same, the Broadridge interpretation of applicable NYSE processing fees adjusts the estimate for these fees substantially upwards. Our August cost savings analysis estimated annual ongoing NYSE processing fees at $46 million.[4] The Broadridge interpretation results in a revised estimate of $188 million in annual ongoing NYSE processing fees—a difference of $142 million.[5]

A. Estimates of NYSE Processing Fees for Broker-Held Accounts under Broadridge Interpretation

Our August cost savings analysis projected that NYSE processing fees would be lower for shareholder accounts that receive website delivery of shareholder reports as a result of adoption of proposed rule 30e-3. Broadridge, however, indicates that, in their view, application of the rule 30e-3 delivery mechanism would cause annual ongoing NYSE processing fee costs to jump from $46 million to $188 million—an increase of $142 million. We analyze below Broadridge's interpretation of how those NYSE processing fees would apply to the proposed rule 30e-3 delivery mechanism and compare the resulting cost estimate to our August cost savings analysis.

Under the current system, brokers are entitled to receive certain processing fees from funds for delivering shareholder reports to mutual fund shareholders who hold shares in brokerage accounts. These processing fees are governed by a fee schedule set forth in the NYSE rules, which sets the

[4] *See* Table 1. Our August cost savings analysis estimated annual ongoing NYSE processing fees for accounts receiving mailed notices at $17 million. In our August letter, we did not consider "suppressed" accounts because we did not anticipate that use of rule 30e-3 would increase NYSE processing fees for these accounts. At that time, we assumed that only the preference management fee ($0.10 per "suppression") would apply to "suppressed" rule 30e-3 notices, which—had it been reported in our August cost savings analysis—would have resulted in $29 million in annual ongoing NYSE processing fees. Implicitly, our August cost savings analysis estimated a total of $46 million in annual ongoing NYSE processing fees for mailed rule 30e-3 Notices ($16.8 million) and "suppressed" Notices ($29 million). In the initial year, we estimated $69 million in NYSE processing fees for mailed rule 30e-3 Notices and Initial Statements ($25.2 million) and "suppressed" Notices and Initial Statements ($43.5 million).

[5] We focused on annual ongoing cost because these are the fees that funds will experience every year. In the initial year of adoption, the cost of using the rule 30e-3 delivery mechanism is 50% higher than in ongoing years because funds would need to mail the Initial Statement in addition to the two Notices. *See supra* note 2. Our August cost savings analysis estimated NYSE processing fees in the initial year of adoption at $69 million (*see supra* note 4) as compared to $282 million (*see* Table 3) under the Broadridge interpretation.

maximum processing fees that brokers can charge funds for shareholder report delivery.[6] Brokers currently charge funds for shareholder report delivery both for shareholder accounts that receive paper reports via mail as well as shareholder accounts whose reports are "suppressed." A fund shareholder's report is "suppressed" when the need to send a physical mailing is eliminated (*e.g.*, e-delivery, householding, and managed account consolidations).

1. *Comparison of Broadridge Interpretation to ICI August Analysis*

Three types of NYSE processing fees are relevant to the discussion of cost savings under rule 30e-3: a $0.15 per account "interim report" fee,[7] a $0.10 per account "preference management" fee that applies to "suppressed" accounts,[8] and a tiered, blended rate per account "notice and access" fee.[9] We calculated the $142 million increase in estimated annual ongoing NYSE processing fees (as compared to our August estimate) as follows:

3. **<u>$0.15 Interim Report Fee ($79.5 million increase[10])</u>**: Our August cost savings analysis logically applied the $0.15 interim report fee only to mailed shareholder reports.[11] Broadridge has informed us that it intends to apply this $0.15 fee to *all* accounts, including accounts receiving rule 30e-3 notices by mail and accounts for which mailing is "suppressed."

4. **<u>Blended "Notice and Access" Fee ($62.7 million increase)</u>**

    a. **<u>Estimation of Fee ($19.2 million increase[12])</u>:** We originally estimated a blended $0.07 "notice and access" fee for funds that opt to rely on rule 30e-3, based on the current NYSE "notice and access" fee schedule for distribution of proxy materials.[13] This fee schedule has tiers based on "job" size, so that the per

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[6] *See* NYSE rule 451.90.

[7] *See* NYSE rule 451.90(3). Interim report fees apply to the distribution of funds' annual and semi-annual shareholder reports.

[8] *See* NYSE rule 451.90(4)(b). "Suppressed" accounts are accounts for which mailings are suppressed, *e.g.,* because the accountholder has opted for electronic delivery ("e-delivery") or due to "householding" (*i.e.,* sending one mailing to all of the accountholders sharing a single household), as well as for managed accounts.

[9] NYSE Rule 451.90(5) sets forth tiered rates for proxy distribution "notice and access," based on the number of broker-held accounts involved in the distribution.

[10] (240 million mailed notices*$0.15) + (290 million "suppressions" *$0.15) = $79.5 million

[11] *See* ICI August Letter, Appendix B.

[12] (240 million mailed notices*$0.08) = $19.2 million

[13] Although the NYSE processing fee schedule does not contemplate the use of "notice and access" for shareholder reports, NYSE Rule 451.90(5) sets forth tiered rates for proxy distribution "notice and access." We used these proxy distribution "notice and access" tiered rates to develop an approximate estimate for the cost of processing the rule 30e-3 mailed notices. In so doing, we were taking a fee schedule written for proxy delivery and using it to estimate generally how NYSE processing

account rate charged decreases as the size of the "job" increases. Broadridge's estimate of a blended rate utilizes a smaller "job" size, since it has informed us that it determines the size of processing "jobs" based on share class rather than based on the fund as a whole. As a result, Broadridge estimates a blended average "notice and access" fee of $0.15—more than double our original estimate.[14]

b. **<u>Application of Fee to "Suppressed" Accounts ($43.5 million increase[15])</u>**: In our initial cost savings analysis, we applied the "notice and access" fee only to the mailed paper notices.[16] Since then, we have learned that the presence of any rule 30e-3 mailed notices in a Broadridge processing "job" will cause Broadridge to apply the "notice and access" fee to *all* accounts in the entire "job," including "suppressed" accounts that are not receiving rule 30e-3 mailed notices (*e.g.*, e-delivered, householded, and managed accounts).

These three changes in anticipated processing fees increase the estimated per-report processing fee costs associated with shareholder report delivery under rule 30e-3 from $0.10 to $0.40 for "suppressed" accounts (*e.g.*, e-delivery, householded, and managed accounts) and from $0.07 to $0.30 for accounts receiving a rule 30e-3 paper notice. Table 1 below compares the differences between the processing fees assumed in our August cost savings analysis and the processing fees that Broadridge has indicated it will seek to charge under the rule 30e-3 delivery mechanism.

fees might apply to delivery of notices associated with shareholder reports. *See* ICI August Letter, Appendix B, at note 13 and accompanying text.

[14] This rate is higher than the $0.07 blended rate used in our August cost savings analysis because we have since learned that Broadridge determines "job" size at the CUSIP level (*i.e.*, share class level) rather than at the fund level. For funds with multiple share classes, this will result in a higher blended rate than would be realized if the vendor created the "job" based on the total number of accounts for the fund as a whole.

[15] (290 million "suppressions"*$0.15) = $43.5 million

[16] *See* ICI August Letter, Appendix B.

Table 1: Comparison of NYSE Processing Fees Applicable to Rule 30e-3 Delivery Mechanism

Type of NYSE Processing Fee	ICI Analysis of NYSE Processing Fees per Rule 30e-3 Notice			Broadridge Interpretation of NYSE Processing Fees per Rule 30e-3 Notice	
	"Suppressed"	Paper notice		"Suppressed"	Paper notice
Interim report fee	n/a	n/a		$0.15	$0.15
Preference management fee	$0.10	n/a		$0.10	n/a
Notice and access fee	n/a	$0.07		$0.15	$0.15
Total NYSE fees per unit	**$0.10**	**$0.07**		**$0.40**	**$0.30**
Total annual ongoing cost of NYSE processing fees*	**$29 million**	**$17 million**		**$116 million**	**$72 million**
	$46 million			**$188 million**	

* Total annual cost of NYSE processing fees estimated on an ongoing basis. Totals assume annual processing of 240 million rule 30e-3 mailed notices and 290 million "suppressions" and are rounded to the nearest million.

2. *Comparison of Costs of Current Paper Delivery Framework to Costs of Rule 30e-3 Delivery under Broadridge's Interpretation of Applicable NYSE Fees*

Under Broadridge's interpretation of how the NYSE fees apply to the rule 30e-3 delivery mechanism, NYSE processing fees would be substantially higher than under the current paper delivery framework. For a "suppressed" shareholder report, NYSE processing fees would increase to $0.40 under rule 30e-3 versus $0.25 under the current delivery method—an increase of 60 percent for absolutely no change in service to the shareholder (Table 2).[17] For a rule 30e-3 paper notice, NYSE processing fees would increase to $0.30 versus $0.15 for a mailed hard copy shareholder report—an increase of 50 percent (Table 2).

[17] The paper copy of these shareholder reports had already been eliminated through e-delivery, householding, or consolidation of managed accounts. Yet, it will cost 60 percent more to continue to maintain this level of service.

Table 2: Comparison of NYSE Processing Fees Applicable to Current Delivery Framework vs. Rule 30e-3 Delivery Mechanism (Using Broadridge's Interpretation of Applicable Fees)

Type of NYSE processing fee	Current Delivery Framework		Proposed Rule 30e-3 (Broadridge Interpretation)	
	Suppressed	Paper report	Suppressed	Paper notice
Interim report fee	$0.15	$0.15	$0.15	$0.15
Preference management fee	$0.10	n/a	$0.10	n/a
Notice and access fee	n/a	n/a	$0.15	$0.15
Total NYSE fees per unit	**$0.25**	**$0.15**	**$0.40**	**$0.30**
Total annual ongoing cost of NYSE processing fees*	**$73 million**	**$36 million**	**$116 million**	**$72 million**
	$109 million		**$188 million**	

* Total annual cost of NYSE processing fees estimated on an ongoing basis. Totals assume annual processing of 240 million rule 30e-3 mailed notices and 290 million "suppressions" and are rounded to the nearest million.

Under Broadridge's interpretation of applicable NYSE processing fees, ICI estimates that funds would realize *no* net savings in NYSE processing fees from proposed rule 30e-3. Indeed, funds would spend $173 million more in the first year and $79 million more every year thereafter than under the current delivery framework (Table 3). Funds spent an estimated $109 million in NYSE processing fees in 2014 to process shareholder reports for accounts held through broker-dealers.[18] Under Broadridge's interpretation, funds would spend $282 million[19] in NYSE processing fees in the first year of adoption

[18] Figure calculated by adding NYSE processing fees paid for "suppressed" shareholder reports ($0.25 x 290 million = $72.5 million) and NYSE processing fees paid for printed and mailed shareholder reports ($0.15 x 240 million = $36 million). The sum $108.5 million is roundest to the nearest million. In 2014, ICI estimates approximately 290 million shareholder report mailings were "suppressed" (54 percent) and approximately 240 million paper shareholder reports were delivered (45 percent). Percentages based on data from Broadridge and do not add to 100 because of rounding.

[19] Figure calculated by summing NYSE fees that would be paid for 145 million "suppressed" Initial Statements and 290 million "suppressed" Notices ($0.40 x 435 million "suppressed" Initial Statements and Notices = $174 million) and NYSE fees that would be paid for processing 120 million paper Initial Statements and 240 million paper Notices ($0.30 x 360 million 30e-3 paper Initial Statements and Notices = $108 million). Total NYSE processing fees in the first year of adoption would be $282 million ($174 million + $108 million).

and $188 million[20] annual thereafter.

Table 3: Comparison of Estimated NYSE Processing Fee Net Saving/Added Cost—Current Delivery Framework vs. Proposed Rule 30e-3 Delivery Mechanism (Broadridge Interpretation)

	Initial Year	Annual Ongoing
Current delivery framework	$109 million	$109 million
Proposed rule 30e-3 (Broadridge interpretation)	$282 million	$188 million
Memo: Net saving/added cost*	-$173 million (added cost)	-$79 million (added cost)

*Calculated as NYSE processing fees under current delivery framework less NYSE processing fees under proposed rule 30e-3, rounded to the nearest million. Net saving/added cost is calculated as the difference between the cost of the current delivery framework and the proposed delivery framework. A negative number indicates added cost (*i.e.*, the proposed delivery framework is more expensive than the current delivery framework).

B. <u>Estimated Print and Mail Costs</u>

Under the current delivery framework, ICI estimates that funds collectively spent $308 million[21] to print and mail 440 million shareholder reports in 2014.

As shown in Table 4, if all funds opted to use the proposed rule 30e-3 delivery mechanism, we estimate that they would spend $358 million[22] to print and mail 660 million proposed packets (120 million Initial Statements and 440 million Notices) in the initial year of adoption. In the second year and annually thereafter, we estimate that funds would spend $239 million[23] to print and mail 440 million proposed packets (440 million Notices). As noted in our August cost savings analysis, ICI's recommended postcard alternative is much less costly to print and mail than the proposed packet. If allowed to use a postcard for the Initial Statement and Notice mailings, funds would spend an

[20] Figure calculated by summing NYSE fees that would be paid for suppressed Notices ($0.40 x 290 million = $116 million) and NYSE fees that would be paid for processing paper Notices ($0.30 x 240 million = $72 million). Total NYSE processing fees annually thereafter would be $188 million ($116 million + $72 million).

[21] Figure calculated by multiplying an estimate of per unit print and mail cost ($0.70) by an estimate of the number of shareholder reports printed and mailed in 2014 (440 million). For a more detailed explanation of these estimates, *see* pages B-2 and B-3 in Appendix B, ICI August Letter.

[22] Based on the 440 million shareholder reports printed in mailed in 2014, figure is calculated by multiplying an estimate of per unit print and mail cost for the proposed packet ($0.54) by the estimated number of Initial Statement and Notice mailings (660 million) and adding an estimate for the cost of postage paid licensing ($1 million). For a more detailed explanation of these estimates, see Table 2 on page B-6 and footnote 19 on page B-7 in Appendix B, ICI August 11 Letter.

[23] Based on the 440 million shareholder reports printed and mailed in 2014, figure is calculated by multiplying an estimate of per unit print and mail cost for the proposed packet ($0.54) by the estimated number of Notice mailings (440 million) and adding an estimate for the cost of postage paid licensing ($1 million).

estimated $219 million[24] in the first year of adoption and $146 million[25] in the second year and annually thereafter on print and mail costs.

Table 4: Estimated Print and Mail Costs

	Initial Year	Annual Ongoing
Current paper reports	$308 million	$308 million
SEC proposed packets	$358 million	$239 million
ICI postcard recommendation	$219 million	$146 million

Note: Rounded to the nearest million.

Again, as noted in our August cost savings analysis, we estimate that funds would not save any money in the first year of printing and mailing the SEC's proposed packet for the Initial Statement and Notices—spending $50 million more than the current cost to print and mail shareholder reports (Table 2). In the second year and annually thereafter, we estimate that funds would save $69 million on print and mail costs for the Notices. In terms of print and mail costs, ICI's postcard recommendation is expected to be substantially more cost effective, saving funds $89 million in the first year of adoption and $162 million annually thereafter.

Table 5: Estimated Net Saving/Added Cost in Print and Mail Costs*

	Initial Year	Annual Ongoing
SEC proposed packets[1]	-$50 million (added cost)	$69 million (net saving)
ICI postcard recommendation[2]	$89 million (net saving)	$162 million (net saving)

* Net saving/added cost is calculated as the difference between the cost of the current delivery framework and the proposed delivery framework. A positive number indicates net saving (*i.e.*, the proposed delivery framework is less expensive than the current delivery framework). A negative number indicates added cost (*i.e.*, the proposed delivery framework is more expensive than the current delivery framework).

1. Estimated print and mail cost of the current paper reports less estimated print and mail cost of the SEC proposed packets from Table 4.
2. Estimated print and mail cost of the current paper reports less estimated print and mail cost of the postcards from Table 4.

Note: Rounded to the nearest million.

[24] Figure is calculated by multiplying an estimate of per unit print and mail cost for the proposed packet ($0.33) by the estimated number of Initial Statement and Notice mailings (660 million) in the first year of adoption. For a more detailed explanation of these estimates, see Table 2 on page B-6 in Appendix B of ICI's comment letter.

[25] Figure is calculated by multiplying an estimate of per unit print and mail cost for the proposed packet ($0.33) by the estimated number of Notice mailings (440 million) annually thereafter.

C. Net Savings Estimates for Proposed Rule 30e-3 under Broadridge's Interpretation of Applicable NYSE Fees

Proposed rule 30e-3 provides little to no net savings for funds under Broadridge's interpretation of how NYSE processing fees apply to the proposed rule 30e-3 delivery mechanism. This is true for both rule 30e-3 as proposed and ICI's postcard recommendation. Indeed, in the initial year of adoption, funds would spend $223 million more in print, mail, and NYSE processing fees for the proposed packet than they currently do to print, mail, and process shareholder reports (Table 6). Even the postcard is no longer cost effective in the initial year—costing funds $84 million more, as the increased cost in NYSE processing fees would outweigh all of the savings from no longer printing and mailing shareholder reports.

Table 6: Net Saving/Added Cost under Proposed Rule 30e-3 (Broadridge Interpretation)

	SEC Proposed Packets		**ICI Postcard Recommendation**	
	Initial Year	Annual Ongoing	Initial Year	Annual Ongoing
Print and mail[1]	-$50 million (added cost)	$69 million (net saving)	$89 million (net saving)	$162 million (net saving)
+ NYSE fees[2]	-$173 million (added cost)	-$79 million (added cost)	-$173 million (added cost)	-$79 million (added cost)
= **Total**[3]	-$223 million (added cost)	-$10 million (added cost)	-$84 million (added cost)	$83 million (net saving)

1. Estimates from Table 5.
2. Estimates from Table 3.
3. Sum of print and mail net saving/added cost and NYSE processing fees net saving/added cost.

Even in years when funds do not have to bear the cost of the Initial Statements, proposed rule 30e-3 does not provide any cost savings under Broadridge's interpretation of applicable NYSE fees. Under the SEC proposal, we estimate that funds would spend $10 million more than under the current framework, with NYSE processing fees eroding all print and mail savings. In contrast, the ICI's recommended postcard alternative is estimated to provide $83 million in net savings in the second year and annually thereafter even with the additional NYSE processing fees.

Appendix B

INVESTMENT COMPANY INSTITUTE

SEC Rule 30e-3

In order to assist ICI in preparing a supplemental response to the SEC's proposed rule 30e-3, please provide responses to the following questions regarding your processes/procedures for the delivery of regulatory documents (I.e., prospectus and annual report).

Please respond to all questions using data collected for calendar year 2015.

1. Please enter the following information:

Fund Complex Name

Contact Name

Contact Phone Number

Contact Email Address

2. Number of overall requests for a hardcopy prospectus:

Via email

Via telephone

Via website

3. Number of overall requests for a hardcopy annual report:

Via email

Via telephone

Via website

4. Do you have a specific process in place to handle requests for a hardcopy statutory prospectus under the summary prospectus rule?

- Yes
- No

5. Number of requests received for a a hardcopy of the full statutory prospectus under the summary prospectus rule:

Via email	
Via telephone	
Via website	

6. Do you track turnaround times for responding to (and mailing) requests for a prospectus and annual report?

- ◯ Yes
- ◯ No

INVESTMENT COMPANY INSTITUTE

SEC Rule 30e-3

7. Turnaround times for prospectuses:

Standard (what is your standard for responding and mailing to requests for prospectus)

Performance against standard

8. Turnaround times for annual report:

Standard (what is your standard for responding and mailing to requests for an annual report)

Performance against standard

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SEC Rule 30e-3

9. Complaints received in 2015:

Number of overall complaints - across all topics

Number of complaints received related to failure to deliver requested regulatory documents