

ICI Says New SEC Mutual Fund Fee Disclosures Will Be a "Substantial Help to Millions of Investors," February 2004

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Washington, D.C., February 11, 2004 - Investment Company Institute President Matthew P. Fink expressed strong support for the SEC's [action today](#) to improve the quality and usefulness of reports mutual funds are required to provide to shareholders twice each year. "The SEC has recently proposed or adopted many important initiatives that will benefit mutual fund shareholders. However, the Commission's overhaul of mutual fund shareholder reports is the reform that will be most visible and useful to millions of fund investors."

"Every six months, fund shareholders will receive an understandable analysis of their fund's annual fees and expenses. Much like the unit price label for groceries at the supermarket, the new disclosures provide an investor-friendly way to compare and understand the impact of mutual fund fees on specific investments on an ongoing basis," Fink said.

Fink noted that the NASD recently proposed to require that [mutual fund expense ratios](#) be prominently disclosed in performance advertisements. Fink said "the ICI believes that requiring expense ratios in fund ads will also produce tangible and useful benefits for many investors."

The SEC also proposed that these reports disclose the basis for the mutual fund's board approval of the annual investment advisory contract. Fink noted that while mutual fund fees are determined primarily by the fiercely competitive fund marketplace, "mutual fund directors provide an important level of additional oversight, ensuring – in the words of former SEC Chairman Levitt – that they 'fall within a reasonable band.'" Fink said that the "Institute has long recognized fund directors' important role in this area," and that the Institute would "carefully study and promptly respond" to the SEC proposal.

A chronology of ICI support for reforming mutual fund shareholder reports is below.

Chronology of ICI Support for Reforming Mutual Fund Shareholder Reports

March 1999

ICI President's Speech at Mutual Fund Legal Conference

"The SEC's top-to-bottom revision of Form N-1A and adoption of Plain English requirements identified the problem for investors-the need for clearer, more concise information-and offered common sense solutions. We need to apply the logic of these prospectus reforms to other disclosure documents. We are pleased that the Commission has targeted [mutual fund shareholder reports](#) for review."

May 1999

ICI President's Speech at Mutual Fund Industry's Annual Meeting

"[W]e must ensure that our regulatory requirements help investors make informed investment decisions. In the past few years, Chairman Levitt and the SEC, with the enthusiastic support of the fund industry, revised the mutual fund prospectus to make it a more readable document, and adopted plain English requirements. We are pleased that the SEC now is turning its reform efforts to other disclosure documents, such as [shareholder reports](#)."

May 2001

ICI President's Speech at Mutual Fund Industry's Annual Meeting

"The SEC is now reviewing [mutual fund shareholder reports](#). The goal is to refocus these reports on matters most essential to informed investment decisions. We strongly support the SEC's approach, and its practical focus on producing reports that are more useful for fund shareholders...The SEC has also suggested that shareholder reports include concise descriptions of other key information, such as the level of fees paid by shareholders during the past year. We believe that shareholder reports are the appropriate place to include such information, which could assist shareholders as they evaluate their current mutual fund investments."

February 2003

ICI Letter to SEC on Shareholder Reports and Portfolio Holdings Disclosure

"The Commission's proposal would require new disclosure concerning ongoing expenses in [fund shareholder reports](#)...[T]he purpose of the proposed disclosure is 'to increase investor understanding of the fees that they pay on an ongoing basis for investing in a fund.' ... We note that mutual funds already are required to provide detailed disclosure of their fees and expenses in a standardized table at the front of the fund prospectus, including a hypothetical example designed to illustrate the costs of a fund investment over specified periods (one, three, five and ten years). In addition, funds are required to present their performance net of fees. As a result, the transparency of mutual fund fees and expenses far exceeds that of any other financial product."

March 2003

ICI President's Speech at Mutual Fund Legal Conference

"The SEC recently proposed a comprehensive overhaul to improve [shareholder reports](#). The SEC's proposal will help shareholders by requiring summaries and analytical information about portfolio holdings and a discussion by managers about performance. Portfolios will be disclosed each quarter rather than semi-annually, with a 60-day reporting lag. We initially expressed concern that requiring every fund to provide more frequent portfolio disclosure would help opportunists and professional traders 'front run' stocks a fund is buying or selling and 'free ride' on the fund's proprietary strategies. However, we believe that, with modest modifications, the SEC's proposal would guard against these risks to shareholders.... The SEC's proposal also establishes a new disclosure requirement concerning fund fees. For the first time, shareholder reports would disclose information about the actual rate at which fund fees were determined over the previous six months....[O]ur key point is clear: we support the SEC proposal as an excellent way to reinforce awareness of mutual fund costs as one of several important elements in evaluating funds.... The current system of mutual fund fee disclosure-reinforced by extensive media commentary-has been carefully designed to work in the interests of investors. We also believe that an effective disclosure system can be made even better, which is why we endorsed the SEC's proposal to add fee information to shareholder reports."

March 2003

ICI Testimony Submitted to the House Committee on Financial Services

"As part of its [shareholder report disclosure](#) improvement initiative, the SEC has proposed to require new disclosure concerning fund expenses in shareholder reports. Specifically, the SEC has proposed that fund shareholder reports disclose the cost in dollars of a \$10,000 investment in the fund, based on the fund's actual expenses and return for the reporting period. The proposed disclosure is intended to enhance investor understanding of ongoing fund expenses and allow investors to estimate the costs they bore over the reporting period. The Institute supports this proposal. It should enhance investors' awareness of the importance of fees by reminding them about the impact of expenses on their investment return and will also assist them in comparing the expenses of different funds. The proposed disclosure would complement the extensive fee and expense disclosure that funds currently provide."

May 2003

ICI President's Speech at Mutual Fund Industry's Annual Meeting

"The SEC...recently proposed a comprehensive [overhaul of shareholder reports](#). The SEC's proposal will help shareholders by requiring summaries and analytical information about portfolio holdings and a discussion about performance. Also, for the first time, shareholder reports would disclose information about the actual rate at which fund fees were determined over the previous six months. We initially expressed concern that the element of the proposal requiring funds to disclose their portfolios each quarter will harm shareholders by inadvertently encouraging professional traders to 'front run' stocks a fund is buying or selling and 'free ride' on the fund's proprietary strategies. However, we believe that, with modest modifications, the SEC's balanced proposal will guard against these risks, and therefore will provide considerable benefits to shareholders."

May 2003

ICI Chairman Haaga's Speech at Mutual Fund Industry's Annual Meeting

"We listened and acted when observers said our annual and semiannual [shareholder reports](#) could be enhanced to help readers

make informed investment decisions. Again, with strong industry support, we endorsed the SEC's initiative to improve the quality of information about fund portfolios presented in shareholder reports. ... When regulators said our shareholders needed more information about fund fees and expenses, we acted by strongly supporting the SEC's proposal to strengthen the unparalleled level of disclosure already available to America's mutual fund shareholders by requiring more information about ongoing expenses in fund shareholder reports. This information will help our shareholders understand the impact of expenses on fund returns and compare expenses among funds without imposing the substantial costs and burdens on funds and intermediaries."

November 2003

ICI Testimony Submitted to the Senate Committee on Banking

"The SEC is expected to adopt soon a proposal that would require funds to disclose their portfolio holdings on a quarterly (rather than semi-annual) basis, and that would improve disclosure in fund [shareholder reports](#). As part of this proposal, funds would be required to disclose in their shareholder reports the dollar amount of expenses paid on a \$10,000 investment in the fund during the period covered by the report. This disclosure, which would supplement the detailed fee disclosure currently required in fund prospectuses, would serve to remind investors about the impact of fund expenses and assist them in comparing the expenses of different funds. The Institute supports this proposal.