COALITION FOR
PAPER OPTIONS
OUR MISSION: INFORMATION ACCESS FOR ALL
www.PaperOptions.org

February 27, 2018

The Honorable Thad Cochran, Chairman
Senate Committee on Appropriations

The Honorable Shelley Moore Capito, Chairman
Senate Subcommittee on Financial Services and General Government

The Honorable Rodney Frelinghuysen, Chairman
House Committee on Appropriations

The Honorable Tom Graves, Chairman
House Subcommittee on Financial Services and General Government

Dear Chairmen:

While the Coalition for Paper Options is accustomed to organizations attempting to mischaracterize our efforts, we were astounded by the January 26th letter from several activist organizations acting at the behest of the Investment Company Institute that contained blatantly false information. Contrary to what the letter states, investors have long had the ability to opt-in to electronic delivery of mutual fund performance reports, and almost half of all investors have chosen to do so. Those who haven't either simply prefer to continue to receive these reports on paper or are simply not comfortable with, or lack consistent access to, computer and broadband Internet technology.

CPO has no issue with e-delivery, robust web access or online commerce. What we oppose is forcing investors into these services against their will. More than 40 percent of seniors don't own computers, 30 percent of citizens lack broadband internet at home, including 23 million rural and small-town citizens. Millions of these citizens invest in mutual funds. It is simply premature to force them to have to claw back their preferred paper delivery of shareholder reports simply to satisfy the ease and convenience of investment companies.

CPO makes no apologies for including members concerned about the 14,000 printing and mailing industry employees who would lose their jobs overnight with the approval of SEC Rule 30e-3. Any fair observer knows that both the print communications industry and the mutual fund industry have a strong economic interest in the outcome of this debate. But our membership goes well beyond industry interests to include groups which advocate for consumers, seniors and America's rural citizens. They have engaged forcefully against Rule 30e-3.

These broader investor interests must be recognized as paramount. Since its founding during the Great Depression, the Securities and Exchange Commission has insisted on investment company disclosure and transparency as the hallmark of a fair investment climate. Approval of Rule 30e-3 would be a setback in that tradition and would leave millions of investors unnecessarily scrambling for information.

It would be far better for the SEC to follow the recommendations of its own Investor Advisory Committee, which has formally approved recommendations calling for streamlining the length of investment reports while maintaining a default to mail delivery until the investor opts into electronic delivery. These recommendations would reduce the cost of these reports, while maintaining delivery of critical information to investors about mutual fund performance.

Approving language in the Senate FSGG appropriations bill that would block further work by the SEC on Rule 30e-3 is the best way to ensure that we can streamline investment reports so that they are better for investors and cheaper for investment companies, while maintaining investor access and choice.

Congress needs to put the needs of the American investor above the Investment Company Institute and not be swayed by its misinformation campaign.

We have attached additional information about SEC Rule 30e-3 would impede readership of investment reports and reduce financial literacy.

Sincerely,

John Runyan
Executive Director
Coalition for Paper Options

Niels Holch
Executive Director
Coalition of Mutual Fund Investors

Linda Sherry
Director, National Priorities
Consumer Action

Sally Greenberg
Executive Director
National Consumers League

Burton Eller
Legislative Director
National Grange

Attachment:

SEC RULE 30E-3: PAPERLESS MUTUAL FUND REPORTING PROPOSAL WOULD IMPEDE READERSHIP & FINANCIAL LITERACY

Shareholder Reports, Investor Awareness & the Problem of Implied Consent

The U.S. Securities and Exchange Commission (SEC) proposed Rule 30e-3 to eliminate the current default requirement for mutual funds to transmit important information to investors in paper form might seem innocuous, but hard-copy shareholder reports are **a critical and widely read resource for investors.**

Evidence and experience show that arbitrarily providing shareholder reports online, as Rule 30e-3 would do, **will decrease both access and readership**.

Shareholder reports are critical and widely-read sources of information, especially if delivered in paper form.

- A 2015 survey of 1,000 mutual fund investors found that **92 percent of investors who receive shareholder reports by mail indicated viewing them**.[i]
- A recent SEC study indicates that baseline **awareness of mutual fund reports ranges from 86-91 percent**.[ii]
- **More than 70 percent of** one group of investors responding to an SEC-commissioned survey said they prefer to **read annual reports in hard copy format**; only **10 percent prefer online-only**.[iii]

Ample evidence shows that investors are more likely to read paper-based shareholder reports – and they prefer them as the default.

- Mutual fund investors who say they would be **likely to look at fund reports under current delivery methods** (with paper as the default and electronic as an option) outnumber those who would be likely to look at fund reports under the proposed method **by a factor of 3 to 1**.[iv]
- Research indicates that Rule 30e-3 would **reduce readership of shareholder reports by more than 80 percent.** The projected negative impact will be on individuals who hold an estimated 115 million or more fund positions (the number of positions for which a mailed report would otherwise be sent) in FY2018.[v]
- **Mutual fund shareholders ages 65 and older** reported a preference for the current delivery method over the proposed rule **by a factor of 4 to 1**.[vi] In addition, a 2012 AARP survey similarly found a **strong preference for paper, even among members with email addresses**.[vii]

The SEC has tried the same scenario before with proxy materials, and readership and participation declined considerably.

- The SEC in 2005 adopted a "notice and access model" permitting issuers to post proxy materials online and provide shareholders with a notice of the Internet availability. Previously, hardcopy was sent by default unless investors indicated a preference for electronic delivery.[viii] This process was used by the SEC as the model for Rule 30e-3.
- Prior to the notice and access model, surveys by AARP, NYSE and Broadridge found that over 85 percent of respondents looked at proxy information at least some of the time. Following implementation of the notice and access model**, less than one-half of 1 percent of those who received notification by mail visited the URL** and chose to view the disclosure information.[ix]
- **Companies found decreases in investor participation** of over 30 percent for large investors, and over 60 percent for smaller investors.[x]
- Proxy voting by the retail investors who are affected by the **rules decreased by approximately 75 percent**.[xi]
- Three years after the e-delivery rule, more than two million investors who initially enrolled in e-delivery subsequently rescinded their consent. In exit surveys, **more than half indicated their decision was due to a preference for hard-copy**.[xii]

Rule 30e-3's policy of implied consent is well-known to decrease consumer participation, and the SEC has been warned before.

- Columbia University Business School professor Eric J. Johnson, cautioned against the e-proxy delivery rule, noting: "Every decision has a default or a choice that is made when we take no action … **Evidence is that the choice of "no action default" can substantially change the behavior of customers**…Such a system could **decrease use of information and participation** … Given that danger, the SEC might well want to proceed with caution…Since the effect of opting-in is **likely to impact whether or not an individual looks at information**."[xiii]

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[i] *Annual Report and Semi-Annual Report Notification Study: Understanding the impact of providing investors with mutual fund and ETF report notifications*, True North Market Insights (June, 2015).

[ii] *Investor Testing of Mutual Fund Shareholder Reports*, Siegel & Gale Report to the SEC (2011; Revised, 2012).

[iii] *Investor Testing of Mutual Fund Shareholder Reports*, Siegel & Gale Report to the SEC (2011; Revised, 2012).

[iv] *How Might the Proposed Rule on Accessing Annual and Semiannual Mutual Fund Reports Affect Investor Behavior*, Forrester Consulting on behalf of Broadridge Financial Solutions, Inc. (2015).

[v] *August 2015 Comments on Proposed Rule 30e-3, Investment Company Reporting Modernization, File Number S7-08-15*, Broadridge Financial Solutions, Inc

[vi] *How Might the Proposed Rule on Accessing Annual and Semiannual Mutual Fund Reports Affect Investor Behavior*, Forrester Consulting on behalf of Broadridge Financial Solutions, Inc. (2015).

[vii] *Letter to Sen. Susan Collins*, AARP (May 30, 2016).

[viii] *Securities Offering Reform*, SEC Release No. 33-8591 (July 19, 2005).

[ix] SEC Commissioner Luis A. Aguilar, *Ensuring the Proxy Process Works for Shareholders* (Feb. 19, 2015). Available: https://www.sec.gov/news/statement/021915-psclaa.html

[x] Fabio Saccone, *E-Proxy Reform, Activism, and the Decline in Retail Shareholder Voting*, The Conference Board (Dec. 2010). Referenced: https://www.sec.gov/news/statement/021915-psclaa

[xi] *Comments to the SEC re: Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Companies*, Broadridge Financial Solutions (February 28, 2008).

[xii] *Comments to the SEC re: Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Companies*, Broadridge Financial Solutions (February 28, 2008).

[xiii] Eric J. Johnson, *Defaults and Deciding to Use Information, A White Paper Reviewing the Role of Defaults in Decision Making: Implications for Investor Participation in the Proposed Notice and Access Scenario*, Columbia Business School (2006).