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SECURITIES AND EXCHANGE COMMISSION

17 CFR Parts 210, 229, 230, 232, 240, 270, and 274

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RIN 3235-AM28

Request for Comment on Fund Retail Investor Experience and Disclosure

AGENCY: Securities and Exchange Commission.

ACTION: Request for comment.

SUMMARY: The Securities and Exchange Commission (“Commission”) is seeking public comment from individual investors and other interested parties on enhancing disclosures by mutual funds, exchange-traded funds (“ETFs”), and other types of investment funds to improve the investor experience and to help investors make more informed investment decisions. Specifically, we are seeking comment to learn how investors, like you, use these disclosures and how you believe funds can improve disclosures to help you make investment decisions. We are particularly interested in your input on the delivery, design, and content of fund disclosures. In addition to or in place of responses to questions in this release, investors seeking to comment on the investor experience and improving fund disclosure may want to submit a short Feedback Flier on Improving Fund Disclosure.

DATES: Comments should be received on or before October 31, 2018.

ADDRESSES: Comments may be submitted by any of the following methods:

Electronic Comments

- Use the Commission’s internet comment form (<https://www.sec.gov/rules/other.shtml>); or
- Send an email to rule-comments@sec.gov. Please include File Number S7-12-18 on the subject line.

Paper Comments

- Send paper comments to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-1090.

All submissions should refer to File Number S7-12-18. This file number should be included on the subject line if email is used. To help the Commission process and review your comments more efficiently, please use only one method of submission. Commenters are encouraged to identify the number of the specific question(s) to which they are responding. The Commission will post all comments on the Commission’s website (<https://www.sec.gov/rules/other.shtml>). Comments are also available for website viewing and printing in the Commission’s Public Reference Room, 100 F Street NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. Investors seeking to comment on the investor experience and improving fund disclosure may want to submit a short Feedback Flier on Improving Fund Disclosure, available at Appendix B.

Studies, memoranda, or other substantive items may be added by the Commission or staff to the comment file during this request for comment. A notification of the inclusion in the comment file of any such materials will be made available on the Commission’s website. To ensure direct electronic receipt of such notifications, sign up through the “Stay Connected” option at www.sec.gov to receive notifications by email.

FOR FURTHER INFORMATION CONTACT: Michael Kosoff, Senior Special Counsel; or Angela Mokodean, Senior Counsel, at (202) 551-6921, Division of Investment Management, Securities and Exchange Commission, 100 F Street NE, Washington, DC 20549-8626.

SUPPLEMENTARY INFORMATION: The Commission is seeking public comment from individual investors and other interested parties on enhancing investment company disclosures to improve the investor experience and to help investors make more informed investment decisions.

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I. Introduction

Today the Commission is continuing its efforts to enhance the information that is available to you, the investor, to help you make informed investment decisions. We have previously taken steps to improve the effectiveness of mutual fund, exchange-traded fund, and other types of public investment fund (“fund”) disclosures.¹ We are now requesting comment from you and other interested parties on ways to enhance fund disclosures, including the delivery, design, and content of fund disclosures, to improve the investor experience and help investors make more informed investment decisions.²

Our mission is to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. Disclosure is the backbone of the federal securities laws and is a principal tool we use to fulfill our mission. Disclosure

¹ See, e.g., Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Investment Companies, Securities Act Release No. 8998 (Jan. 13, 2009) [74 FR 4546, 4558 (Jan. 26, 2009)], available at <https://www.sec.gov/rules/final/2009/33-8998.pdf> (“Summary Prospectus Adopting Release”) (adopting an improved disclosure framework for mutual funds that was intended to address concerns that had been raised regarding the length, complexity, and usefulness of mutual fund prospectuses and to make use of technological advances to enhance the provision of information to mutual fund investors).

The Commission staff has also taken steps to improve fund disclosures. See, e.g., Letter from Barry D. Miller, Associate Director, Division of Investment Management, U.S. Securities and Exchange Commission, to Karrie McMillan, General Counsel, Investment Company Institute (Jul. 30, 2010), available at <https://www.sec.gov/divisions/investment/guidance/ici073010.pdf>.

² We are seeking your input to help inform our consideration of whether to, for instance, propose future changes to fund disclosures.

can provide you with the information you need to evaluate investment choices and make informed investment decisions. We recognize that investors have different levels of knowledge and experience, and we seek to promote disclosure that is inviting and usable by a broad spectrum of investors.

Fund disclosures are especially important because millions of American investors invest in funds to help them reach important financial goals, such as saving for retirement and their children's educations. As of the end of 2017, more than 100 million individuals representing nearly 60 million households owned funds.³ Given these numbers,⁴ it is vital that investors obtain the information necessary to help them decide how to invest their assets.

Disclosures can take many forms, and funds provide disclosure on paper as well as through electronic media. Regardless of the medium used, an effective disclosure system should help investors:

- Find what they need;
- Understand what they find; and
- Use what they find to make

informed investment decisions.

A modern fund disclosure system should provide investors streamlined and user-friendly information that is material to an investment decision, while providing them the ability to access additional, more in-depth information on-demand. We developed our current disclosure requirements at a time when investors received information primarily on paper. Some have criticized fund prospectuses and other required disclosure documents for containing long narratives; generic, redundant, and even at times irrelevant disclosures; legalese; and extensive disclosure that may serve more to protect funds from liability rather than to inform investors.

As technology evolves, the Commission seeks to improve the fund disclosure system to reflect the way investors currently seek, receive, view, and digest information. Advances in technology have made available new, innovative, and effective ways to improve the delivery, design, and content of fund disclosures. Electronic-based disclosures allow for more interactive, user-friendly design features tailored to meet individual investors' needs and improve investor engagement. Technology could also improve the content of fund disclosures

³ Investment Company Institute, *2018 Investment Company Fact Book*, at ii (2018), available at https://www.ici.org/pdf/2018_factbook.pdf.

⁴ Funds managed 24 percent of household financial assets at year-end 2017. *Id.* at 36.

by, for example, allowing investors to customize certain fund disclosures, such as fees and expenses, based on an investor's individual circumstances.

This request for comment, as well as investor testing of disclosure alternatives,⁵ are two key initiatives the Commission is using to assess our current disclosure framework for funds. Through modernization of current disclosure requirements, the Commission can create a disclosure system that is better suited to meet the needs of 21st century investors. To that end, we are seeking your input on a wide range of issues relevant to fund disclosures. We have tailored our request to get information on your experience with the delivery, design, and content of fund disclosures. In addition to the specific issues highlighted for comment, we invite investors and other members of the public to address any other matters you believe are relevant to fund disclosure requirements.⁶

We have generally directed questions in this request for comment to you, the investor. If you seek to comment on the investor experience and improving fund disclosure, in addition to or in place of responses to questions in this release, you may want to submit a short Feedback Flier on Improving Fund Disclosure, available at Appendix B.⁷

⁵ The Commission's Office of the Investor Advocate ("OIAD") currently is engaging in investor testing through its Policy Oriented Stakeholder and Investor Testing for Innovative and Effective Regulation ("POSITIER") initiative. POSITIER seeks to provide the Commission and its staff with data regarding investor preferences, comprehension, and attitudes about investing. Under this initiative, OIAD has launched a specific study program to examine the topic of retail disclosure effectiveness. This study program seeks to identify and test ways to increase investor understanding of key investment features and, in turn, help improve investment outcomes for individual investors. See *SEC's Office of the Investor Advocate to Hold Evidence Summit, Launch Investor Research Initiative*, Securities and Exchange Commission Press Release, Mar. 2, 2017, available at <https://www.sec.gov/news/pressrelease/2017-59.html>.

⁶ The Commission's Office of Investor Education and Advocacy has published guidance on how you can write and submit a comment to us. See Investor Bulletin: Suggestions for How Individual Investors Can Comment on SEC Rulemaking (Dec. 12, 2017), available at <https://www.investor.gov/additional-resources/news-alerts/alerts-bulletins/investor-bulletin-suggestions-how-individual>.

⁷ The Commission determines that using this short-form Feedback Flier document to obtain information from investors is in the public interest and will protect investors and therefore is not subject to the requirements of the Paperwork Reduction Act of 1995. See Securities Act of 1933 ("Securities Act") section 19(e) and (f). Additionally, for the purpose of developing and considering any potential rules relating to this Request for Comment, the agency may gather information from and communicate with investors or other members from the public. *Id.* section 19(e)(1) and (f).

We recognize that others have an interest in effective disclosure and can provide valuable perspectives. Therefore, we welcome input on these issues from all interested parties, including academics, literacy and design experts, market observers, and fund advisers and boards of directors, particularly comments pertaining to the following:

- How funds currently provide information;
- How investors currently access and use this information; and
- The potential costs and benefits of alternative approaches to our current fund disclosure framework.

II. Fund Disclosure

A. Fund Disclosure and Other Fund Information

There is a wide variety of fund information available to investors, including disclosure documents we require by regulation and materials that funds and others prepare at their discretion, such as sales materials. Together, these materials may be available in many forms, such as print or electronically (including through social media), and they may be static (such as a document) or interactive (such as a calculator or fund comparison tool).

Required Fund Disclosures. Required fund disclosures include the following:

- *Prospectus.* A prospectus provides key information about a fund to help investors make informed investment decisions. This document (or a summary version known as a "summary prospectus") is typically available at the time of purchase. Funds typically deliver prospectuses or summary prospectuses to investors before or at the time of confirmation of a purchase of fund shares and each year for as long as they continue to own fund shares. Appendix A to this release contains a hypothetical summary prospectus solely for illustrative purposes. A summary prospectus generally includes a description of:

- The fund's investment objectives or goals;
- The fund's fees and expenses;
- Its principal strategies for achieving those investment objectives or goals;
- The principal risks of investing in the fund;
- The fund's and a broad-based index's past performance;
- The fund's advisers and portfolio managers;
- How to purchase and sell fund shares;
- Tax information; and

○ The compensation paid to intermediaries,⁸ such as your financial professional and/or his or her firm.⁹

• *Statement of additional information* (“SAI”). The SAI provides additional information that some investors may find useful, but that we do not consider essential information for all investors. The SAI largely expands on information that is contained in the prospectus. It is available online or upon request.

• *Shareholder reports*. Shareholder reports include both annual and semiannual reports, which describe how the fund has operated and include the fund’s holdings and financial statements. The annual report also discusses the market conditions and investment strategies that significantly affected the fund’s performance during its last fiscal year.

• *Proxy statements*. A proxy statement informs investors about when and where a shareholder meeting is taking place, describes the matters shareholders will vote on, and explains how to vote shares. Funds send this document (or a brief notice describing basic details about the meeting and how to access the full proxy materials) to investors in advance of the shareholder meeting.

• *Other information*. Funds are required to make additional information available on EDGAR¹⁰ that is not required to be delivered to investors. This information includes a fund’s holdings for its first and third quarter-ends and its proxy voting record.

Other Fund Information

• A fund may prepare advertising materials to inform potential or current investors about the fund. Fund advertisements may take many forms and can include materials in newspapers, magazines, radio, television, mailings, fact sheets, fund commentaries, newsletters, and on various web-based platforms (including mobile devices, such as smartphones). Fund advertisements must comply with certain regulatory requirements.¹¹

⁸ An intermediary is an entity (such as a broker-dealer or bank) that you may use to purchase fund shares.

⁹ A fund’s full prospectus includes additional information.

¹⁰ EDGAR is the SEC’s Electronic Data Gathering Analysis and Retrieval System. EDGAR contains the filings of all public companies and certain individuals who are required to file documents with the Commission. Information about paper filings since 1986 and complete electronic filings since 1996 onward are available. EDGAR may be accessed from the Commission’s public website, www.sec.gov.

¹¹ See rule 482 under the Securities Act. Rule 482 is discussed in detail in the section titled Fund Advertising, below.

• Financial professionals, analysts, and the media may produce other materials that provide information about funds, such as research or analyst reports, tools or other services for researching and comparing funds, fund ratings, and news articles.

• *Investor.gov*. The SEC’s Office of Investor Education and Advocacy maintains a website at www.Investor.gov that provides a variety of publications to help you understand the various features and risks of common investment products.

Given the volume and complexity of fund information, the delivery, design, and content of fund disclosures have significant effects on investors’ ability to access and use important information. One way to assess the effectiveness of our disclosure regime is to examine how investors use fund disclosures today.

Request for Comment

1. How do you select funds for investment? What do you look at before deciding on an investment? Do you look at fund disclosure documents or other publications or websites? If so, which do you primarily look at? Do you use online investment tools or other tools before making an investment?

2. What information do you want to know when you make an investment and monitor an investment you own? What information do you not receive that you would like to receive?

3. Do you rely on any of the disclosure documents we describe above, such as the fund summary prospectus, prospectus, shareholder report, or statement of additional information to invest or continue to hold an investment? If not, why not? If you do rely on any of the disclosure documents, which parts do you rely on and why?

4. Do you rely on certain disclosure when purchasing shares of a fund and different disclosures when holding or selling shares? If so, why?

5. How well do current fund disclosures assist you in your investment decision-making? What disclosures could funds improve? How does technology help you make investment decisions?

6. When making investment decisions, do you rely entirely, partially, or not at all on the advice of a financial professional? Does the assistance of a financial professional affect whether and how you use fund disclosures?

7. Are current fund disclosures understandable? Do you have access to sufficient information, tools, and analysis to help you evaluate potential investment choices and your current investments?

8. How do you compare different investment choices? Are there types of interactive comparison tools that you use? Are there other tools that would be helpful but do not appear to exist?

9. If the current tools available for comparing investment choices are not helpful, have you seen tools or features that compare other types of non-financial products (such as cars or cellphone plans) that are helpful? If so, what are they, and why are those tools more helpful?

10. Should we provide prominent links on our website to tools you can use to compare investment choices or products, such as FINRA’s Fund Analyzer, which is available at https://tools.finra.org/fund_analyzer/?

11. Recent data indicates that approximately 21 percent of Americans do not speak English in their homes.¹² Is the current disclosure regime effective for Americans whose primary language is not English or who have limited English proficiency? If not, what improvements do you recommend?

B. Delivery of Fund Information

When and how investors receive information can be as important as the content and design of disclosures. Today, there is a lot of information about funds available online. The challenge is whether an investor can easily find, access, and compare the information at a time when the information is useful to the investor. Two important considerations to the delivery of fund information are the following:

• When investors receive fund disclosure relative to their investment decisions; and

• How investors receive fund disclosures, including the form of disclosure (paper or electronic) and the manner of delivery (such as whether an investor receives a copy of the disclosure or a notice that the disclosure is available online or in paper on request).

The Commission is seeking input with respect to all aspects of the timing and delivery of information to fund investors with the goal of improving the investor experience and helping investors make more informed investment decisions.

1. Timing of Disclosure Delivery

A well-functioning fund disclosure regime should provide material information to investors. It should also

¹² See Central Intelligence Agency, *The World Factbook*, available at <https://www.cia.gov/library/publications/resources/the-world-factbook/> (estimating that as of 2015, approximately 79 percent of Americans spoke English in the home).

provide that information at a time when it can be useful to an investor.¹³ Regulatory documents, such as a prospectus, are typically available before an investment decision. Specifically, any summary prospectus, prospectus, or SAI is available upon request from the fund and may be available on a fund's website. You also can request these documents from your financial professional. In addition, funds and financial professionals typically make other materials available that describe the fund, which may also help an investor make an investment decision.

The federal securities laws do not require delivery of the prospectus at the time you make an investment decision to purchase fund shares. However,

investors generally must receive a prospectus or summary prospectus before or at the time they receive a document confirming their purchase of fund shares.

We are seeking input on whether investors are able to obtain the information they need before investing and after investing.

Request for Comment

12. What information (such as investment objectives, fees and expenses, strategies, risks, and performance) is important to you *before* you purchase fund shares? What information is important to you *after* you have made an investment? If you rely on the advice of a financial professional, would your conversations

with him or her be more helpful if you received the prospectus before or during your discussion?

13. What information do you receive at or before your purchase of fund shares? Do you typically receive a prospectus (or summary prospectus) at the time of or before your purchase of fund shares? Is there sufficient information about funds available such that delivery of a prospectus before you purchase fund shares is unnecessary? If so, what information do you review?

14. Fund advertisements must include language that tells investors how to obtain a fund's prospectus or summary prospectus and that advises investors to read the prospectus carefully before investing in a fund. Below is an example.

An investor should consider the investment objectives, risks, and charges and expenses of the Fund carefully before investing. The prospectus and summary prospectus contains this and other information about the Fund. You can get a free copy of the prospectus and summary prospectus by calling the Fund at (800) xxx-xxxx, by clicking *here*, or from your financial professional. You should read the prospectus and summary prospectus carefully before investing.

Does this notice effectively inform you about how to obtain a prospectus or summary prospectus and of the importance of reviewing a prospectus before making an investment decision? If it is not effective, how could we improve it?

15. Do you ever seek out fund information on your own without the help of a financial professional? If so, were you able to find the information easily at the time you were looking for it? If not, what were the problems?

16. Securities regulators in certain other jurisdictions require delivery to investors of a summary document describing the key features of a fund at or before the purchase of fund shares. This type of document generally is known as a "point-of-sale" disclosure. Should we consider a similar point-of-sale disclosure requirement?¹⁴

2. Method of Disclosure Delivery

a. Investors' Use of the Internet

Americans' preference for consuming information through electronic media has grown substantially as the use of the internet has grown.¹⁵ By mid-2017, 95 percent of households owning mutual

funds had some form of internet access (up from 68 percent in 2000).¹⁶ While much fund information is available in an electronic format, many of these disclosures are an electronic rendering of paper documents (such as a PDF). Technology, including email and web-based information, can speed up the delivery of information and enhance disclosure.

Because internet access and technology enable varied methods for providing information and investor preferences may be changing in light of advancing technology, we are seeking information about your current use of the internet to communicate about and find information on fund investments. This information will help us improve funds' ability to get investors the information they need.

Request for Comment

17. Do you use the internet to access your personal financial information such as your investment accounts? How often do you do so? Do you ever use the internet to research funds or to find information about your current fund investments? If so, do you look for information on a fund's website, on

your financial professional's website, or elsewhere? For example, do you use your brokerage firm's website for fund research? When researching fund information online, do you prefer to use a computer, tablet, smartphone, or a different device?

18. If you do not use electronic media to receive or access information about funds, what are your reasons (such as lack of access to the internet, privacy concerns, preference for reading paper, discomfort with technology, or lack of time or interest)?

19. How do you prefer to receive communications about fund investments (for example, mail delivery, email, website availability, mobile applications, or a combination)? How do you currently receive communications about your investments?

20. Do you maintain an active email address on file with a fund in which you are invested or with your financial professional? Why or why not? Have you chosen to have your fund documents delivered by email? Why or why not? Do you log in to your funds' or financial professionals' website? If so, how often do you log in and what do you look at?

¹³ We recognized this principle when we adopted rule 159 under the Securities Act in 2005. See Securities Offering Reform, Securities Act Release No. 8591 (Jul. 19, 2005) [70 FR 44722, 44765 (Aug. 3, 2005)], available at <https://www.sec.gov/rules/final/33-8591fr.pdf>.

¹⁴ We have considered other point-of-sale disclosure in the past. See Confirmation Requirements and Point of Sale Disclosure Requirements for Transactions in Certain Mutual Funds and Other Securities, and Other Confirmation Requirement Amendments, and

Amendments to the Registration Form for Mutual Funds, Investment Company Act Release No. 26341 (Jan. 29, 2004) [69 FR 6438 (Feb. 10, 2004)]; Point of Sale Disclosure Requirements and Confirmation Requirements for Transactions in Mutual Funds, College Savings Plans, and Certain Other Securities, and Amendments to the Registration Form for Mutual Funds, Investment Company Act Release No. 26778 (Feb. 28, 2005) [70 FR 10521 (Mar. 4, 2005)].

¹⁵ See Amy Mitchell, Jeffrey Gottfried, Michael Barthel and Elisa Shearer, *The Modern News*

Consumer: News Attitudes and Practices in the Digital Era, Pew Research Center, Jul. 7, 2016, available at http://assets.pewresearch.org/wp-content/uploads/sites/13/2016/07/07104931/PJ_2016.07.07_Modern-News-Consumer_FINAL.pdf.

¹⁶ See ICI Research Perspective: Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, Investment Company Institute, at 18 (Oct. 2017), available at <https://www.ici.org/pdf/per23-07.pdf>.

21. Is there particular website content that you like to access, such as blogs, videos, fund screeners, interactive calculators, performance presentations, fact sheets, research reports, or social media posts?

b. Form and Manner of Delivery

Increasingly, investors are relying on electronic media to get their news and information. We believe this includes information about their investments. Investors' increasing use of electronic media may change the way they like to receive information, including the form of disclosure delivery (paper versus electronic) and the manner of delivery (such as whether they receive full disclosure documents or notices that disclosure is available online or in paper on request).

Currently investors receive fund prospectuses and shareholder reports (as well as other documents such as account statements and confirmations) in paper through the mail unless they choose electronic delivery.¹⁷ As discussed above, a fund typically delivers a copy of the paper prospectus or summary prospectus to an investor before or at the time of confirmation of a purchase of fund shares and each year after that. A fund also may send investors a paper copy of a "sticker"—that is, a supplement to a previously sent prospectus or summary prospectus—to reflect certain changes that occur during the year.

Using electronic delivery more broadly could benefit funds and their investors. For example, funds and their shareholders (who ultimately bear the costs of sending paper documents) could potentially save money if a fund has to print and mail fewer paper documents. Electronic disclosure also could enhance design features that are unavailable in paper documents, such as improved searchability, easy reference to additional detail through hyperlinks, and the ability to compare multiple funds simultaneously. These features could improve the usefulness of fund disclosures for investors.

While there are benefits associated with electronic disclosure, there are potential concerns as well. Electronic delivery may vary in effectiveness depending on investor preferences and needs. Some investors may not be

comfortable with using technology to access fund disclosures. Further, a small subset of investors do not have access to the internet, although the percentage of investors with internet access continues to increase.¹⁸ Other investors may simply prefer to read information on paper and may process that information better when read on paper rather than electronically. Investors who do not want to or who are unable to access electronic disclosure may be able to rely on a financial professional to provide the relevant disclosure in paper. However, to the extent these investors do not rely on a financial professional to assist with their investments, they may have difficulty accessing electronic fund disclosures.

Different disclosure documents may arrive in different ways. For example, an investor may receive a brief notice in the mail telling him or her how to get proxy materials in paper or online, while he or she would receive a full copy of a fund's prospectus or summary prospectus.

In light of the technological advances made in recent years and the increased reliance by investors on electronic media, we are seeking comment on the form and manner of disclosure delivery.

Request for Comment

22. Do you prefer to access some types of information (such as a prospectus (or summary prospectus), shareholder reports, and proxy statements) electronically and to receive other types in paper? If so, which types of information do you wish to access electronically versus receive in paper?

23. Do you currently receive the right amount of fund information in the mail? If you receive too much or too little information by mail, have you found it difficult to tell your broker, investment adviser, or fund that you want to receive more or less paper?

24. Should we continue to require funds to deliver a paper copy of their prospectuses or summary prospectuses unless you have chosen to receive these documents electronically? Alternatively, should we permit funds to email this information to you and not send paper copies without having to ask you for permission first, if the fund has an email address on file for you? Are there other means such as text messages, notification via an app, or social media that funds should use to effectively communicate information (or the availability of information) to investors? Under an electronic delivery approach, how should investors be able to request delivery of paper disclosures?

25. Do you prefer to receive a prospectus or summary prospectus directly, or would you prefer to receive a brief notice (such as a postcard or an email containing a link to the document) informing you that new or amended fund disclosure is available? Are you more likely to read, retain, or act on a fund disclosure document if you receive it directly by mail or electronic communication (such as email) rather than simply being notified that it is available? If you prefer to receive a brief notice, how frequently should you receive this notice, and how should funds provide the notice (for example, paper, email, text, or robocall)? Alternatively, would you prefer not to receive communication from a fund and to find information independently about the fund online at a time of your choosing? If yes, should we permit this approach for all information, or should there be an exception for certain types of fund information, such as tax information and proxy materials? Are you more likely to read, retain, or act on a fund disclosure document if you receive it directly by mail or electronic communication (such as email)?

26. Do you have different informational needs or interests for new fund investments as opposed to your existing fund investments? For example, would you like a fund to send you a copy of its prospectus or summary prospectus when you first buy a fund's shares but prefer that the fund not send you a copy of the prospectus in subsequent years, except upon request? For your existing fund investments, would you like to receive a copy of the prospectus or other notice only if the fund has a material change (like a material change in its principal investment strategy or a material increase in fees)? If so, should the fund explain or highlight the material change(s) for you in some manner?

c. Promoting Electronic Disclosures

As discussed above and in section II.C.2, electronic delivery of fund disclosures could have significant benefits for funds and investors, such as cost savings and enhanced features improving the usefulness of disclosures. We are seeking comment on what, if anything, the Commission should do to encourage funds to deliver documents electronically in an investor friendly manner, and to encourage investors to take advantage of the benefits that electronic delivery can provide, while minimizing the drawbacks.

¹⁷ On June 5, 2018, we adopted amendments that will permit funds to deliver to their investors a notice alerting them that the fund's most recent annual or semiannual report is available online at a specified website instead of delivering them a full report in paper. See *Optional Internet Availability of Investment Company Shareholder Reports*, Investment Company Act Release No. 33115 (Jun. 5, 2018).

¹⁸ See *supra* note 16 and accompanying text.

Request for Comment

27. How should funds more effectively use technology and communication methods to help investors focus on important fund information?

28. Should we accommodate changes in the ways investors review electronic documents, such as the increasing use of mobile devices? If so, how? How likely are you to read fund disclosures on your mobile device?

29. What features in electronic disclosures (such as hyperlinks, searchability, and the ability to save on your computer) do you find most useful? How can more funds be encouraged to make these features available? Are there any features that funds should be required to make available?

30. Are there steps funds could take to help overcome barriers to electronic delivery in light of various concerns, such as privacy or discomfort with technology? Are there ways that funds can make electronic disclosures more user-friendly, especially for those averse to using the internet in making investment decisions?

31. Do cybersecurity issues make you reluctant to open an attachment, click on a link, or log in to a fund website based on links embedded in emails? How can funds make electronic access more secure, and how can they make you feel safer when receiving documents or other communications electronically? Are there protocols that the Commission could require to help make electronic delivery safer for investors?

32. Would you be more likely to access electronic information about funds, or access such information more frequently, if we required funds to disclose certain updated information online (for example, updated performance)?

C. Design

The design of information can influence an investment decision. For this reason, the Commission has established requirements for certain disclosure documents to help ensure that key information is presented clearly, is easy to find, and facilitates comparisons between funds. These requirements prescribe, for example, the order, content, form, and timing of certain information.

Technology can be a powerful tool to enhance the design of disclosures and the investor experience of consuming them. As an example, a glossary of terms and definitions may be necessary for a paper-based document, but web-

based disclosures could take advantage of pop-ups, hovers, or other tools to provide definitions when the investor needs them.

The Commission is seeking input with respect to all aspects of the way fund information is presented to investors and how to design disclosures to improve the investor experience and help investors make more informed investment decisions.

1. Plain Language

Plain language disclosure makes information more accessible to investors and promotes investor engagement in financial decision-making. Currently, funds are required to follow a plain English rule to make their prospectuses clear, concise, and understandable.¹⁹ More detailed standards apply to certain sections of the prospectus, such as the summary section and the description of risk factors. Under the rule, funds generally must follow these plain English principles, among others:

- Short sentences;
- Descriptive headings;
- Understandable language (generally avoiding reliance on glossaries, defined terms, and legal jargon or highly technical business terms);
- Active voice; and
- Tabular presentations or bullet lists, particularly when presenting complex material.

Plain language plays an important role in investors' ability to use fund disclosures. We are seeking comment on the effectiveness of our current plain English framework and how to improve the readability and usefulness of fund disclosures for investors.

Request for Comment

33. Are required fund disclosures (such as a prospectus, shareholder report, and proxy statements) easy to read?

34. Should we do more to promote less technical writing in fund disclosures? For example, should we:

- Replace technical terms, such as "front-end load" or "12b-1 fees"?
- Alternatively, are these terms so well-established that replacing them would confuse investors?
- Require certain fund disclosure documents or sections of such documents to have specific readability scores?²⁰

¹⁹ See rule 421 under the Securities Act.

²⁰ Other financial regulators have required that disclosures describing financial products meet minimum readability standards. See, e.g., NAIC Suitability in Annuity Transactions Model Regulation (Model 275-1) (2003) (requiring that certain insurance policies have a minimum score of 40 on the Flesch Reading Ease Test or equivalent comparable test).

• Add more sample language to Commission forms that funds can use to introduce a given topic in their disclosures using basic, understandable terms?²¹ Which parts of the prospectus would benefit from additional explanation of the purpose of the disclosure?

• Encourage or require greater use of personal pronouns (such as "you") in disclosures to speak directly to the reader?

35. Would you prefer more use of visual presentations (such as tables, charts, and graphs) in fund disclosures? Are there particular types of fund information that you would prefer to receive as visual presentations? Do you find the current visuals in fund disclosures (such as graphs showing the performance history of a fund) useful, or can they be too complex?

36. Should we modify the format of prospectuses or other required fund disclosures to make them more user-friendly? For example, should certain summary or other disclosure be presented in a question-and-answer (Q&A) format?²² If a Q&A format is used, should we standardize the questions, or should funds have the flexibility to develop different questions based on their facts and circumstances?

37. A fund's name is often the first piece of information you see about a fund. If a fund name includes a particular type of investment, industry, country, or geographic region, what conclusions do you draw about how the fund invests? More generally, do you believe that a fund's name conveys information about the fund's investments and investment risks?

38. The SEC's Office of Investor Education and Advocacy maintains a website at www.investor.gov that provides a variety of publications to help you understand the various features and risks of common investment products.²³ Should we

²¹ Commission forms and rules sometimes include sample language that a fund must include, with modifications as warranted, to introduce a subject and explain the relevance of related disclosure. As an example, Item 3 of Form N-1A provides sample language for a mutual fund to explain the relevance of its fee and expense table, the example regarding the cost of investing in the fund, and the fund's portfolio turnover.

²² Funds sometimes include Q&As in proxy materials to help investors understand the matters on which they are voting, and other jurisdictions have required Q&A-based fund disclosure. See also Canadian Securities Administrators National Instrument 81-101F3, Contents of Fund Facts Document, available at http://ccmr-ocrmc.ca/wp-content/uploads/81-101_ni_f3_en.pdf.

²³ See, e.g., Mutual Funds and ETFs: A Guide for Investors, U.S. Securities and Exchange Commission, Office of Investor Education and Advocacy, available at <https://www.investor.gov/sites/default/files/mutual-funds.pdf>.

require fund disclosure documents to include a link to that website or its relevant publications to help investors make more informed investment decisions? In the alternative, should we require an investment education section within each prospectus that describes the basic features and risks of the relevant investment type? Are there additional ways the Commission could promote the overall financial education of fund investors?

2. Using Technology To Improve the Design of Fund Disclosures

Recent technological developments could enable more interactive, user-friendly disclosure that funds can tailor to individual investors' needs. Among other things, technology could help investors do the following:

- *Find information of interest.* For instance, while the electronic version of a paper-based disclosure may currently include hyperlinks in the table of contents section, funds could use other technological tools to help an investor better navigate or filter the disclosure to find and understand information of interest.

- *Understand fund disclosures.* Potential tools that funds could use to make their disclosures more understandable include pop-ups or hovers to provide plain language definitions or background on more complex issues.

- *Personalize fund disclosure based on individual needs and circumstances.* Funds or others could use technology to generate personalized fund data or illustrations based on investor inputs, such as fees and expenses on a specific investment size.

- *Access more current information about funds.* Technology could allow a fund to make static disclosure more useful by continuously updating information, such as fund performance.

Given advances in technology, we are seeking comment on ways funds could better use technology to make disclosure more useful and engaging for individual investors.

Request for Comment

39. How can we encourage or require funds to display fund information in a more user-friendly manner? For example, are there ways a fund could use web-based disclosure to present prospectus information to make the information more accessible and useful to you than an electronic rendering of a paper document (such as a PDF)?

40. Should fund disclosures be more personalized to enhance your understanding and engagement? If so, how? For example, should we

encourage or require funds to use tools in electronic disclosures to help investors filter information to align with their areas of interest or personalize information based on their individual circumstances?

41. We require certain fund disclosures to include hyperlinks to other pieces of information (such as a fund website or another fund document). Should we require other technologies in addition to or in lieu of hyperlinks to connect information (such as QR codes²⁴)?

42. Should interactive fee calculators and performance presentations or other interactive tools supplement or replace certain required fund disclosures? If so, how would these tools integrate into the current disclosure regime?

43. How important are design elements—such as larger font sizes, greater use of white space, colors, or visuals, or the use of audio or video disclosures—to investors?

44. Assuming that more interactive and visually appealing disclosures may be more costly and that you will ultimately pay those costs, would you be willing to pay more for these enhanced features?

45. What do investors want to see done to give funds the ability to use technology creatively to effectively convey information to investors?

3. Use of Summaries and the Summary Prospectus

Concise, user-friendly disclosure assists investors in making their investment decisions. To promote these principles, in January 2009, the Commission amended the registration form used by mutual funds and ETFs to provide investors with streamlined and user-friendly information that is key to an investment decision.²⁵ Specifically, the Commission added a new summary section to mutual fund and ETF prospectuses and allowed these funds to deliver a shorter summary prospectus to investors, subject to certain conditions. The key information in the summary section includes a fund's investment objectives and strategies, risks, costs, and performance. Having this information in a standardized order in all mutual fund and ETF prospectuses helps investors compare multiple funds.

²⁴ A QR code is a two-dimensional barcode capable of encoding information such as a website addresses, text information, or contact information. These codes are becoming increasingly popular in print materials and can be read using the camera on a smartphone. These codes can provide an easier way for investors to get more information about funds.

²⁵ See Summary Prospectus Adopting Release, *supra* note 1.

A fund's summary prospectus includes the same key information that the fund provides in the summary section of its prospectus. Appendix A to this release contains a hypothetical summary prospectus solely for illustrative purposes. A fund that uses a summary prospectus must provide its prospectus, SAI, and recent shareholder reports on a website and deliver these documents by paper or email upon an investor's request. Under this layered approach to disclosure, investors receive key information directly and have access to more detailed information.

We generally believe that investors benefit from clear and accurate summary disclosure of key information. Specifically, summary disclosure, along with access to more detailed information, can assist investors in making more informed investment decisions. We are seeking comment on the effectiveness of the summary prospectus for mutual funds and ETFs and whether a similar summary disclosure framework might improve other fund disclosures.

Request for Comment

46. Should we do more to encourage or require shorter, "summary" disclosures, with additional information available online or upon request? For example, should we require summary versions of other required fund disclosures, such as shareholder reports?

47. Do you use the summary prospectus in making investment decisions? Does the summary prospectus contain the right amount and type of information to assist you in making an investment decision? Would other information, such as measures of leverage²⁶ or derivative exposure, help you make an informed investment decision? Are there disclosure items currently required in the summary prospectus that we should eliminate?

48. Currently, we only permit funds to disclose certain pieces of information in their summary prospectuses. Should the summary prospectus also alert you to important imminent events, such as impending liquidations, mergers, or large distributions that might have a significant impact on your investment decisions?

49. Do you think summary prospectuses are too short, too long, or

²⁶ Funds employing leverage typically seek to enhance returns by borrowing money to make additional investments, or investing in certain financial instruments that do not require full payment at the time of entering into the trade. While leverage can enhance positive returns, it also can magnify fund losses.

an appropriate length? The Commission intended each summary prospectus to consist of three or four pages, but allows funds flexibility to set the length.²⁷ However, many summary prospectuses exceed this intended length. Certain foreign jurisdictions have adopted summary disclosure documents that include page limits. For example, Canada's Fund Facts document cannot exceed four pages, and the European Union's Key Investor Information Document ("KIID") cannot exceed two pages.²⁸ Should we limit the length of summary prospectuses, or should we continue to provide funds with flexibility in this area?

50. How can technology enhance the usefulness of summary disclosure for investors? Should electronic versions of summary documents provide the ability to more easily access additional, detailed information by clicking on a piece of information? Should we encourage technology that can aggregate fund information from multiple funds so an investor can see a summary of his or her entire portfolio? If so, what is the best way to encourage this type of technology? Would investors be willing to pay for these technological enhancements?

4. Location and Order of Information

Logical organization of information can help investors easily find desired information at the appropriate level of detail. As previously discussed, the current disclosure framework for most funds consists of a prospectus (and a summary prospectus for most mutual funds and ETFs), SAI, and annual and semiannual shareholder reports. The prospectus and SAI generally describe how the fund will operate on an ongoing basis, and the shareholder reports reflect how the fund operated in the past. In addition, funds often make additional information available on their websites.

In certain contexts, such as in summary prospectuses, we require funds to disclose required information in a standardized order. We also require that certain information appear in a fund's prospectus as opposed to its SAI. However, we currently allow funds to choose how to order many individual

items within a required disclosure document.

Fund websites can also be a valuable tool for providing information to investors in real-time. For example, performance information can quickly become out-of-date, so referring investors to a website for more current performance information may be preferred. Funds may also have certain arrangements in place with financial professionals with respect to the amount of sales charge imposed.²⁹ Since the list of financial professionals and the terms of the agreements may change frequently, it may be more appropriate to disclose this information on a website rather than in a fund prospectus.

Because of the importance of providing investors fund information in a location where they can reasonably expect to find the information they want, we are seeking comments on how to rationalize and improve the requirements associated with the location and order of fund information.

Request for Comment

51. Does the current disclosure framework of a summary prospectus, prospectus, SAI, and annual and semiannual reports provide you the necessary information to make informed investment decisions? Should funds provide additional information? Would a one-page sheet at the beginning of each prospectus (or summary prospectus with key information such as historical performance, fees, portfolio managers, date of inception and whether the fund employs leverage to a significant extent) be helpful to investors? If so, should this one-page sheet be standardized?

52. Is there information that is currently located in the summary prospectus, prospectus, SAI, or annual report that would be more appropriate in a different regulatory document or online?

53. Are there any disclosure materials that you receive separately, for example a summary prospectus or annual report, that you would prefer to receive in a single, combined document? If you would prefer to receive these disclosures as a single unified document, when should it be delivered?

54. Does the standardized order of information in a mutual fund or ETF summary prospectus help you more easily locate specific information or compare multiple funds? If so, would

you find it helpful if information appeared in a set order in any other fund disclosure documents?

55. Currently, a single prospectus, SAI, or shareholder report may include information about many funds. Do you find these documents difficult to navigate? Should we limit these documents to one fund per document? Does your response depend if it imposes additional costs on investors? Alternatively, should we require that all the information about a single fund appear in one place in a multi-fund document?

56. Currently, while funds' regulatory documents are freely available through the Commission's EDGAR system, most funds include a number of those regulatory documents (such as a prospectus and shareholder report) on their websites. However, they often do not post all of them (such as a fund's quarterly holdings and proxy voting record). Do you typically obtain fund information through EDGAR, through the fund's website, or through a different (such as a, third-party) source—or some combination of these? Would it be useful to you to be able to access all required fund disclosures in one centralized location on a fund's website?

5. Structuring Disclosures

Structuring disclosures can enhance investors' access to information and improve the quality of available information. Even if investors do not know what structured disclosure is, they benefit from structured disclosure when they research and compare funds using various online tools. Structured disclosure consists of disclosure items that are machine-readable (meaning they can be understood by a computer or other electronic device) because the disclosure text has been labeled (sometimes referred to as "tagged") using an electronic reporting language, such as eXtensible Markup Language ("XML") or eXtensible Business Reporting Language ("XBRL"). Tagging disclosures allows investors and other market participants to more easily access, share, and analyze fund information across different systems or platforms. Figure 1 below illustrates the difference between disclosure as you might see it (left image) and structured disclosure as a computer sees it (right image). (To be clear, disclosure, to you, would appear as the example on the left—whether it is structured or

²⁷ *Id.* at note 14. We have observed summary prospectuses of up to 19 pages in length.

²⁸ A sample Canadian Fund Facts document is available at http://www.osc.gov.on.ca/documents/en/Securities-Category8/ni_20130613_81-101_implementation-state-2-pos.pdf#page=51, and a sample European KIID is available at https://www.esma.europa.eu/sites/default/files/library/2015/11/10_794.pdf#page=5.

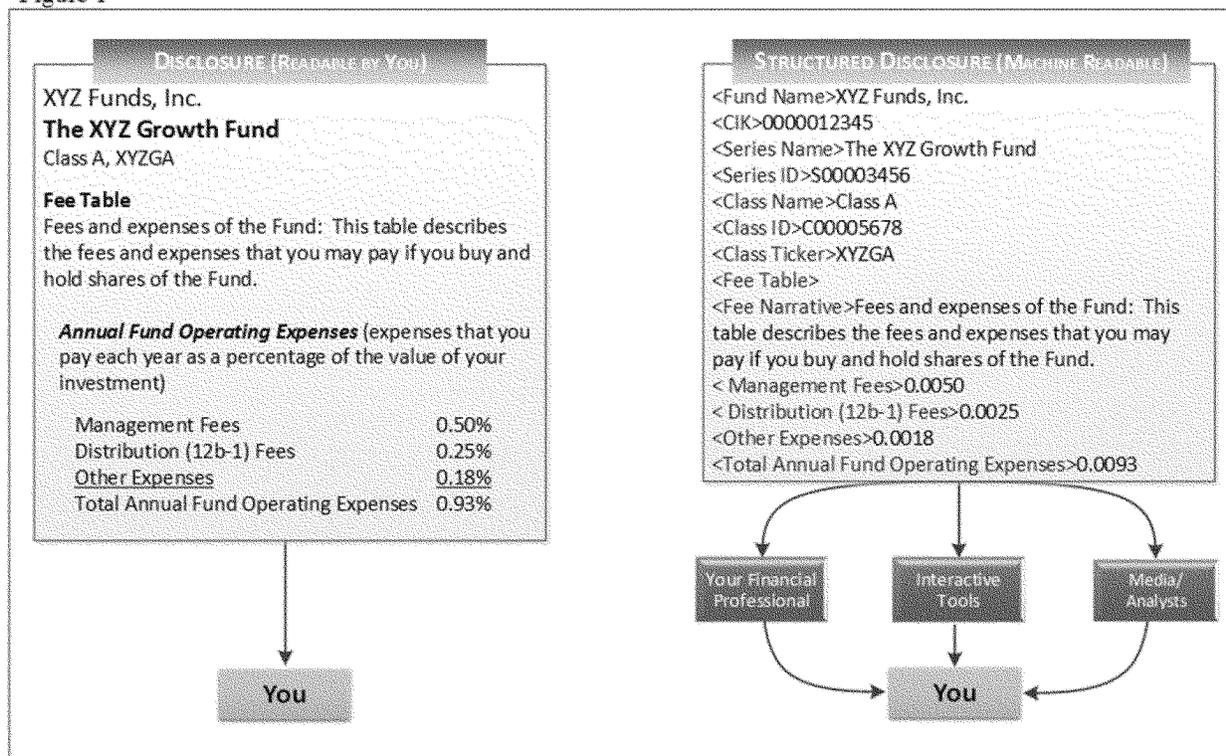
²⁹ Currently, funds are required to disclose intermediary specific sales load variations in the prospectus. See Item 12(a) of Form N-1A, Item 7(c) of Form N-3, and Item 6(c) of Form N-4.

unstructured. Structured disclosure *adds* the machine-readable information in the example on the right—either in a

separate data file that a fund would submit to the Commission, or as a layer of information invisibly embedded

within an electronic document—so that the disclosure can be easily read and processed by computers as data.)

Figure 1



Structured disclosure offers many benefits to investors and other market participants because it enhances their ability to use technology to process and synthesize information, allowing for more timely and in-depth analysis of fund information. Structured disclosure can help investors and other market participants to more easily retrieve, aggregate, and analyze information from disclosures across funds and time periods. For example, investors and other market participants can analyze data points to observe trends (such as changes in fund fees over time), examine portfolio data, create ratios, or perform other analyses. Narrative disclosures also can be structured and analyzed to, for example, examine how different funds are describing a portfolio strategy or conduct comparisons against peers. For these reasons, countries around the world, including the United States, are increasingly using structured disclosure for reporting. In addition, unlike other data sources, this data comes directly from information filed with the Commission, which may improve the quality of the data.

Currently, mutual funds and ETFs are required to submit interactive data files (formatted using XBRL) containing their

risk/return summary information, which includes objectives, fees, principal strategies, principal risks, and performance disclosures.³⁰ Money market funds also electronically file a monthly report on Form N-MFP that contains detailed information about fund holdings in the XML format. Other funds will also be required to provide portfolio-level data to the Commission on a monthly basis and census-type information to the Commission on an annual basis in the XML format.³¹

Because of the benefits that structuring disclosures can provide, we are seeking comment on whether and how to improve our current structured disclosure reporting regime to increase the usefulness of structured disclosure.

Request for Comment

57. How are you currently using fund data (such as fees, holdings, or performance-related data)? Which data,

³⁰ See General Instruction C.3.g(i), (iv) to Form N-1A.

³¹ See Investment Company Reporting Modernization, Investment Company Act Release No. 32314 (Oct. 13, 2016) [81 FR 81870 (Nov. 18, 2016)]; Investment Company Reporting Modernization, Investment Company Act Release No. 32936 (Dec. 8, 2017) [82 FR 58731 (Dec. 14, 2017)].

in particular, are you using and how do you access the data? Do you obtain the data from fund or third party websites, or directly from the Commission's website?

58. We currently provide risk/return summary information (that is, objectives, fees, principal strategies, principal risks, and performance disclosures) extracted from mutual fund XBRL filings on our website for download.³² Should we provide other fund industry and fund-specific census-type and portfolio information data sets on our website for download? If so, what additional information should we provide, and how would you use that information?

59. Is there additional mutual fund or ETF information that we should require in a structured disclosure format? If so, what information?

60. Are there other formats for structuring disclosures that would make disclosures more accessible or useful to you and other data users? Are other standards, besides XBRL and XML, becoming more widely used or otherwise superior to these formats in

³² See <https://www.sec.gov/dera/data/mutual-fund-prospectus-risk-return-summary-data-sets>.

allowing you and other data users to easily retrieve, aggregate, and analyze fund data? If so, what are those standards? What would be the advantages and drawbacks of these formats to investors, funds, and other data users, compared to XBRL or XML?

61. To what extent is the information currently provided in a structured disclosure format readily available through other sources, such as third-party data aggregators (like Morningstar and Lipper)? If you use third parties, do you pay for the information? Do you access structured disclosure directly from EDGAR or from fund websites for a significant number of funds without using third-party data aggregators? Has the availability of structured disclosure reduced your dependence on, or the costs associated with, using data aggregators?

D. Content

The content of fund disclosures should provide the basis for an investment decision. For this reason, the Commission has established requirements to help ensure that funds' presentations of certain key information (such as objectives, fees, strategies, and risks) is clear, is not misleading, and facilitates comparisons between funds. We are seeking input with respect to the content of fund disclosures to improve the investor experience, which could lead to more informed investment decisions.

1. Strategies

A fund's investment strategies tell you how the fund intends to achieve its investment objective. They indicate the approach the fund's adviser takes in deciding which investments to buy or sell. A fund's principal investment strategies refer to the strategies that the fund expects to have the greatest anticipated importance in achieving its objectives and that the fund anticipates will have a significant effect on its risks and returns. Principal strategy disclosure must also discuss the type(s) of investments in which the fund will principally invest. For example, a fund may employ a strategy to invest in multiple asset classes (such as equities and bonds), invest a large amount of assets in a particular industry, or invest in a specific geographic region.

To effectively select and invest in funds to meet their financial objectives, it is important for investors to understand how a fund is investing. However, the staff has observed significant variations in funds' approaches to principal strategy disclosure that may impact investors' ability to effectively use this

information. This disclosure sometimes includes lengthy and highly technical descriptions of fund strategies that can make it difficult for investors to identify and understand how the fund will invest. For example, several mutual funds in Morningstar's Large-Cap Value category describe their principal strategies in under 100 words in the summary section of the prospectus, while other funds in the same category use more than 1,000 words. Some of the longest principal strategies disclosure the staff has observed exceed 5,000 words. While we recognize that some principal investment strategies are more complex, we believe that streamlined, plain English disclosures could enhance the investor experience and contribute to more informed investment decisions.

Several factors may be contributing to lengthy, complex, and hard to understand disclosure regarding principal investment strategies. These include the following:

- Disclosing information about certain investment types the fund is not likely to use.
- Including an extensive discussion of principal strategies and risks in the summary prospectus for a mutual fund or ETF since there is no page limit or limit to the number of strategies or risks a fund may disclose in its summary prospectus.
- Discussing both principal and non-principal strategies in the same section of the prospectus (although this is not permitted in the summary section of mutual fund and ETF prospectuses or the summary prospectuses).
- The strategy itself is complex.

In addition, it may be difficult for retail investors to understand strategy disclosure when such disclosure: (1) Involves certain complex financial transactions, particularly when described using highly technical language; or (2) assumes its readers have a high degree of financial knowledge.

We are seeking input on the current framework for disclosing principal investment strategies and how we could improve this framework to help you better understand how funds invest.

Request for Comment

62. Understanding how a fund will invest your money is important to making an investment decision. Do fund prospectuses and other disclosures adequately describe a fund's strategies? How can funds improve these disclosures?

63. Do you learn about a fund's strategies by looking at a fund's name, its fund category, its prospectus (or summary prospectus), or other materials

(such as website disclosure or third-party resources)?

64. Should we address the length and complexity of principal strategies disclosure, and if so, how? Should we establish additional guidelines—such as specific thresholds to determine which strategies are considered “principal” (such as if a stated percentage of the fund's assets are devoted to a strategy, it is deemed to be (or presumed to be) a principal strategy)—or impose limits on the length of principal strategies disclosure in a summary section? If so, what would be an appropriate threshold, or limitation on length? Should funds disclose strategies in order of importance or in some other standardized way to help you better understand the key strategies of the fund?

65. Would visual presentations of strategies better help you understand a fund's disclosure, and if so, how? Can graphs, tables, or other visual tools adequately describe strategies? For example, would inclusion of a graphic representation of a fund's holdings improve a fund's principal strategies disclosure? Would the effectiveness of visual presentations depend on the medium in which they are viewed (such as paper, electronic, or mobile device)?

66. Some funds employ a “go anywhere” strategy. Under this approach, a fund's manager may invest in a broad array of asset classes, and can target what the manager believes are the best investments, rather than be limited to a particular investment focus. Are there better ways to promote understanding of “go anywhere” funds' strategies? Are there ways to highlight the distinctions between “go anywhere” funds across different fund complexes?

67. Funds may use leverage to magnify returns (both positively and negatively). Leverage can come from a fund borrowing money to make additional investments or through the use of certain financial instruments, such as derivatives. Some funds try to specify their level of leverage (such as to produce twice the returns on an index), while others reserve more discretion with respect to their use of leverage. However, many investors do not adequately understand the impact of leverage on their investments. Do you believe that funds adequately explain the use and effects of leverage on their portfolios? For instance, do funds make clear that leverage can result in higher returns but also come with the risk of more severe losses? If not, how can we improve the disclosure?

68. Are there certain fund types—whether defined by structure, by type of investment, or by investment strategy

(such as open-end or closed-end, or fixed income or equity)—for which we should require more or less detailed strategies disclosure? If so, what are those types of funds and what disclosures should we add or subtract?

2. Risks

All investments in funds involve risk of financial loss. The reward for taking on investment risk is the potential for a greater investment return. When evaluating funds for investment, it is important to determine if the fund satisfies your investment objective and matches your risk tolerance, as well as the risks in your overall portfolio. A fund's risks vary considerably with the nature of its investments.

We require funds to highlight the principal risks associated with an investment in the fund. Principal risks include, for example, those risks that are reasonably likely to adversely affect the fund's net asset value, yield, and total return. For example, a fund investing in stocks of companies with small market capitalization would discuss market risk as a general risk of holding stocks, as well as the specific risks associated with investing in small capitalization companies (that is, that these stocks may be more volatile and have returns that vary, sometimes significantly, from the overall stock markets).

However, the sometimes lengthy and highly technical descriptions of fund risks can make it difficult for investors to identify and understand the key risks of a fund. For example, as with principal investment strategies, investors may find it difficult to identify and understand the principal risks of investing in a fund because prospectuses may (1) disclose risks associated with strategies the fund has yet to undertake, (2) include overly long discussions of risks, or (3) discuss both principal and non-principal risks in certain non-summary sections of the prospectus. In addition, some funds disclose a wide variety of principal risks that have little potential impact on the fund. Currently, funds are not required to disclose risks in a particular order (such as by order of importance) or to try to quantify their risks in any way.

To effectively select and invest in funds to meet their financial objectives, it is important that investors understand the principal risks associated with a fund. As with strategy disclosure, however, the staff has observed significant variations in funds' approaches to principal risk disclosure that may impact investors' ability to effectively use this information. For example, some mutual funds in Morningstar's Large-Cap Value category

describe just a few principal risks in less than 200 words in the summary section of the prospectus, while other funds in the same category list 20 or more principal risks using more than 2,500 words in its summary section of the prospectus. Some of the longest principal risks disclosures the staff has observed exceed 7,000 words. While we recognize that some principal investment strategies give rise to more complex or varied risks than others and that certain funds or fund complexes may present different risks (such as risks associated with a new adviser), we believe refinements to principal risk disclosure would contribute to the investor experience and to more informed investment decisions.

We are seeking input on the current framework for disclosing risks and how we could improve this framework to help you better understand the key risks associated with your fund investments.

Request for Comment

69. Do fund prospectuses and other disclosures adequately describe the level of risk associated with a fund? How can funds improve these disclosures?

70. How do you learn about a fund's risks? What information is most useful to you in evaluating a fund's risks, and what do you want to know? Are there any metrics (such as standard deviation) that you consider?

71. Should we establish additional guidelines—such as specific thresholds to determine which risks are considered “principal,” page limits, or limits on the number of principal risks a fund may disclose—to further standardize principal risk disclosure? If so, what would be an appropriate threshold, page limit, or numeric limit on the number of items disclosed?

72. Would visual presentations of risks better help you understand a fund's risks? Can risks be adequately described using graphs, tables, or other visual tools? For example, would a standardized risk measure or risk rating be useful to understand a fund's risk? Both the Fund Facts document required by Canadian securities regulators and the KIID required by the European Union require funds to quantify their level of risk.³³ The Canadian form requires that a fund rank its risk level on a 5-point scale (Low, Low to Medium, Medium, Medium to High,

and High). The European form requires that a fund rank its risk level on a 7-point scale. Should we also require a risk rating? If so, what type of scale should we use (for instance, a 10-point scale or low/medium/high risk)? What inputs should determine a fund's rating on the scale? Should the fund's rating on the scale be chosen at the fund manager's discretion, or should a standardized metric be used? Are there other presentations of risks that you think may be useful to investors?

73. Many funds list their principal risks in a way that does not reflect the relative importance of each risk to a fund, such as listing risks in alphabetical order. Would ranking risks in order of importance better help you understand the key risks of the fund? How should a fund determine the importance of a particular risk factor? For example, how should a fund weigh the likelihood and magnitude of a particular risk in determining a ranking? For instance, which would have a higher ranking: A common event that can subject a fund to small losses, or rare occurrences that could lead to significant losses? If we require a ranking, how often should funds be required to reassess the ranking?

74. Would it be helpful if funds disclosed one or more quantitative measures of risk (such as historic volatility, standard deviation, Sharpe ratio)?³⁴ If yes, which risk measures should be disclosed?

3. Fees and Expenses

When considering investing in a fund, fees and expenses are an important factor investors should consider. Even seemingly small differences in fees and expenses can significantly affect a fund's investment returns over time. Funds must disclose information about fees and expenses in a standardized format to help investors compare that information across funds. Typically, the information appears in two sections: A fee table, which shows shareholder transaction fees and annual fund operating expenses, and an expense example.

- *Shareholder transaction fees* are charges that investors pay directly. They typically appear as a percentage of the amount invested including (1) sales charges (also known as “loads”), which generally pay investment professionals

³³ A sample Canadian Fund Facts document is available at http://www.osc.gov.on.ca/documents/en/Securities-Category8/ni_20130613_81-101_implementation-state-2-pos.pdf#page=51, and a sample European KIID is available at https://www.esma.europa.eu/sites/default/files/library/2015/11/10_794.pdf#page=5.

³⁴ Although we previously inquired about quantitative measures, we are asking for responses to similar questions in this area to learn current investor preferences in this area. See *Improving Descriptions of Risk by Mutual Funds and Other Investment Companies*, Investment Company Act Release No. 20974 (Mar. 29, 1995) [60 FR 17172 (Apr. 4, 1995)].

compensation for selling a fund to an investor; and (2) other applicable fees related to redemptions, exchanges, and account minimums. Some shareholder transaction fees appear as a dollar amount in the fee table.

- *Annual fund operating expenses* are charges that an investor pays indirectly because these charges are paid out of fund assets. Annual fund operating expenses appear as a percentage of net assets and generally include (1) “management fees,” which are paid to the fund’s investment adviser for deciding which investments the fund buys and sells and for providing other related services; (2) “Rule 12b–1 fees,” which pay for marketing and selling fund shares; and (3) “other expenses,” which represent various categories, such as auditing, legal, custodial, transfer agency fees, and interest expense.

- The *expense example* is a hypothetical calculation that shows the estimated expenses that an investor will pay for investing in a fund over different time periods. The expense example appears in dollar amounts, based on a hypothetical investment of \$10,000, and assumes a 5 percent annual return over the course of 1, 3, 5, and 10 years.³⁵

We are seeking comment on how to improve the disclosure requirements associated with fees and expenses to promote more informed investment decisions.

Request for Comment

75. Fund fees and expenses are a key consideration in an investment decision because fees and expenses can significantly affect a fund’s investment returns over time. Do funds disclose fund fees and expenses in an effective manner? How could funds improve the disclosure of fund fees and expenses? Would fund fees and expenses be more readily understandable if they were presented as dollar amounts or expressed as a percentage? Would it be helpful if the actual fees and expenses associated with your investment in the fund were included in other fund documents, such as your account statements?³⁶

³⁵ If a fund imposes a fee or other charge when an investor sells (redeems) his or her shares, the fund must disclose two expense examples. The first example shows the estimated expenses of investing in the fund if the investor continues to hold his or her shares throughout the 1, 3, 5, and 10 year periods. The second example shows an investor’s estimated investment expense if he or she sells (redeems) shares at the end of the 1, 3, 5, or 10 year periods.

³⁶ The Commission’s Investor Advisory Committee (“IAC”) has recommended that the Commission explore ways to improve mutual fund cost disclosures, with the goal of enhancing investors’ understanding of the actual costs they bear when investing in mutual funds and the

76. Investors may make better investment decisions if they are alerted to the need to focus on certain information. Should we require a fund to add a statement to its prospectus that emphasizes the importance of understanding fees and expenses? What should this statement be?

77. Annual fund operating expenses currently appear as separate line items, such as management fees, rule 12b–1 fees, and other expenses, that add up to a final line item reflecting total annual fund operating expenses. Is the current format useful, or would you prefer to have a simpler presentation that, for example, includes only a single line item for total annual fund operating expenses or a graphical representation of fees like a fee meter (which is a graphic that shows how a fund’s fees compares to other funds)?

78. Do you believe it would be helpful to include a “fees and expenses benchmark” that could help you compare the fees of the fund to fees of similar funds and understand the relative size of a fund’s fees? For example, would it be helpful to include a benchmark or fee meter that would rank fees and expenses as low, medium, or high? If so, how should we define “similar funds”?

79. A fund’s transaction costs (such as the costs of buying and selling a fund’s investments and certain foreign taxes) can be significant.³⁷ Such costs may exceed a fund’s total annual operating expenses and negatively affect a fund’s performance. A fund must disclose its portfolio turnover rate (that is, the percent of the portfolio the fund typically trades in one year), which is an indication of one type of transaction cost (for instance, a high portfolio turnover may indicate higher transaction costs).³⁸ Do you find the current presentation of portfolio turnover to be useful to understanding transaction costs incurred by the fund?

impact of those costs on total accumulations over the life of their investment. The IAC has suggested that, in the short term, the best way to make investors more aware of costs is through standardized disclosure of actual dollar amount costs on customer account statements. The IAC was established to advise the Commission on, among other things, regulatory priorities, fee structures, the effectiveness of disclosure, and initiatives to protect investor interests and to promote investor confidence. See Recommendation of the Investor as Purchaser Subcommittee Regarding Mutual Fund Cost Disclosure (Apr. 14, 2016), available at <https://www.sec.gov/spotlight/investor-advisory-committee-2012/iac-041416-recommendation-investor-as-purchaser>.

³⁷ See, e.g., Concept Release: Request for Comments on Measures to Improve Disclosure of Mutual Fund Transaction Costs, Investment Company Act Release No. 26313 (Dec. 18, 2003) [68 FR 74819 (Dec. 24, 2003)].

³⁸ Item 3 of Form N–1A.

Do you want to see additional information about these costs? If so, which information? Is there a more effective format for communicating transaction costs to investors? If so, which format?

80. A portion of the transaction costs for an equity fund often pays for research provided by third-party broker-dealers that is used by the adviser in making investment decisions. These costs do not appear in the fee table or expense example. What disclosure, if any, should funds provide about these costs (known as “soft dollars”)?³⁹

81. The expense example disclosed in a fund’s prospectus should help investors quickly compare the cost of investing in a fund with the cost of investing in other funds. The example presents expenses based on certain assumptions, such as a fixed investment amount and rate of return over specified periods. Do you find the expense example useful and easy to understand? Are the assumptions in the calculation appropriate? How could we improve the expense example? Are you able to determine your own costs of investing in a fund based on the expense example, or would you prefer to receive a customized calculation of your specific expenses from the fund? Would you like to (or do you currently) use an online tool to calculate a personalized expense amount based on your actual investment in a fund?

82. A fund’s fee table discloses costs charged by the fund but not external costs charged by your financial professional. Do you currently have sufficient information about external costs to understand the true cost of your investment? Would it be useful for you to see the total amount you pay annually for investing in a fund, including external costs? Because external costs are shareholder specific and the fund does not have access to this information, what would be the most effective method of communicating this information?

4. Performance

When considering whether to invest in a fund, investors may consider the fund’s investment performance. However, consideration of a fund’s performance has certain limitations. In particular, past performance cannot

³⁹ We have considered enhancing fund soft dollar disclosure requirements in the past. See, e.g., Commission Guidance Regarding the Duties and Responsibilities of Investment Company Boards of Directors With Respect to Investment Adviser Portfolio Trading Practices, Investment Company Act Release No. 28346 (Jul. 30, 2008) [73 FR 45646 (Aug. 6, 2008)], available at <https://www.sec.gov/rules/proposed/2008/34-58264.pdf>.

predict future performance. Therefore, fund prospectuses are required to state that a fund's past performance is not necessarily an indication of how the fund will perform in the future. Any top performing fund in a given year can easily underperform the following year.

Investors should consider performance information in light of a number of other factors, including the following:

- The fund's fees and expenses, which reduce the fund's overall investment return;
 - The investor's age, income, other investments, or debt, all of which may affect his or her financial situation and risk tolerance;
 - The performance of the asset classes the fund invests in and its benchmark; and
 - Market and economic conditions.
- While a particular investment return might be above average during a period of economic downturn, that same return could be below average during a period of generally favorable economic conditions.

Notwithstanding the limitations of performance information, it can—if used wisely—contribute to a more informed investment decision. For example, one potential use of performance information is that it can tell an investor how volatile (or stable) a fund has been over a period of time. Generally, the more volatile a fund, the greater the investment risk.

In an effort to balance the limitations of fund performance information with its potential usefulness and investor demand for this information, we have established standards for how funds present their performance in fund prospectuses. Under these standards, the prospectus is generally required to include:

- A bar chart displaying the fund's performance for each of the past 10 years (or since the fund's creation if the fund has less than 10 years of performance history);
- A table comparing the fund's performance for the last 1-, 5-, and 10-year periods to a broad-based securities market index; and
- The fund's performance for its best and worst calendar quarters.

We are soliciting comment on how to improve the presentation of fund performance so investors can make more informed investment decisions.

Request for Comment

83. How do you consider performance information when making an investment decision? For example, do you use it to evaluate the risk of a fund, or do you use it for some other purpose,

such as to assess the skill of the investment manager? How could funds improve the presentation of performance information? Should past performance information be emphasized or de-emphasized in fund disclosures? Should short-term performance periods (such as 1-year) be de-emphasized and longer-term performance periods be emphasized?

84. A mutual fund or ETF's performance presentation in the Risk/Return Summary section of its prospectus and fund advertisements must include a statement to the effect that the fund's past performance is not necessarily an indication of how the fund will perform in the future.⁴⁰ Is this performance disclaimer sufficiently clear to investors, or can it be improved?

85. A mutual fund or ETF's performance presentation in the Risk/Return Summary section of its prospectus and fund advertisements must also explain that performance information shows how the fund's returns have varied. Is it clear that the performance information is included to show variability of returns, rather than any indication that the fund will perform similarly in the future? How can we improve this disclosure to reflect the risks of relying too heavily on past performance?

86. The performance table in the Risk/Return Summary must show the returns of an appropriate broad-based securities market index in addition to the performance of the fund.⁴¹ Should funds disclose how they determined that their benchmark is an appropriate broad-based benchmark? Should we require new funds that do not yet have past performance to disclose their intended benchmark performance index?

87. Beyond the required comparison of fund performance to that of an appropriate broad-based securities market index, are there other performance comparisons that you would find useful, such as a comparison between the fund's performance and that of a peer group of funds? For example, should a small-cap fund be required to compare its performance to an index comprised of small-cap funds or to all funds with a similar investment strategy? If we take such an approach, how should the Commission define "peer group" to help ensure meaningful comparisons?

88. The Risk/Return Summary requires average annual total returns for 1-, 5-, and 10-year periods before taxes as well as after-taxes on distributions

and after-taxes on distributions and redemption.⁴² Do you find the after-tax information helpful?

89. Under certain circumstances, our staff has not objected to a fund including in its performance record or otherwise disclosing the performance of an unregistered predecessor account of the fund (such as a hedge fund that converted to a mutual fund) or other similarly managed accounts of the adviser or portfolio manager.⁴³ Is this information helpful to investors, or do you find it to be of limited relevance or confusing?

90. Should the Commission take steps to encourage or require more funds to include interactive performance presentations on their websites? Which of these features or presentations are most helpful for you in understanding performance information? Are there features or presentations that are confusing?

91. The investment decisions and trading strategies of a fund's portfolio manager(s) often drive fund performance. Is information about the identity, experience, and background of fund portfolio managers important to you when considering an investment? Is the current information about fund portfolio managers sufficient? If not, why not? If a fund is managed by a team of managers, should the fund disclose information about each of the team members?

5. Management Discussion of Fund Performance

To understand a fund's performance over the prior year, it is useful for an investor to receive information about relevant factors that affected the fund's performance. Management's Discussion of Fund Performance ("MDFP") is a section of a mutual fund or ETF's annual report in which fund managers discuss the factors, such as market conditions and investment strategies, that materially affected the fund's performance during its most recently completed fiscal year. Unlike the prospectus, which focuses on how a fund intends to invest, the MDFP describes how the fund actually invested in the prior year and why it performed as it did.

In this discussion, management usually identifies which holdings of the fund contributed to or detracted significantly from the fund's performance. A required line graph compares the fund's performance during

⁴² Item 4(b)(iii) of Form N-1A.

⁴³ With respect to certain commodity funds, this disclosure may be required. See CFTC Regulation 4.25(c).

⁴⁰ Item 4(b)(2)(i) of Form N-1A.

⁴¹ Item 4(b)(2)(iii) of Form N-1A.

the last 10 years (or for the life of the fund, if shorter) of a hypothetical \$10,000 initial investment against an appropriate broad-based securities market index (such as the S&P 500). In addition, the fund must include a table with the fund's average annual returns for the most recent 1-, 5-, and 10-year periods.⁴⁴ Many funds also voluntarily provide additional information, such as a fund president's letter to shareholders, interviews with portfolio managers, market commentary, and other similar information that is intended to assist investors in understanding fund performance and market conditions. Some funds include specific portfolio statistics, such as top ten holdings, geographic and sector exposures, and summary statistics with respect to debt yields and maturities.

The MDFP can be an important communications tool that helps investors understand fund performance, the strategies the fund has used, and the risks it has taken on. This can help investors make decisions about whether to buy, sell, or continue to hold fund shares. While most funds meet the basic requirements of the MDFP, the staff has observed diversity in practice in the level of fund-specific detail or insight management provides and the degree to which funds use generic or boilerplate language that does not change much from year to year.

As the MDFP is important to help investors understand performance, we are seeking comments on how to improve the MDFP requirements to enhance the investor experience and promote more informed investment decisions.

Request for Comment

92. How do you use the MDFP, and what parts of it do you consider helpful? Is there any additional information that you would like to have to better understand your fund's performance? Are there more effective ways to present or supplement MDFP, for example, by linking the section to an online video presentation?

93. A fund must disclose its MDFP over the past year in its annual report. Would it be useful to you if funds also included MDFP in their semiannual reports?

94. Does MDFP disclosure adequately describe how a fund has performed over the prior period? Do funds adequately explain market conditions and trends and how they relate to the fund's performance during the relevant period? Do fund MDFP disclosures adequately explain the investments and strategies

that significantly contributed to or detracted from the fund's performance? Would additional graphics or narrative discussion of fund holdings be helpful to investors? If so, what kind of information would be useful? If not, why not? Are there any best practices in MDFP disclosure that we should encourage or require?

95. Should the MDFP requirements include a standardized format, such as a Q&A format? If so, what standardized sections or information should be included? What are the advantages and disadvantages of including more standardized information?

96. The MDFP requirements are currently the same for all mutual funds (other than money-market funds) and ETFs. Should there be special requirements for different types of funds (such as a target date fund comparing its actual holdings to how it expected to invest at a given time)?

6. Fund Advertising

Investors often rely on advertising materials made available by a fund to make investment decisions. This information may take many forms and can include materials in newspapers, magazines, radio, television, direct mail advertisements, fact sheets, newsletters, and on various web-based platforms. The Commission has adopted special advertising rules for funds; the most important of these is rule 482 under the Securities Act.

Rule 482 contains requirements for fund advertisements that are intended to provide investors information that is balanced and informative, particularly in the area of investment performance. For example, a fund is required to include in its advertisements the following:

- Disclosure advising investors to consider the fund's investment objectives, risks, charges and expenses, and other information described in the fund's prospectus, and highlighting the availability of the fund's prospectus.
- If performance data is provided for mutual funds, ETFs, or certain variable insurance products, certain standardized performance information, information about any sales loads or other nonrecurring fees, and a legend warning that past performance does not guarantee future results.⁴⁵

⁴⁵ Funds that include performance information in their advertisements must make updated performance information available and provide a toll-free number or web address for obtaining updated performance information. See rule 482(b)(3)(i) under the Securities Act. Further, to the extent a fund provides updated performance information, it must include in its prospectus information about how investors can obtain

- If the fund is a money market fund, a cautionary statement disclosing the particular risks associated with investing in a money market fund.

The rule also sets forth specific requirements regarding (1) the prominence of certain disclosures, (2) advertisements that make tax representations, (3) advertisements used before the effectiveness of the fund's registration statement, and (4) the timeliness of performance data.

Because fund advertisements (including information on fund websites) are so commonplace and are a principal source of information for fund investors, we are seeking comments on how to improve the requirements associated with fund advertisements to enhance the investor experience and promote more informed investment decisions.

Request for Comment

97. Have you ever made an investment decision or looked more closely at a fund based on an advertisement? If so, what type of advertisement was it (such as radio, TV, internet, or print)? What aspects of the advertisement motivated you to invest in or look more closely at a fund?

98. In some countries, funds are required to state whether you are reading an advertisement or a prospectus. For example, the European Union's KIID includes standardized language explaining that it is not marketing material and that it is required by law to help you understand the nature and the risks of investing in the fund.⁴⁶ Are you able to distinguish a fund advertisement from a document required by law (such as a summary prospectus or shareholder report)? Do you think it is necessary for you to know the difference? Do you rely more on one type of document over another?

99. Many funds have fund fact sheets, which are short documents (typically one or two pages) that include select information about the fund. Do you think fund fact sheets are more readable than SEC-required disclosure documents, such as summary prospectuses? If so, why? Do you think that fund fact sheets provide sufficient information for you to make an investment decision?

100. Do you think fund advertisements provide a clear discussion of the potential risks and returns of an investment in a fund?

updated performance information. See Item 4(b)(2)(i) of Form N-1A.

⁴⁶ See Article 4 of Commission Regulation (EU) 583/2010, available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2010:176:0001:0015:en:PDF>.

⁴⁴ See Item 27(b)(7)(ii) of Form N-1A.

101. Have you observed any fund advertisements that you believe are misleading or otherwise problematic? If so, why do you believe they were misleading or otherwise problematic? Should certain fund advertisements be required to include warnings analogous to those in advertisements for pharmaceuticals or prescription medications?

102. Do the advertising rules effectively operate with respect to newer advertising media, such as websites, smartphone applications, and email? For instance, should there be special requirements, such as embedded hyperlinks in web-based advertisements to the fund prospectus? Are there special issues we should consider about how you access and view information? For example, a printed disclaimer at the bottom of a video may be effective on a 50-inch TV or on a computer monitor, but may be less effective on a 5-inch mobile device. In addition to performance data, are there other types of information that we should standardize in advertisements? For instance, should we require fee information in an advertisement to be consistent with the figures shown in the fee table section of the fund's prospectus?

103. Rule 482 includes special disclosure requirements for certain funds such as money market funds. Are there other types of funds for which special disclosures should be required in fund advertisements?

7. Other Types of Funds

In addition to mutual funds and ETFs, there are other types of funds available to investors to help them achieve their investment goals. The most common of these funds include the following:

- *Closed-End Funds.* Invests the money raised in its offering in stocks, bonds, and/or other investments. Closed-end funds typically sell a fixed number of shares in traditional underwritten offerings. Closed-end fund shares are not redeemable (that is shares cannot be returned to the fund for their net asset value); instead, investors sell closed-end fund shares in secondary market transactions, usually on a securities exchange, or to the fund if it offers to repurchase shares.

- *Business Development Companies.* Closed-end funds that primarily invests in small and developing businesses and that generally makes available significant managerial assistance to such businesses.

- *Unit Investment Trusts.* Invests the money raised from many investors in its one-time public offering in a generally

fixed portfolio of stocks, bonds, or other investments.

- *Variable Insurance Products.* Offers investors insurance benefits (such as protection against outliving your assets) coupled with the ability to participate in the securities markets (through investments in mutual funds) while deferring taxes on gains until the assets are withdrawn.

Because of the unique nature of these types of funds, they are subject to different disclosure requirements. We are seeking input on how to appropriately tailor disclosure requirements to these types of funds.

Request for Comment

104. Different types of funds are subject to different disclosure requirements and file on different disclosure forms. Are there disclosure requirements that we should standardize across the various types of funds (such as fees, performance presentations, and MDFP)? If so, please identify them.

105. Are the various disclosure forms well-tailored to the types of funds that must use the forms? If not, how can we improve the forms? Should we eliminate or consolidate some forms that funds no longer use or use infrequently?

106. Should we permit funds other than mutual funds and ETFs, such as closed-end funds, to use a summary prospectus?⁴⁷ If so, what information should we include in a summary prospectus for such funds?

107. Should we expand the MDFP requirement, which currently applies to mutual funds and ETFs, to cover other types of funds (such as closed-end funds)?

108. Closed-end funds are not required to show performance information in their prospectuses in the same chart and table format required for mutual funds and ETFs. Should the Commission require that closed-end funds present performance information in the same format as mutual funds and ETFs? Are there other types of performance metrics for evaluating closed-end fund performance that may be useful to investors?

⁴⁷ As noted in the Commission's Spring 2018 Regulatory Flexibility Act agenda, the Commission also may consider a rule proposal designed to provide variable annuity investors with more user-friendly disclosure and to improve and streamline the delivery of information about variable annuities through increased use of the internet and other electronic means of delivery. See https://www.reginfo.gov/public/do/eAgendaMain?operation=OPERATION_GET_AGENCY_RULE_LIST¤tPub=true&agencyCd=3235&Image58.x=58&Image58.y.

E. Opportunities for Ongoing Assessment of Disclosure Effectiveness

Capital markets are evolving continuously in response to technology and innovation. While these developments present regulatory challenges, they also allow us to explore ways to improve fund disclosure effectiveness. We are seeking comments on opportunities the Commission should consider in order for it to assess disclosure effectiveness on an ongoing basis to improve the investor experience and promote more informed investment decisions.

Request for Comment

109. We seek to engage directly with America's investors on fund disclosure matters. Do you have suggestions for other ways we can increase our direct engagement with investors, like you, on key topics? For example, should we expand our use of investor testing, focus groups, surveys, online chats, and town halls? If so, in which forum would you be most likely to participate?

16. Should we conduct pilot programs to test potential disclosure alternatives suggested by fund professionals and/or investor advocacy groups?

110. Should we consider the use of committees or roundtables as formats to engage investors and market participants on fund disclosure matters? For example, should we establish an advisory committee on fund disclosure, or are there existing committees under which the function should be performed, such as our Investor Advisory Committee? Should we sponsor annual roundtables on fund disclosure matters with representatives from the asset management profession, other financial professionals, academics, and investor advocacy groups? Where should those roundtables be held (in Washington, DC, or other locations)?

111. Are there any other approaches we should consider to assess the effectiveness of fund disclosure?

III. General Request for Comment

In addition to the specific issues highlighted for comment, we invite investors and other members of the public to address any other matters that they believe are relevant to improving fund disclosure requirements or improving the investor experience and contributing to more informed investment decisions.

By the Commission.

Dated: June 5, 2018.
Brent J. Fields,
 Secretary.
 BILLING CODE 8011-01-P

Appendix A: Hypothetical Mutual Fund Summary Prospectus

The XYZ Growth Fund

XYZ Funds, Inc.

Class A – XYZGA

Class C – XYZGC

Summary Prospectus

November 1, 2017

Before you invest, you may want to review the Fund's prospectus, which contains more information about the Fund and its risks. You can find the Fund's prospectus and other information about the Fund, online at www.xyzfunds.com/funddocuments. You can also get this information at no cost by calling 1-800-XYZ-FUND or by sending an email request to documents@xyzfunds.com.

Investment Objective: Long-term capital appreciation.

Fees and expenses of the Fund: This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund. You may qualify for sales charge discounts if you and your family invest, or agree to invest in the future, at least \$25,000 in XYZ Funds. More information about these and other discounts is available from your financial professional and in the Purchase and Sale of Fund Shares section on page 33 of the Fund's prospectus.

Shareholder Fees

(Fees paid directly from your investment)

	Class A	Class C
Maximum Sales Charge (Load) Imposed on Purchases (as % of offering price)	5.00%	None
Maximum Deferred Sales Charge (Load) (as % of offering price)	None	None

Annual Fund Operating Expenses

(Ongoing expenses that you pay each year based on the value of your investment)

	Class A	Class C
Management Fees	0.50%	0.50%
Distribution and/or Service (12b-1) Fees	0.25%	0.75%
Acquired Fund Fees and Expenses	0.03%	0.03%
Other Expenses	0.18%	0.18%
Total Annual Fund Operating Expenses	0.96%	1.46%
Fee Waiver ¹	(0.06)%	(0.06)%
Total Annual Fund Operating Expenses After Fee Waiver ¹	0.90%	1.40%

¹ The Adviser has contractually agreed to waive 0.06% of its management fee from the Fund until November 1, 2018. Before that date, the agreement may be terminated only by the Board of Trustees of the XYZ Funds.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds. The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Class A (if shares are redeemed)	\$587	\$785	\$998	\$1,612
Class C (if shares are redeemed)	\$143	\$456	\$791	\$1,740

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 35% of the average value of its portfolio.

Principal Investment Strategies: The Fund invests mainly in the stocks of mid- and large-capitalization U.S. companies whose revenues and/or earnings are expected to grow faster than those of the average company in the market. The Fund defines mid- and large-capitalization companies as those with market capitalizations greater than \$5 billion.

The Adviser expects that normally the Fund's portfolio will tend to emphasize investments in securities issued by U.S. companies, although it may invest in foreign securities. The Fund may also invest in exchange-traded funds (ETFs) to gain exposure to a particular portion of the market.

Principal Risks: You could lose money by investing in the Fund. The Fund is subject to the following risks, which could affect the Fund's performance:

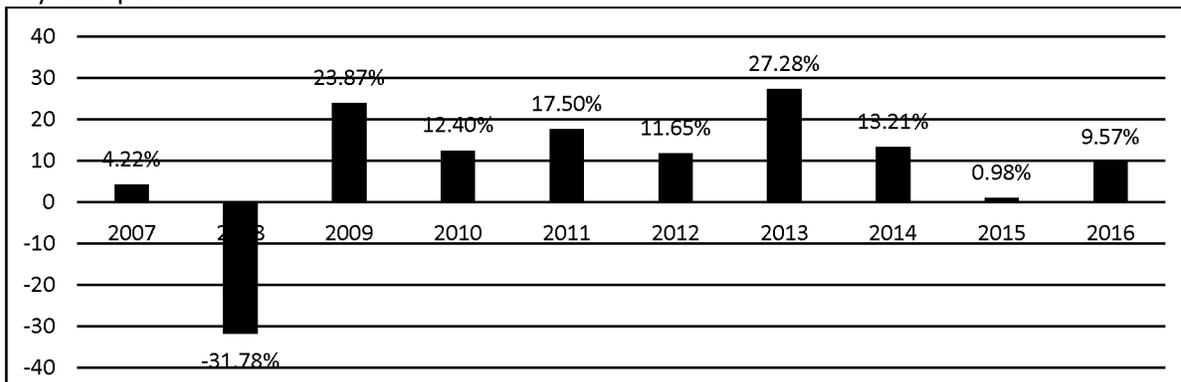
- **ETF Risk:** ETFs are subject to the risks of investing in the underlying securities. ETF shares may trade at a premium or discount to net asset value and are subject to secondary market trading risks. In addition, the Fund will bear a pro rata portion of the operating expenses of an ETF in which it invests.
- **Foreign Securities Risk:** Investments in securities of non-U.S. issuers may involve more risk than those of U.S. issuers. These securities may fluctuate more widely in price and may be less liquid due to adverse market, economic, political, regulatory, or other factors.
- **Investment Style Risk:** Under certain market conditions, the returns from mid- and large-capitalization growth stocks may trail returns from the overall stock market. Mid- and large-capitalization growth stocks tend to go through cycles of doing better — or worse — than other segments of the stock market or the stock market in general. These periods have, in the past, lasted for as long as several years.
- **Manager Risk:** There is the chance that poor security selection will cause the Fund to underperform relevant benchmarks or other funds with a similar investment objective.
- **Stock Market Risk:** There is the chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices.

An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency.

Annual Total Return: The following bar chart and table provide some indication of the risks of investing in the Fund by showing changes in the Fund’s performance from year to year (for its Class A shares in the bar chart) and by showing how the Fund’s average annual returns for 1, 5, and 10 years compare with those of a broad measure of market performance. The Fund’s past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future.

Visit www.xyzfunds.com for more recent performance information.

Year-by-Year performance:



Best Quarter (ended 12/31/13): 17.15%. Worst Quarter (ended 12/31/08): -23.11. Sales charges are not reflected in the bar chart, and if those charges were included, returns would be less than those shown.

Average Annual Total Returns for Periods Ended December 31, 2016

	1 Year	5 Years	10 Years
Class A (Return Before Taxes)	4.56%	12.89%	6.19%
Class A (Return After Taxes on Distributions)	4.18	11.92	5.74
Class A (Return After Taxes on Distributions and Sale of Fund Shares)	4.03	11.62	5.66
Class C (Return Before Taxes)	9.09	13.43	6.14
QRS Total Stock Market Index (reflects no deduction for fees, expenses, or taxes)	11.91%	14.56%	6.97%

The after-tax returns are shown only for Class A shares and are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor’s tax situation and may differ from those shown. After-tax returns are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

Investment Adviser: XYZ Management Company, LLC

Portfolio Manager: John E. Smith, CFA, Vice President and Equity Portfolio Manager of XYZ Management. Mr. Smith has managed the Fund since 2011.

Purchase and Sale of Fund Shares: You may purchase or redeem shares of the Fund on any business day online or through our website at www.xyzfunds.com, by mail (XYZ Funds, Box 1000, Anytown, USA 10000), or by telephone at 800-XYZ-FUND. Shares may be purchased by electronic bank transfer, by check, or by wire. You may receive redemption proceeds by electronic bank transfer or by check. You generally buy and redeem shares at the Fund’s next-determined net asset value (NAV) after XYZ receives your request in good order. NAVs are determined only on days when the NYSE is open for regular trading. The minimum initial purchase is \$2,500. The minimum subsequent investment is \$100 (or \$50 under an automatic investment plan).

Tax Information: The Fund's distributions may be taxable as ordinary income or capital gain. If you are investing through a tax-advantaged account, such as an IRA or an employer-sponsored retirement or savings plan, special tax rules apply.

Payments to Broker-Dealers and Other Financial Intermediaries: If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment. Ask your salesperson or visit your financial intermediary's website for more information.

Appendix B: Feedback Flier on Improving Fund Disclosure

Does the information you get from mutual funds or other funds really work for you?

We're asking everyday investors like you what you think about how funds disclose important information — and how it could be better.

It's important to us at the SEC to hear from individual investors so we can make it easier for you to choose the investments that are right for you.

Please take a few minutes to answer any or all of these questions — and thank you for your feedback!

Questions

Overall Investor Experience

1. How do you pick funds? What information do you want to know when you make an investment in a fund? What publications or websites do you review? What tools, online or otherwise, do you use? Do you look at the SEC's website?
2. Do you read current fund disclosure documents? Do you understand them? Is there information you do not receive from the fund that you would like to get?
3. How well do current fund disclosures (such as a summary prospectus, prospectus, or shareholder report) help you pick an investment? Is it easy to compare different funds? Are there technology-based tools that could make fund comparisons easier? What helpful features do those tools have?
4. Do you use the advice of a financial professional? Does a financial professional's help affect whether and how you use fund disclosures?

Delivery

5. How do you prefer to receive communications about fund investments? For example, do you prefer mail delivery, email, website availability, mobile applications, or a combination?
6. What types of fund information do you prefer to access electronically? What types of fund information do you prefer to receive in paper? Are there other ways — such as by video or audio — you would like to receive fund information?
7. How can the SEC better use technology and communication tools to help investors focus on important fund information?

Design

8. Is there too much technical writing in fund disclosure? Would you prefer more tables, charts, and graphs? Would these graphic displays be in addition to, or in place of, text-heavy disclosures?

9. Do you prefer to receive shorter “summary” disclosures, with additional information available online or upon request?
10. Should fund disclosures be more personalized? For example, should disclosures show the amount of fees you paid or your actual investment returns? If so, how?

Content

11. Do fund disclosures make the fund’s strategies and the level of risk clear? How can funds improve these disclosures? Would a risk rating, such as a numerical or graphical measure of risk, be helpful?
12. Fund fees and expenses can significantly affect a fund’s investment returns over time. Do you think funds clearly disclose their fees and expenses? How could funds improve the disclosure of fees and expenses? Would a comparison of your fund’s fees against other funds’ fees help?
13. Do you consider the past performance of a fund when making an investment decision? How could we improve the presentation of performance information?

Final Thoughts

14. Aside from this questionnaire, are there other ways the SEC can engage with investors, like you, on key topics? Is there anything else you would like to tell us?

How to Provide Feedback

You can send us feedback in the following ways (include the file number S7-12-18 in your response):

Mail	Secretary Securities and Exchange Commission 100 F Street, NE Washington, DC 20549-1090
Email	rule-comments@sec.gov
SEC Website	https://www.sec.gov/rules/other.shtml

We will post your feedback on our website. Your submission will be posted without change; we do not redact or edit personal identifying information from submissions. You should only make submissions that you wish to make available publicly.

Thank you!

Mutual funds, ETFs, and other funds provide information to investors in different ways, including in prospectuses, shareholder reports, and advertisements. If you are interested in more information on fund disclosure, or want to provide feedback on additional questions, [click here \(link\)](#). Comments should be received on or before October 31, 2018.

[FR Doc. 2018–12408 Filed 6–8–18; 8:45 am]
 BILLING CODE 8011–01–C

ENVIRONMENTAL PROTECTION AGENCY

40 CFR Part 52

[EPA–R09–OAR–2017–0481; FRL–9978–82–Region 9]

Air Quality State Implementation Plans: Arizona; Approval and Conditional Approval of State Implementation Plan Revisions; Maricopa County Air Quality Department; Stationary Source Permits

AGENCY: Environmental Protection Agency (EPA).

ACTION: Proposed rule.

SUMMARY: The Environmental Protection Agency (EPA) is proposing action on revisions to the Maricopa County Air Quality Department (MCAQD) portion of the state implementation plan (SIP) for the State of Arizona. We are proposing full approval of three rules and conditional approval of three rules submitted by the MCAQD. The revisions update the MCAQD’s New Source Review (NSR) permitting program for new and modified sources of air pollution. We are taking comments on this proposed rule and plan to follow with a final action.

DATES: Any comments must arrive by July 11, 2018.

ADDRESSES: Submit your comments, identified by Docket ID No. EPA–R09–OAR–2017–0481 at <http://www.regulations.gov>, or via email to R9AirPermits@epa.gov. For comments submitted at Regulations.gov, follow the online instructions for submitting

comments. Once submitted, comments cannot be removed or edited from *Regulations.gov*. For either manner of submission, the EPA may publish any comment received to its public docket. Do not submit electronically any information you consider to be Confidential Business Information (CBI) or other information whose disclosure is restricted by statute. Multimedia submissions (audio, video, etc.) must be accompanied by a written comment. The written comment is considered the official comment and should include discussion of all points you wish to make. The EPA will generally not consider comments or comment contents located outside of the primary submission (*i.e.* on the web, cloud, or other file sharing system). For additional submission methods, please contact the person identified in the **FOR FURTHER INFORMATION CONTACT** section. For the full EPA public comment policy, information about CBI or multimedia submissions, and general guidance on making effective comments, please visit <https://www.epa.gov/dockets/commenting-epa-dockets>.

FOR FURTHER INFORMATION CONTACT: Shaheerah Kelly, EPA Region IX, (415) 947–4156, kelly.shaheerah@epa.gov.

SUPPLEMENTARY INFORMATION: Throughout this document, “we,” “us,” and “our” refer to the EPA.

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Definitions

For the purpose of this document, we are giving meaning to certain words or initials as follows:

- (i) The word or initials *ADEQ* mean or refer to the Arizona Department of Environmental Quality.
- (ii) The word or initials *CAA* or *Act* mean or refer to the Clean Air Act, unless the context indicates otherwise.
- (iii) The initials *CFR* mean or refer to Code of Federal Regulations.
- (iv) The initials or words *EPA*, *we*, *us* or *our* mean or refer to the United States Environmental Protection Agency.
- (v) The word or initials *MCAQD* or *Department* mean or refer to the Maricopa County Air Quality Department, the agency with jurisdiction over stationary sources within Maricopa County, Arizona.
- (vi) The initials *NAAQS* mean or refer to the National Ambient Air Quality Standards.
- (vii) The initials *NSR* mean or refer to New Source Review.
- (viii) The initials *NNSR* mean or refer to nonattainment New Source Review.
- (ix) The initials *PSD* mean or refer to Prevention of Significant Deterioration.
- (x) The initials *SIP* mean or refer to State Implementation Plan.
- (xi) The word *State* means or refers to the State of Arizona.
- (xii) The word *TSD* means or refers to the Technical Support Document.

I. The State’s Submittal

A. What rules did the State submit?

Table 1 lists the submitted rules addressed by this action with the dates that the rules were adopted by the MCAQD and submitted to EPA by the ADEQ, which is the governor’s designee for Arizona SIP submittals. These rules constitute the MCAQD’s air quality preconstruction NSR permit program.

TABLE 1—MCAQD SUBMITTED RULES

Regulation & Rule No.	Rule title	Adoption or amendment date	Submitted
Regulation I, Rule 100	General Provisions; General Provisions and Definitions.	2/3/2016	5/18/2016
Regulation II, Rule 200	Permits and Fees; Permit Requirements	2/3/2016	5/18/2016
Regulation II, Rule 210 ¹	Permits and Fees; Title V Permit Provisions	2/3/2016	5/18/2016
Regulation II, Rule 220	Permits and Fees; Non-Title V Permit Provisions	2/3/2016	5/18/2016
Regulation II, Rule 230	Permits and Fees; General Permits	2/3/2016	5/18/2016
Regulation II, Rule 240	Permits and Fees; Federal Major New Source Review	2/3/2016	5/18/2016
Regulation II, Rule 241	Permits and Fees; Minor New Source Review	9/7/2016	11/25/2016

¹ Rule 210 also contains requirements to address the CAA title V requirements for operating permit programs, but we are not evaluating the rule for title V purposes at this time. We will evaluate Rule 210 for compliance with the requirements of title V of the Act and the EPA’s implementing regulations in 40 CFR part 70 following receipt of an official part

70 program submittal from Maricopa County containing this rule.