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February 28, 2008

Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090

RE: Enhanced Disclosure and New Prospectus Delivery Option for Registered Open End
Management Investment Companies
File No. S7-28-07, Release Nos.33-8861

Dear Ms. Morris:

AARP¹ appreciates the opportunity to comment on the Commission's proposal to provide for simplified mutual fund disclosure. We commend the Commission for its commitment to plain language, accessible, user-friendly disclosure that is essential to facilitating informed decision-making by investors. We agree that a short form alternative to a lengthy statutory prospectus can both improve the quality and usefulness of fund disclosure and reduce fund expenses. The proposed summary would provide a standardized document that generally includes the key information investors should consider when evaluating different funds. AARP supports the proposal, and encourages the Commission to strengthen the utility of the improved disclosure by ensuring that it gets to investors before an investment decision is made.

BACKGROUND

Federal securities laws and regulations protect investors primarily through disclosure of information about investment opportunities. However, many investors currently do not enjoy these protections because the disclosures made under the federal securities laws either are incomprehensible, come after they make an investment decision, or both. As a result, entire segments of our retail markets largely are undisciplined by market forces because of the lack of transparency caused by ineffective disclosure.

¹ With nearly 40 million members, AARP is the largest, nonprofit, nonpartisan organization representing the interests of Americans age 50 and older and their families. A full 45 percent of our members are employed full- or part-time. AARP helps people 50+ achieve independence, choice and control in ways that are beneficial and affordable to them and society as a whole. A major priority for AARP is to assist Americans in accumulating and effectively managing adequate retirement assets. The shift away from defined pension plans to defined contribution plans places significant responsibility on individuals to make appropriate investment choices so that they have adequate income to fund their retirement years. As such, AARP has a strong interest in high quality, effective and timely mutual fund disclosure

Investor advocates long have argued that, for disclosures to be effective, they must provide the information investors need, in a form they can understand, and at a time when it is useful to them. We agree with the Commission that current mutual fund disclosure documents – the prospectus, annual report and Statement of Additional Information – certainly are comprehensive when judged on the quantity of disclosure, but they fail the test of providing that information in a form that is useful to investors. The Commission’s proposal would establish a revised mutual fund disclosure framework that will give investors summary information in a standardized format on key topics.

Under this approach, investors will receive a 3-4 page summary document that provides, in a standardized format, the information considered to be most important to evaluating mutual fund options. Additional information, such as the statutory prospectus, statement of additional information, and the most recent semi-annual and annual reports, will be provided in electronic form on a mutual fund’s website, or by hard copy if so desired.

COMMENTS ON THE PROPOSAL

The question of what mutual fund investors need to know to make an informed purchase and how best to convey that information to them is not a new one. The SEC has devoted considerable attention to this issue since the popularity of mutual funds as an investment vehicle began to soar in the 1980s. The agency has twice – first in 1983 and again in 1997 – attempted to streamline the fund prospectus to minimize the amount of technical information provided and focus more on the information investors need to know when selecting funds.² Despite the improvements, both of these initiatives continued to rely on the statutory prospectus and the Statement of Additional Information as the primary disclosure documents.

Most recently, in 1998 the Commission sought to help mutual fund investors cut through the clutter of technical and legalistic disclosure documents by creating a mutual fund “profile” that incorporated into a short brochure the key items from the disclosure documents that investors should know before making a purchase.³ Although initially embraced by fund companies, and well received by investors who were surveyed on their readability and usefulness, the fund profiles did not gain widespread usage.⁴

The proposal under consideration today by the Commission appears to be broadly similar to the existing, and widely ignored, “profile” prospectus. Various explanations have emerged as to why the fund profile did not take hold, including the rapid development of the Internet as a resource for mutual fund investors and liability concerns related to the profile. The proposal

² The first initiative, in 1983 resulted in the adoption of a two-part disclosure format, with more technical detailed information moved to the Statement of Additional Information (SAI). The second, in 1997, resulted in the transfer of additional information about fund organization and legal requirements to the SAI, the addition of standardized fund summaries, including a risk/return summary, to the front of the prospectus, and a refocusing of risk disclosures on the overall risk of investing in the fund rather than on the risks associated with specific portfolio securities.

³ These topics include: investment objectives, investment strategies., risks, performance, fees, investment adviser and portfolio manager, purchase and redemption procedures, tax implications and services available to investors.

⁴ Barbara Roper, “Mutual Fund Essential Knowledge: What Do Investors Need to Know and What is the Best Way to Provide that Information,” Consumer Federation of America, undated.

under consideration today addresses both issues, and as such, paves the way for more widespread use of the summary documents.

AARP supports streamlined, simplified mutual fund disclosure presented in a plain-English, user-friendly format. Toward that end, it is AARP's view that the SEC's initiative provides a real opportunity to deliver practical disclosure that consumers can use to make informed mutual fund purchase decisions. The topics covered in the summary prospectus, including investment objectives, fees and expenses, investment risks, fund performance, top holdings, portfolio manager, how to purchase and redeem fund shares, and compensation paid to selling intermediaries, are widely considered by investor experts to be the key pieces of information investors need to know before making a purchase.⁵

Clearly, the growth of the Internet as an information source has dramatically improved investors' access to mutual fund information. Yet, conventional wisdom suggests that most investors do not, and will not, seek out this information on their own. As such, AARP supports the Commission's efforts to harness the potential of the this tool for the benefit of investors and to incorporate the concept of layered disclosure so that investors are encouraged to seek out additional information available on the Web.

Having said that, it also is our position that timely access to hard copy, print disclosure must remain an option that is easy to exercise for investors choosing to do so. A survey conducted by Opinion Research Corporation on behalf of the Consumer Federation of America as part of a research project funded by the NASD Investor Education Foundation examining mutual fund purchase practice confirms what our members tell us: older investors are not inclined to use the Internet to conduct research related to investment opportunities. A majority of respondents age 65 and older said they would not use the Internet at all. Among this age group, no more than 24 percent indicated they would use the Internet for any of the pre-purchase research activities listed. And, among current investors of all ages who purchased most of their funds from a financial services professional, fewer than half indicated they would be willing to receive periodic reports or disclosure documents for the funds they own over the Internet.⁶ As such, while we understand the inclination to move more and more disclosure to the Internet, we must move cautiously and continue to make effective disclosure available in hard copy format.

While there is much to applaud in the Commission's proposal, AARP also believes that it can be strengthened by more fully incorporating what we have learned about effective communication with investors in the decade since the "profile" prospectus was developed. Specifically, it is AARP's view that this initiative can be strengthened in the following ways:

- ***Present the key information in a context that helps the reader understand how one fund compares to similar funds.*** The reality is that absent this kind of comparative information, it is difficult to know whether fees and expenses, for example, are reasonable for the fund in question. Today, many mutual funds present key information alongside an industry benchmark that assists the reader in evaluating the reasonableness

⁵ Roper, "Mutual Fund Essential Knowledge: What Do Investors Need to Know and What is the Best Way to Provide that Information."

⁶ Stephen Brobeck and Barbara Roper, "Mutual Fund Purchase Practices: An Analysis of Survey Results," undated.

of fees, the performance of the fund, and so on. For example, the hypothetical sample profile made available by the Commission tells the reader that the maximum sales charge that can be imposed (as a percentage of the offering price) is 5.75% for Class A shares. What that doesn't tell the investor is whether that charge is high, low or about right, as measured against an industry benchmark. Returns are set out in a clear 10 year graph, but what cannot be determined is how the fund stacked up against similarly situated funds. Absent comparative information and a context for evaluation among funds, the disclosure is a much less useful tool, no matter how clearly presented.

- ***Timing of the disclosure.*** AARP is a strong proponent of “point of sale” disclosure. To be at all useful, investors need this information **before** they make their investment decision, not after the fact. We appreciate the Commission’s efforts to encourage more timely disclosure, but the ease with which communication can occur today makes anything short of “point of recommendation” disclosure unacceptable. Such a requirement will not increase in any measurable way the compliance burden or costs to industry, so long as the information is delivered electronically. The Commission can develop rules for compliance in those instances where the investor opts for hard copy rather than electronic disclosure.
- ***AARP encourages the Commission to submit its hypothetical summary prospectus to the test of design professionals to determine if it represents the most effective presentation of the information.*** At the same time, we encourage the Commission to submit the hypothetical summary to investors for testing to determine how the information is received and processed.
- ***The SEC should set broad parameters for compliance with the required substance, format and presentation of the summary prospectus, but also allow funds to use their creativity in designing a form that is truly investor friendly.*** The mutual fund industry should be commended for undertaking its own efforts to improve the usefulness and accessibility of the disclosures it makes available to existing and prospective investors. Many of the fund snapshots provided on fund company websites and both the Morningstar fund reports and Yahoo! Finance fund profiles do an excellent job of presenting information in a format that an investor is likely to understand. AARP encourages the Commission to consider how to make the best use of what many in the industry have created and use today.

CONCLUSION

AARP commends the Commission for its commitment to improving the disclosure regime in the mutual fund industry. We agree that it is critical for investors to have access to simplified, user-friendly disclosure requirements. AARP supports the rule proposal as far as it goes, but encourages the Commission to undertake a more comprehensive initiative that reflects what we know today about investor behavior and takes full advantage of the resources available to design and deliver the information investors need.

If you have any questions, please do not hesitate to contact Evelyn Morton or Jo Reed of our Government Relations staff at 202-434-3800.

Sincerely,

A handwritten signature in cursive script that reads "David Certner". The signature is written in black ink and includes a horizontal line extending to the right from the end of the name.

David Certner
Legislative Counsel and
Director of Legislative Policy
Government Relations and Advocacy