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before the

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Roundtable on Interactive Data

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I would like to thank Division Director Buddy Donahue and Associate Director Susan Nash for the opportunity to participate in this important discussion. I would also like to thank Chairman Cox and his colleagues -- Commissioners Atkins, Campos, Glassman and Nazareth -- for convening the Roundtable, and many SEC staff who worked hard to bring this day about.

I joined Capital Research and Management Company in 1985. As you may know, Capital is the investment adviser to the American Funds, a family of 29 mutual funds with about 50 million shareholder accounts and $900 billion in assets under management.

Overview

We spend a lot of time thinking about the information American Funds shareholders need, and invest a great deal of effort into ensuring that we communicate in a way that meets those needs. Our goal is straightforward. We want every person who invests in the American Funds – and every financial adviser who recommends investments in the funds -- to do so because they understand how our approach to managing mutual funds can effectively serve their long-term needs. Our commitment to that goal is why we are so interested in today's Roundtable.

Some of the people in this room have worked on these issues for many years. In fact, in preparing for our discussion, I was alerted to a passage from a speech by one of Chairman Cox's predecessors.

> "We are now conducting a thorough reexamination of our disclosure requirements. The staff has devoted a great deal of time and energy to this project. We hope that anomalies will be obviated, obsolete requirements eliminated, and the whole disclosure scheme updated in light of the growth and growing complexity of [our markets]. It should also assure a better reservoir of useful information … in a more convenient and useful form for [the nation's investors]."

That announcement was made by SEC Chairman Manny Cohen in 1968. Thirteen distinguished Americans have chaired the Commission since then. Each devoted time and effort to the challenge of providing investors with the information needed to make better decisions.

Some will hear this and wonder if we have made any progress since 1968, or have simply been like the Knights Templar in pursuit of the Holy Grail. In fact, since Chairman Cohen's speech in 1968, the SEC has enacted a number of meaningful disclosure reforms that have produced enduring benefits for fund shareholders. Examples include

- the 1983 initiative that shortened fund prospectuses by moving some information into a separate Statement of Additional Information,

- the standardized mutual fund fee table, adopted in 1988,

- standardized formulas for calculating total returns, also adopted in 1988,

- the overhaul of the fund prospectus in 1997, which produced the risk-reward summary and was accompanied by a rule that required mandated the use of plain English descriptions, and

- the summary of portfolio holdings permitted in 2004, when shareholder reports were modernized.

Another important SEC initiative – the profile prospectus that was approved in 1998 – has not yet produced commensurate benefits. But there is reason for continued hope. Just over a year ago, an NASD Task Force proposed a new "Profile Plus" prospectus, a proposal that was later endorsed by the NASD. Like the SEC's earlier initiative, the Profile Plus would provide individuals with essential information about costs, benefits and risks in a concise, investor-friendly way.

Chairman Cox and his colleagues recognize that the evolution of technology and its widespread availability has presented us with an opportunity that none of our predecessors enjoyed. I share that enthusiasm, and would like to suggest a few additional thoughts to bear in mind as our discussion proceeds.

1. Words and Language Still Matter

First, regardless of whether we express ourselves in print, in person or electronically, the words we use to describe mutual funds and investing will remain extremely important. The SEC clearly recognizes the significance of how information is presented to investors. Since 1998, it has required that key sections of prospectuses be prepared in plain English. Chairman Cox has asked whether more can be done to promote clearer, more useful communications with investors. He stated it simply and eloquently in speech to financial journalists last week: "Our capital markets rely on trust, and investors can't trust legalese and jargon."

While it may seem less glamorous than shifting to the Internet or deploying interactive data, the benefits of more effective plain English communications could be just as far-reaching.

I believe we could also help investors by considering whether the words and expressions we use in discussing funds and fund regulation communicate as clearly or accurately as they should. Ironically, the word "disclosure" itself is one example.

"Disclosure" -- rather than "education" -- has been the operative word used to describe efforts to provide appropriate information to investors. That is not surprising, since the principle of "full and fair disclosure" is the foundation of the federal securities laws. Unfortunately, discussions about ways to strengthen investor understanding of mutual funds frequently morph into debates about whether certain information should be "revealed" or "remain hidden." Approached in that way, the question typically answers itself. Trying to argue that "not disclosing" a particular type of information is better for investors than disclosing it is, to say the least, challenging. Critics inevitably characterize the position as an effort to conceal from investors information that someone, somewhere, sometime might find useful.

Regulators and those they regulate often relent in order to avoid the prospect of such criticism. This leads to a strong bias in favor of including each possible item of information in documents provided to investors, triggering what has come to be known as "disclosure creep." This dynamic has repeatedly undermined past disclosure reforms; it may even cause some to be dubious about participating in this one. We would be better able to resist disclosure creep if we describe efforts to reform the information provided to fund investors in a more accurate and balanced way. I suggest we view efforts to strengthen understanding of mutual funds as an educational challenge rather than as a question about whether more or less disclosure is needed.

2. <u>There Is More Than One Type of "Average" Investor</u>

A second thought to bear in mind is the fact that mutual fund investors are far from homogenous. This may seem rather obvious. Yet some observers appear to make policy recommendations based on the assumption that most fund investors are also first-time fund investors. Meeting the information needs of first-time fund investors is obviously quite important. But we need to remember that this group represents a small percentage of the nation's fund investors.

A similar mistake arises from the assumption that the average shareholder is a "do-it-yourselfer" who purchases shares directly from a fund company. ICI research demonstrates quite convincingly that that this assumption is far from accurate. In recent years, 80 percent of shareholders relied on the advice of an investment professional in making their fund investments. We need to do a better job to ensure that regulatory discussions recognize the significance of this distinction. The overall information needs of shareholders who rely on the advice of an investment professional are often quite different from the needs of shareholders who invest directly with a fund company.

3. <u>The Market for Fund Information is Diverse</u>

A third thought to keep in mind concerns the impact that constituencies beyond investors and regulators have had on the content of fund disclosure documents.

In March, SEC General Counsel Brian Cartwright recognized that the SEC demands a lot from fund companies. He said, "some may even say that we have a veritable embarrassment of riches when it comes to information disclosed by mutual funds." Mr. Cartwright candidly acknowledged that some of the information the SEC requires funds to disclose "is not always directly useful to retail investors." He noted that the information is instead used by a variety of businesses and researchers, including financial intermediaries, third party data analysts, consultants and journalists. Some of these constituencies have been increasingly vocal advocates of requiring mutual funds to disclose even more information.

The SEC's candid recognition that fund disclosure requirements are being used to serve multiple purposes and constituencies is a significant development. It may help explain why so many individual investors appear to view these documents as overwhelming, intimidating and less than helpful. Our dependence on paper documents and reports limited our ability to find a way out of this muddle. That can now change.

4. Embracing Electronic Communications

The Internet offers real hope that we can organize the information required by the SEC in ways that remedy this problem. Most important, we should be able to use technology to make certain that individuals have ready access to the information believed to be most essential to making well-informed investment decisions at the time they need it. Additional details and less essential information will also be easily accessible to investors who have the time and/or desire to learn more through a process Paul Roye, a former Investment Management Division Director and now one of my colleagues at Capital, calls layering. In addition, information that is likely to be of more interest to constituencies other than individual investors can be segmented so it is available to those who need it while minimizing the risk that it could distract, confuse or overwhelm shareholders.

This approach has the potential of greatly streamlining the information funds will need to continue providing in paper documents. Unlike a printed prospectus or shareholder report, a layered approach to information provided through the Internet will be able to accommodate simultaneously the needs and preferences of different types of investors and their financial advisers. Key fund information can be disclosed, organized and distributed electronically, in a manner that is largely free of the practical constraints imposed by paper. A great deal of very effective work has been done in recent years to develop a point of sale document that meets investors needs for essential understanding of funds prior to investing. The Profile Plus recommended by an NASD Task Force in April 2005 could meet these needs, and could be provided electronically or in print.

5. The Promise of Interactive Data

We are very supportive of Chairman Cox's effort to focus public attention on the potential benefits that could follow from the use of interactive data systems. In fact, research analysts at Capital are active users of interactive data systems that analyze and compare financial statements and other disclosures, especially in comparing prospective investments with others in the same industry or line of business.

As ICI President Paul Stevens has said, interactive mutual fund data could represent an important milestone if taxonomies can be developed that help investors or their financial advisers compare important data and analyze relevant information in new ways. Capital is an active participant in the ICI's interactive data working group, and we look forward to studying the benefits such an effort might yield.

6. A Modest Recommendation

I would like to conclude with what I believe to be a modest but important recommendation. As work proceeds on the long-term goals of electronic communications and interactive data, I hope we will remember that there continue to be significant reforms that could be implemented quickly that would produce substantial benefits for shareholders.

For example, permitting mutual funds to omit their financial statements from the print versions of their annual and semi-annual reports would substantially shorten those documents. I am not aware of any expert who believes that individuals need to review a fund's financial statements to make an informed investment decision. And certainly none who might suggest that investors need to continue receiving financial statements in print through the mail every six months throughout the period they hold their fund shares. To a current or future investor, a mutual fund's financial statements are vastly less important than an operating company's financial statements. If the full set of financial statements were omitted from print documents, an investor who wanted to review them would find them fully accessible on the fund's website, along with complete portfolio holdings information that is updated each quarter. Of course, the financial statements would also remain available in their entirety to journalists, academics, data analysts, competitors and anyone else who might want to review or analyze them.

At the American Funds, shareholders would benefit on a dollar for dollar basis from reductions in printing, shipping and postage expenses. We looked at the 2005 annual and semi-annual reports for the Growth Fund of America, our largest fund. The financial statements represented approximately 30 percent of the pages in GFA's annual report (10 of 36) and about half the pages in its semi-annual report (16 of 30).[1] We printed approximately 5.6 million copies of each report.

- Omitting 10 pages of financial statements from the print version of GFA's annual report would have resulted in 56 million fewer pages. We estimate it would have saved 600,000 pounds of paper.

- Omitting 16 pages of financial statements from the print version of GFA's semi-annual report would have resulted in 89.6 million fewer pages. We estimate it would have saved 480,000 pounds of paper. (The pages of our semi-annual reports are smaller than the pages of our annual reports.)

Again, this change would not reduce the availability of the financial statements to anyone who wanted them. GFA shareholders would benefit from reductions in

[1] Omitting just the footnotes to the financial statements would still produce substantial savings with respect to printing, shipping and postage. The footnotes represented 9 of 30 pages in Growth Fund of America's semi-annual report and 5 of 36 in its annual report. It is worth noting that the footnotes to a fund's financial statements rarely change in any significant way from year to year, and do not differ much from fund to fund.

administrative expenses, and shorter shareholder reports might seem less overwhelming, which might encourage more shareholders to read them.

I believe this is a common sense, investor-friendly recommendation. I also believe it would help us address the information management and educational challenges we face in communicating effectively with fund shareholders. I hope the Commission will be able to consider recommendations like this as it moves forward on its agenda of long-term reforms.

Thank you again for opportunity to participate in this important initiative.