29 February 2008

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

RE: Summary Prospectus for Mutual Funds (File S7-28-07)

Dear Ms. Morris:

We are grateful for the opportunity to comment on the proposal and, in particular, to address a few of the many questions posed in the narrative portion of the proposal.

As investors, we join wholeheartedly with the many individuals who have voiced their support for the summary prospectus. As communications professionals, we salute the Commission and its staff for the vision reflected in the proposal and for the enormous investment of effort that has clearly been involved in bringing this proposal into being. We also welcome the many significant communications benefits the proposal brings — benefits that will accrue not only to investors, but to those fund companies that genuinely embrace this initiative.

CREDENTIALS AS SIMPLIFIED PROSPECTUS CONSULTANTS

Firehouse Financial Communications LLC has developed simplified mutual fund prospectuses for over 800 distinct portfolios, in the US and in Europe. The firm's founders created what is generally acknowledged as the first modern simplified prospectus (Fidelity Investments, 1992).

In 1995-6, the firm's founders worked with John Hancock Funds to create a prospectus system that closely anticipated the Commission's prospectus reforms of 1998 (the revised Rule N-1A and Rule 421(d), the Plain-English rule). Firehouse subsequently created the first prospectus that was issued under those new rules (Dreyfus Funds, 1998).

As several former Division of Investment Management staff members have acknowledged, these projects were instrumental to the cause of prospectus reform. Coming at a time when the Commission was contemplating reforms but was uncertain how cooperative the fund industry might be, the Fidelity and Hancock efforts (along with Vanguard's in 1994) signaled that several leading firms not only supported reform but were willing to pursue it on their own, for business reasons.

The Hancock prospectus in particular earned wide attention: it was granted a no-action letter from the Commission and also received extensive national media coverage. Within the trade press this coverage focused on how the Hancock prospectus demonstrated that a properly simplified full prospectus could be as user-friendly as a profile prospectus — and nearly as short — without needing to be updated quarterly, as a profile prospectus would. Many firms took their cue from this and subsequently chose to simplify their full prospectuses rather than creating profile prospectuses under the original Rule 498 (which was also adopted in 1998).

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COMMENTS AND SUGGESTIONS

We strongly support the summary prospectus proposal From a communications standpoint, we believe the proposal is excellent in almost every way, both in its larger points and in its details. In particular, the plan to embed the entire summary prospectus content into the full prospectus is a simple yet highly effective solution to reducing the complexities of a three-tier system (summary prospectus, full prospectus, statement of additional information). This solution benefits both investors and fund companies. Investors who have seen a summary prospectus can easily recognize that content when they view the same fund's full prospectus; fund companies will be able to maintain three tiers of prospectus documents with little more effort than is required under the current two-tier system.

We believe there is no inherent conflict between the investor's need for concise information and the fund company's need for adequate legal protection As the Commission is aware, several fund industry figures have publicly expressed doubts about whether the summary prospectus will be widely used by fund companies. These commenters argue that many fund companies will feel that a short prospectus doesn't give them enough room to say everything they need to say in order to feel adequately protected against lawsuits.

We would respectfully disagree with any fund company that takes this position. The protective power of disclosure language has always depended on substance, not length. Years of real-world experience by plain-language practitioners have shown that it is almost always possible to cover all major risks of a mutual fund in a single letter-size page (the major risks being the only ones a prospectus is supposed to address — even a full prospectus). Often it can be done in less than a page. We've also seen many cases where simplification, far from eroding legal protection, actually made it stronger: the analysis of content that occurs during the simplification process often reveals omissions, contradictions, errors, or out-of-date statements that are corrected in the simplified version.

Nonetheless, if the industry commenters are right, and fund companies reject the summary prospectus in large numbers, it could be devastating to the entire initiative. We therefore urge the Commisson to take every opportunity, in communications both public and private, to point out that the "not enough room for all the disclosure we need" argument does not hold water.

We applaud the Commission's willingness to permit alternative wording While mandating fixed wording helps promote consistency (a very valuable communications goal), that benefit is lost if the required wording proves less than ideal, is not well fitted to every case, or becomes obsolete. At the very least, it precludes any possibility of useful alternatives being proposed and evaluated. In some cases, it can also lead to inadvertent inconsistencies in usage within a given prospectus — for example, by including certain terms (such as "you" or "we") that may not otherwise be used in some prospectuses, or that may have a different meaning. By allowing flexibility, the Commission leaves the door open for improvements or variations while running relatively little risk. Commission staff can always object to any variations they find to be inadequate. Meanwhile, those who want to stick with the Commission's model language, whether as a matter of principle or expedience, can continue to do so, without incurring any cost or risk of comment.

We agree that issuing a summary prospectus should be voluntary, but would suggest some changes to the mix of requirements and incentives, including imposing a 4-page limit and shifting from quarterly to annual updates As with past prospectus reform efforts, we believe the success of the summary prospectus initiative will depend to a large degree on the willingness of fund companies to embrace it. Both the number of funds offering summary prospectus and the usefulness of those prospectuses to investors will depend mainly on the extent to which fund companies see a likely business benefit for the effort invested.

Making the summary prospectus voluntary is logical because it means that these documents will only be issued by those who decide it's worthwhile to do so. (Meanwhile, investors will still be able to get comparable information for other funds by looking at the summary section of the full prospectus.) However, this means the Commission must try to balance, from the fund company point of view, the requirements and the incentives of producing a summary prospectus. If the requirements are too steep, the summary prospectus will fail to catch on with fund companies.

If they are not steep enough, the summary prospectus will fail to serve investors adequately, because too many examples will be overly long or otherwise alienating to investors.

To us, this suggests that the Commission might best focus on requirements that improve communication, and try to minimize other types of requirements. For example, we believe that the quarterly update requirement, as it applies to printed versions of the summary prospectus, will be seen by fund companies as a significant burden, yet it does little to improve the communication quality of a summary prospectus. While we acknowledge that investors are — and should be — keenly interested in updated performance and top-ten holdings information, making this information available by internet and telephone seems to us a more logical solution, both for investors and for fund companies.

In addition, the option of being able to update a printed summary prospectus using stickers, which the proposal suggests, seems less than ideal to us. Fund companies typically find stickers only marginally less burdensome than complete reprints, while from a communications standpoint almost any type of sticker or insert is problematical[1].

Having relieved fund companies of the burden of quarterly updates to summary prospectuses, the Commission could then raise the bar for certain communication requirements and still be fairly certain that many fund companies would find it worthwhile to issue summary prospectuses. In particular, the Commission could set a maximum page limit. In our view, this would be both the most effective way to ensure that fund companies do a good job preparing their summary prospectuses as well as the easiest standard to enforce.

Indeed, we believe that if the Commission does not set a page limit, or sets one that is very liberal (such as eight pages or longer), the actual result will be summary prospectuses of widely varying lengths. Many fund companies would avail themselves of the maximum page count, while others, in particular those who most sincerely embrace the spirit of the proposal, would produce summary prospectuses that are shorter than that — probably as short as four pages. Most of the length difference between shorter and longer summary prospectuses would likely be in the strategy and risk language (since the amount of space required for most other sections is relatively fixed). We believe this would seriously erode the comparability that, as the Commission has stated (and we would strongly concur), is an important goal in summary prospectuses.

Using the Commission's current type size guidelines (which appear to be working very well), we believe four letter-size pages should be adequate. For those firms whose prospectus formats are smaller than letter size, we believe the Commission could permit more pages (keeping the overall area approximately the same) without losing the communication benefit of the page limit.

We support the inclusion of ticker symbols These could appear with the fund name at the beginning of the prospectus or in a sidebar containing other data such as year of inception, assets, and, potentially, a style box.

In the cost section, we advocate dropping the breakout of operating expenses, adding educational wording, and leaving the section in its traditional location We agree with the Commission that fund costs are a key issue for individual investors. In our view, however, the main obstacle for the average investor lies not in finding cost information but in adequately grasping its implications[2].

1 In perception, and to some extent in reality, stickers and other forms of non-integrated updates place fund company convenience ahead of document usability. Stickers disrupt the coherence of the main document, and make the investor do the work of determining at which points they are supposed to ignore the main document and look instead at the sticker. The mere existence of a sticker carries negative connotations: in the larger world this type of addendum is commonly used to correct mistakes or announce unexpected changes. One result is that a sticker tends to be taken as a sign of haste, disorganization, or corner-cutting. That fund companies may have legitimate reasons for producing stickers, and may even be seeking to save on costs that would normally be passed on to investors, will not change the perception for many investors.

2 We believe this is true even for the great majority of mutual fund investors who rely to some extent on personal advice (whether professional or otherwise). As consumers, this population is highly adept at doing comparative shopping, making price/value judgments, and spotting hidden costs. If this same group appears to be less savvy as shoppers when choosing mutual funds, it seems unlikely that it would be through any failure to expect cost information or any inability to find it.

Our suggestions are based on three issues that we see with mutual fund cost disclosures:

- Mutual fund costs are inherently complex and can never fully be known in advance[3].
- Unlike the cost of most consumer goods, the costs of a mutual fund must be measured not simply in dollars paid but also in long-term performance lost.
- The nature of the cost presentation predisposes investors to underestimate the impact of costs. Although stating costs in relation to total investment is unavoidable, the enormous difference in size between the cost numbers and the investment numbers (typically two orders of magnitude) creates a psychological barrier to perception. The relative smallness of the cost numbers seems to signal that fund costs in general are low, and that any differences from one fund to another are miniscule and not worth caring about. This is true whether talking in dollars or percentages.

Streamlining of operating expenses. When it comes to cost information, we believe that what is most relevant to investors is the "bottom line," particularly in a summary prospectus. Whether investors are comparing costs among funds or determining what they'll be paying when they invest, knowing the various components of annual operating expenses is not material to their answer, as the investor can do nothing to reduce or avoid any of these costs.

From a communication standpoint, providing a breakdown of annual operating fees in the summary prospectus may actually be detrimental, because it sends the message that investors need to spend time trying to understand this level of detail in order to properly evaluate fund costs, when in fact they do not. Given the inherent complexity of fund cost information, and the urgent need to raise awareness about other aspects of costs that really do matter, we believe the summary prospectus cannot afford to include any cost information that is not vitally necessary.

We therefore suggest that the Commission consider dropping the breakdown of annual operating fees in the summary prospectus and require funds to show only the total annual fund operating expense for each share class, net of any caps and reimbursements[4]. For investors who do have the interest and skill to analyze annual expenses in detail, or who simply want to see "where their money goes," we would propose that the cost breakdown continue to be presented in the full prospectus (though presumably not in the summary section, as that would continue to be identical with the summary prospectus).

Addition of educational language. We believe that investors would pay more attention to costs if more of them were aware not merely of how much they may pay to fund companies over a long-term ownership period, but of how a long period of time has the effect of amplifying small cost differences, specifically by affecting overall performance. The Commission, in the discussion section of its proposal, cites the fact that a 1% increase in annual fees reduces an investor's return by approximately 18% over 20 year (note 46, page 21). Why not require, or at least permit, fund

3 Investors may even find that learning more about fund costs only increases their confusion. There may or may not be costs for transactions, and these may or may not vary depending on fund, share class, size of investments (past, present, and future), and length of share ownership. There are annual costs, which also vary by fund and share class, and which have a number of components. Some of these components are fixed, but others are variable, so in most cases annual fees can't be stated for certain beyond a year or so into the future. Moreover, almost none of these costs -— transaction or operating — can be stated as a definite dollar amount, since they vary depending on amount of investment, how the fund performs, or other factors. Nor does any of this begin to address the fees of any financial advisor, retirement account, annuity, etc.

4 The issue of caps and reimbursements presents many disclosure challenges, but the main one, in our view, lies in setting rules that allow realistic projections of future costs. It is an established reality that many funds use caps or reimbursements in order to be able to change annual operating costs without the trouble, expense, and delay of a shareholder vote. By setting their "official" operating costs high and then reducing them through contractual caps or reimbursements (which typically can be changed once a year, or dropped), fund companies can manage their operating expenses more flexibly. The potential here for "bait and switch" abuse is obvious, although in practice, most fund groups use caps or reimbursements to ensure that they are keeping costs competitive. Thus competitive pressures tend, in this case at least, to supply a degree of continuity over time that annual contracts cannot guarantee.

While we recognize the prudence of requiring fund firms not to include any non-guaranteed caps or reimbursements in their projections of future expenses, in a five- or ten-year projection the resulting numbers are almost certainly higher — potentially greatly higher — than the actual costs are likely to be. In effect, the example becomes a comparison of the arbitrary "official" operating costs set by different fund groups rather than a comparison of likely costs. It also means that a fund with high costs but no cap or reimbursement will appear cheaper than a fund with higher "official" operating costs but competitive cap- or reimbursement-set costs. At the same time, we agree it would be unwise simply to allow firms to continue to project current caps and reimbursements into the future on the hope that competition will keep them in place.

One possible solution would be to let funds average their actual operating costs for a period of past years and project them forward for an equal number of future years. This could be modified to include rules that required any rising trend or recent jumps in costs to yield a higher number. In our view, this type of approach would benefit both fund companies and investors, by giving them more realistic cost projections.

companies to insert language adjacent to the cost information (before, after, or as a sidebar) clearly stating this simple but valuable point? This type of disclosure would be a logical counterpart to the strengthened disclosure on breakpoints (which we also support).

Preserving location of cost section. We agree that moving the cost section forward from its current location would give it greater prominence, but as discussed above, we are not persuaded that prominence is the issue. The proposal mentions that one reason for this move is that in some existing full prospectuses, cost information has appeared as far as 40 pages into the document. We agree that this is unacceptable, but the architecture of the new summary prospectus is already sufficient to eliminate this problem, especially if a maximum page count is set.

We also are concerned that the proposed placement raises two issues from a communications viewpoint. First, it sends the message that costs ought to be considered ahead of all other fund features except investment objective. This has the effect of commodifying mutual funds. As investment objectives are often written very broadly, and may therefore appear very similar among funds whose actual risks and management styles are quite varied, we believe this is in the interest neither of investors nor of fund companies. It is not difficult to imagine that it may also open the door to abuses on this front, by fund companies or advisors who try to promote certain funds based mainly on comparisons of objectives and costs, and downplaying other factors. We feel it would be unfortunate if the architecture of the summary prospectus inadvertently encouraged this type of behavior.

The second communication issue associated with the proposed placement of the cost information is that it would sever the connection that currently exists between the investment objective and the strategy and risk discussions. We believe this particular order of information is logical and valuable, and unfolds information in a helpful way for investors: here’s what you’re buying, and here’s what it will cost you. We therefore suggest that Commission consider preserving this sequence of information in the summary prospectus.

We request that the Commission allow an alternative presentation that would strengthen the relationship between summary and full prospectuses For investors and fund companies alike, the idea of creating strong connections between the summary prospectus and the full prospectus is strongly beneficial. We believe the Commission's proposal of having the summary prospectus repeated at the beginning of the full prospectus, and allowing investors to cross-reference the two documents online via side-by-side tables of contents, is one effective way to meet this goal.

However, we believe the connections would be even stronger if funds were allowed to separate the summary prospectus into its component modules, and embed each module in the appropriate spot in the full prospectus. The strategy discussion in the full prospectus would begin with the strategy module from the summary prospectus, the risk discussion with the risk module, and so forth. Requiring that each module keep its original formatting when it is brought into the full prospectus would help ensure that investors could easily recognize these modules wherever they appeared in the full prospectus.

This approach offers two significant benefits:

- Investors can see both presentations at once, without having to toggle back and forth between different pages or documents.
- Fund companies will find it easier (and may therefore be more likely) to build good connections between each summary prospectus element and its full prospectus discussion, since the two will be right next to each other. Each summary prospectus module can serve both as a stand-alone summary of its topic and an introduction to a more complete discussion. This type of connection — so beneficial to usability — is not difficult to achieve, but it does not happen automatically. Any step that can make it more likely to occur, or that permits those fund companies who want to maximize the usefulness of their prospectuses to do so, seems worthwhile. We suggest that the Commission consider allowing this type of presentation as an alternative to the direct repetition of the entire summary prospectus as the first element of the full prospectus.

We support allowing electronic delivery of the summary prospectus to those investors who agree to it. While we agree that no one should be forced to accept electronic delivery against their will, for the many investors who are Internet-oriented, electronic delivery offers every advantage over physical delivery. These investors would generally receive their documents sooner, could quickly find the information they want using indexing and search capabilities, and would have that much less paper to deal with. If they later decide they want a hard copy, they have the option of printing it out or requesting one from the fund company. Fund companies would save on printing and postage. The environment would also benefit, from savings in energy and raw materials. Ideally, investors would be able to register for electronic delivery with a single, industry-wide web site that all fund companies would be able to consult.

We advocate allowing exceptions to the one-fund-per-prospectus requirement We share the Commission's concerns that allowing combined (i.e., multi-fund) summary prospectuses without restriction would open the door to documents whose length made a mockery of the name "summary prospectus." However, we believe there are cases where exceptions may be made that would benefit all parties.

For a set of target-date or target-risk portfolios, for instance, which typically are identical in most of their particulars, the inability to issue a combined prospectus would create significant and largely non-beneficial burdens for both fund companies and investors. This example is fairly clear-cut, but we believe there are other cases as well that might equally deserve relief — for example, sets of bond funds that vary mainly only by weighted average maturity or duration, sets of asset allocation funds that all invest across the same underlying investments, and sets of money funds. Even otherwise diverse funds, such as a group of equity funds, may all have many common elements, and the fund firms may want to try to present them in the way that makes comparison easiest.

In determining when combined prospectuses should be allowed and how they should be structured, we would suggest that the main criterion be investor usability (in this case, what is optimal for investors also tends to yield benefits for fund companies). One challenge lies in defining "usability": the information needs of a person comparing funds are not the same as those of a person who wants a cogent picture of a single fund. For example, requiring each fund to have its own summary prospectus would be very helpful to those who want to a picture of a single fund, and it would also help a person compare similar funds from competing companies. But this presentation would prove quite frustrating to anyone comparing highly similar funds from a single fund company. The investor would be forced to sort through volumes of identical information searching for the points of difference. In this case, the value of having shared material pulled out and presented separately would, we believe, far outweigh the value of a consistent presentation.

One possible solution might be for the Commission to provide exemptions for specific types of funds. While there is a risk that this would deny optimal presentation to some types of funds not on the list of exemptions, it would likely solve the bulk of cases and would be relatively straightforward to communicate and administer.

Another possible solution would be to set general standards that are abstracted from the circumstances of the fund groups cited above. For instance, any funds that shared the same main strategies, risks, or underlying investments could be allowed to issue a combined prospectus. The fund-specific information would follow the standard format, including headers for all sections, but with a note referring the investor to a section following the fund-specific information containing common material.

In any type of combined prospectus, we also believe it would be beneficial not to repeat the information about buying and selling shares.

Consider providing several measures of portfolio turnover We agree with those commenters who have noted that a single year's portfolio turnover figure can be misleading. One solution we can propose would be to require a fund to show figures for the highest, lowest, and average turnover for the past ten years (or life of fund, if less). These could be either in addition to or instead of the most recent year's turnover.

Consider adding standard deviation to the performance section Although the stated purpose of the year-by-year performance chart is to give investors an indication of volatility, we believe the temptation is very strong to read it for

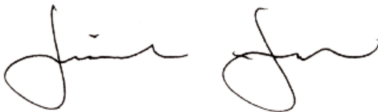
performance and, familiar disclosures notwithstanding, as an indication of what type of future performance an investor may at least hope for. We believe a more direct approach to informing investors about volatility would be to require disclosure of standard deviation. Virtually all funds already calculate this number, and it is more precise than what an investor could glean from scanning tables of numbers or the bar chart (especially since no standard scale is required for this chart).

Consider retitling the "Payments to broker dealers" section We support the Commission's proposal to give more visibility to this concept, and find the proposed text of this section admirably short and clear. However, we believe the proposed title could signal to investors that the section is merely boilerplate disclosure about costs, rather than the very serious matter of potential conflicts of interest. We therefore suggest that the Commission consider alternate titles for this section.

We urge the Commission to continue to seek new ways to make the prospectus more helpful to investors As some commenters have noted, the prospectus tends to say more about about what a fund might do than what it is most likely to do. To a large part, this is inherent in the prospectus's function. At the same time, solving this issue, and others like it, are important if the prospectus is to be made more useful and relevant to investors. The simplified prospectus proposal is a large step in this direction. Both as investors and as communications professionals, we hope the Commission will continue to address these problems with such effective solutions.

In closing, we thank the Commission once again for offering the opportunity to comment, and hope these remarks will be helpful. We look forward very much to the final rule, with full confidence that it will help American investors better make informed decisions about mutual funds.

Sincerely,



Josiah Fisk
Co-Founder and Director

cc: The Honorable Christopher Cox
The Honorable Paul Atkins
The Honorable Kathleen Casey
Andrew Donahue, Division of Investment Management
Susan Nash, Division of Investment Management