



February 28, 2008

Nancy M. Morris VIA ELECTRONIC MAIL  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, D.C. 20549



Subject: Enhanced Disclosure and New Prospectus Delivery Option for  
Registered Open-End Management Investment Companies  
File No. S7-28-07

Dear Ms. Morris:

The National Association of Personal Financial Advisors ("NAPFA")<sup>1</sup> appreciates the opportunity to submit these comments in support of the Commission's Proposed Rule regarding enhanced mutual fund disclosures.

The most significant aspect of this Proposed Rule would be the provision of a 3-4 page "Summary Prospectus" to investors in lieu of the current prospectus. In addition, the Proposed Rule requires that the fund's Statutory Prospectus, the Statement of Additional Information (SAI), and the most recent semi-annual and annual reports, be provided in electronic form on a mutual fund's website for easy access to investors. While many of the aspects of the Proposed Rule are likely to benefit individual investors, NAPFA offers these comments and suggestions as a means of furthering the public interest.

1. NAPFA's Support for Summary Disclosures, Generally. NAPFA has previously suggested a "format for summary disclosure of fees and costs" in connection with U.S. Department of Labor initiatives to enhance disclosures to plan participants. NAPFA is pleased that the Commission is moving forward with a

summary disclosure document which incorporates many of the features of NAPFA's previous comments.<sup>ii</sup>

2. Recognizing The Inherent Limits of Disclosure; The Potential Benefits of Summary Disclosures; Monitoring of Consumer Understanding Recommended. NAPFA notes that a Summary Prospectus, if written in "plain English," and if it includes all of the most relevant information affecting the investor, will likely be much better than the current long Statutory Prospectus document, which is not understood by most investors.

It has often been said that the federal securities laws' entire focus is on disclosure. NAPFA notes that while enhancing disclosures is always a worthwhile endeavor, there exist inherent limits for disclosure documents – of any size and whatever the content. This is due to behavioral biases which individuals often exhibit in connection with their investment decisions. Such behavioral biases include "bounded rationality," "rational ignorance," insensitivity to the source of information, and the tendency of oral communications to trump written communications.

NAPFA hopes that the Commission realizes that the revised Summary Prospectus, while likely to be a useful tool for investors, will continue to possess limitations due to the aforementioned and other behavioral biases, as well as the complexity of investment products, the complexity of optimal portfolio construction to fit each individual's unique needs, and the lack of strong investor education in our secondary schools and throughout life. Many consumers will still need an advisor that they can trust and have confidence in, such as NAPFA-Registered Financial Advisors, who as fiduciaries to their clients are legally bound to act in the best interests of the client. NAPFA hopes the Commission more fully supports the application of the Investment Advisers Act of 1940 in the broad manner which Congress intended, as a means of promoting the application of fiduciary standards of conduct to financial intermediaries in which individual investors seek to place their trust and confidence.

NAPFA recommends that the Commission study the effectiveness of the abbreviated disclosure regime carefully. One means of doing this would be to establish a baseline of current consumer understanding of the Statutory Prospectus, through asking key questions in a study of individual investors. A later study could ask the same questions in order to gauge the impact of Summary Prospectus upon consumer understanding.

3. Disclosure of the *Impact of Fund Fees and Costs*. NAPFA supports the Commission's effort to include clear disclosure of the fees and costs associated with fund investing to consumers. However, NAPFA is concerned that consumers may not fully understand the impact of fees and costs upon their investment returns. NAPFA recommends the addition of the following statement, under the "Examples" provided on page 2 of the proposed Summary Prospectus document:

**The Impact of Fund Fees and Expenses.** Fees and expenses paid by your plan may substantially reduce the growth in your account. The following example demonstrates how fees and expenses can impact your account. Assume that you possess 35 years until the funds are needed, and assume a starting mutual fund balance of \$25,000. If the gross returns on investments in your account over the next 35 years average 10 percent and fees and expenses reduce your average returns by 1.5 percent, your account balance will grow to \$434,491, even if there are no further contributions by you to your fund. If fees and expenses are 2.5 percent, however, your account balance will grow to only \$314,221. The 1 percent difference in fees and expenses would reduce your account balance at retirement by over 27 percent. Your long-term *real* rate of return (i.e., return net of fees and costs, reduced further by adjusting for inflation) as an investor may be much less, as the purchasing power of money 35 years into the future is likely to be substantially less.

Given that various studies have demonstrated that the total fees and costs of many brokerage-sold U.S. stock mutual funds often exceed 2.5%,<sup>iii</sup> NAPFA believes that this example effectively illustrates the impact of fees and costs upon a long-term investor. NAPFA further notes that the nominal "net of fees" return of a fund overstates the *real* rate of return for an investor, as inflation during the 20<sup>th</sup> Century averaged over 3% a year, substantially eroding the purchasing power of fund investors.

4. Disclosure of the *Impact of Sales Loads*. Merely stating a fund's sales commission, or load, as "5.75%" – does not convey the impact of that sales load upon investor returns. Moreover, many fund investors mistakenly believe that if they hold onto a fund for 20 years that the impact of the sales load is only 0.2875% per year (1/20<sup>th</sup> of 5.75%). In actuality, because the investor's funds which are invested are less at the outset due to the sales load, the impact of the 5.75% sales load for a stock mutual fund earning an 8% rate of return (net of total fees and expenses) over a 20-year period is much, much greater. Accordingly, NAPFA recommends that the Commission include the following language after the disclosure of the sales commission:

The impact of this up-front sales fee upon your investment returns is dependent upon how long you hold this investment. Assuming an 8% annual rate of return for the fund, the 5.75% maximum sales fee is equivalent to the following annualized reduction in fund returns (which is not reflect in the fund's annual expense ratio):

If you hold this fund investment for:	The reduction in annualized return would be the following percentage:
1 year	___%
3 years	___%
5 years	___%
7 years	___%
10 years	___%
15 years	___%

5. Disclosure of Surrender Fees and Redemption Fees. While (fortunately) Class B shares are less frequently sold to individual investors by broker-dealer firms today, these shares still exist. In addition, some mutual funds have adopted redemption fees to discourage short-term investors in their funds – whether in order to reduce attempts at “market timing” or to reduce cash inflows and outflows (which can add to fund expenses through higher portfolio turnover). Accordingly, NAPFA recommends that the Commission require full disclosure of redemption fees when imposed by funds, or upon certain shares of a fund. An example of such a disclosure, for Class B shares, might be as follows:

Should you sell fund shares which you have purchased prior to the date set forth below, you will pay a deferred sales charge as follows:

If share is sold 0-1 years following purchase:	___%
If share is sold 1-2 years following purchase:	___%
If share is sold 2-3 years following purchase:	___%
If share is sold 3-4 years following purchase:	___%
If share is sold 4-5 years following purchase:	___%
If share is sold 5-6 years following purchase:	___%
If share is sold 6-7 years following purchase:	___%
If share is sold 7-8 years following purchase:	___%
If share is sold 8-9 years following purchase:	___%
If share is sold 9-10 years following purchase:	___%
If share is sold more than 10 years following purchase:	___%

6. Mandate Disclosure of Transaction and Other Costs Within Funds. NAPFA believes that all investment consumers should possess readily available access to key fund data which will enable consumers to estimate the total fees and costs of a fund – not just the sales commissions and the expenses indicated by the annual expense. The Commission’s proposed form of the disclosure in the Summary Prospectus states:

#### 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 may indicate higher transaction costs. 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 63% of the average value of its whole portfolio.

NAPFA notes that the impact of portfolio turnover and its attendant costs can be huge.<sup>iv</sup> These “hidden costs” of fund investing (as they are not included in the fund’s portfolio turnover rate), include brokerage commissions, principal trade mark-ups and mark-downs, market impact, bid-ask spreads, and opportunity costs due to delayed or canceled trades. In addition the presence of cash holdings within a fund often leads to a different form of opportunity costs. At the same time, some funds engage in securities lending, deriving revenue from such practice which may benefit fund investors in terms of higher returns – although many funds share such securities lending revenue with the fund’s investment adviser or other parties. Full disclosure of all of this key information should be required in the Summary Prospectus.

NAPFA further notes that (unfortunately) current statutory law continues to permit the payment of “soft dollar compensation.” This often leads to extraordinarily high expenses incurred by fund shareholders – purely as a result of brokerage commissions. Recently the SEC published interpretive guidance that clarifies that money managers may only use soft dollars to pay for eligible brokerage and research services — and not for extraneous expenses. However, the continued existence of soft dollar compensation serves to increase the amount of brokerage commissions paid by a mutual fund. Brokerage commissions paid by a fund can usually be discerned only in a mutual fund’s Statement of Additional Information, which is rarely obtained and read by individual investors; such information is usually not disclosed in a fund’s Prospectus. Nor can such information be found in a fund’s summary “Fact Sheet.” Since brokerage commissions are not part of the fund’s annual expense ratio, but are easily quantifiable, the lack of adequate disclosure of brokerage commissions in a summary format is especially troublesome.

NAPFA-Registered Financial Advisors often undertake extensive due diligence on behalf of their clients in order to discern key fund information, now spread among each fund’s Prospectus, Statement of Additional Information, Annual

Reports, and Semi-Annual Report. This key fund information enables NAPFA-Registered Financial Advisors to estimate the “total fees and costs” associated with a fund – both “disclosed” and “hidden” – in order to select those funds with lower total fees and costs relative to others with comparable investment strategies. Both NAPFA-Registered Financial Advisors and individual investors would be better positioned to evaluate a fund if key statistics regarding fund turnover, brokerage commissions, and portfolio securities lending revenue, were included in the Prospectus Summary.

Currently the Commission permits funds to utilize, when disclosing their “portfolio turnover rate,” the lower of the fund’s securities purchases or sales. This often understates the actual turnover of securities within a fund, and can be misleading to investors.

Given the dramatic impact transaction costs may have on the returns of a fund provided to investors, NAPFA suggests that the disclosure of Portfolio Turnover, and attendant transaction costs associated with same, as well as disclosures of securities lending revenue and its retention by a fund, be modified in form and presentation as follows:

Portfolio Turnover, Brokerage Commissions and Other Transaction Costs Within The Fund (Not Included In the Annual Expense Ratio of the Fund)		2007	2006	2005	2004	2003
<p>Brokerage Commissions. The fund pays brokerage commissions related to the purchase and sale of securities within the fund. The amount of these commissions for each year is set forth at right, expressed as a percentage of the fund's average net assets during the period indicated</p>		0.14%	0.19%	0.55%	0.24%	0.03%
<p>Turnover Rate. The fund incurs other costs related to the turnover of the portfolio within the fund, which may include costs arising from bid-ask spreads, market impact, and opportunity costs due to delayed or canceled trades. The higher a fund's turnover rate, generally the higher these costs, which are hard to quantify. The turnover rate of a fund in any particular year is computed as: (i) the sum of the purchases and sales of securities of a fund; divided by (ii) the sum of the beginning and ending net assets of the fund. This turnover rate is shown at right.</p>		89%	111%	76%	148%	23%
<p>Fund Average Cash Holdings. The fund may hold cash or cash equivalents for a variety of reasons, including handling redemptions from the fund and various investment strategies. To the extent the fund holds cash or cash equivalents the cash holdings may be earning a lower rate of return than that which may have been secured over the long term had the fund purchased securities with the cash.</p>		2.3%	12.9%	9.1%	8.8%	1.2%
<p>Securities Lending Revenue. Some funds lend securities from the fund, and derive revenue for same. Such revenue, if retained for fund shareholders, can serve to increase the returns to investors by</p>	Retained for benefit of fund shareholders	0.02%	0.03%	0.01%	0.04%	None

<p>a small amount. Securities lending revenue is stated at right, as a percentage of the fund's average net assets during each period. The percentage retained for fund investors is set forth, as well as the percentage paid to the fund's investment adviser or other parties.</p>	<p>Paid to investment adviser or other parties</p>	<p>0.02%</p>	<p>0.03%</p>	<p>0.01%</p>	<p>0.04%</p>	<p>None</p>
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7. Disclosure of Breakpoint Discounts. The narrative in the hypothetical Summary Prospectus included with the proposed rule states: "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." This narrative should be improved by also noting precisely where an investor can go to find this information – *i.e.*, the title of the section of the Statutory Prospectus. Additionally, this information should consistently be made available in the Statutory Prospectus for a fund, given its importance to some investors.
  
8. Fees and Costs Are Important. While other commentators may state that "the fact an investment is cheap does not mean it is a good investment," and disparage the emphasis on full and accurate disclosure of the total fees and costs of a fund, much academic research supports the conclusion that higher-cost funds underperform, on average, lower-cost funds in the same asset classes. While fees and costs should certainly not be the sole consideration for any investor, the Commission's emphasis on full and complete disclosure of all of the fees and costs relating to investment in pooled investment vehicles is both proper and helpful to individual investors. Accordingly, NAPFA supports the ordering of disclosures in the Summary Prospectus, in that fee and cost disclosures come first, prior to disclosure of returns. Confining returns data to the latter portion of the Summary Prospectus may also deter individual investors from chasing returns, a practice which often is to their detriment.
  
9. Inclusion of Ticker Symbols. With thousands of different mutual funds available today, some with similar names, and with multiple share classes, it is important that consumers not be confused by misleading names or by looking at the wrong share class. NAPFA members often resort to ticker symbols when undertaking their analysis, to ensure that they are analyzing the precise fund and



share class their clients currently possess or which may be recommended to them following the appropriate due diligence process. NAPFA recommends that the Summary Prospectus include the ticker symbols for each share class which is presented.

10. Timing of Availability of Information. The Proposed Rule sets forth a 90-day period after the sale of a fund or communication of its offering for providing the Summary Prospectus and other documents (Statutory Prospectus, Statement of Additional Information, and most recent annual and semi-annual reports). NAPFA has several recommendations regarding to the timing of disclosures:

- a. Fund Information Should Be Available Until Replaced by Updated Information. NAPFA suggests that the Commission mandate that all funds provide the aforementioned information via the web until the later of: (i) revised documentation is posted; or (ii) the fund no longer exists.
- b. Calendar Quarterly Performance Information Provided. NAPFA supports the proposal that the Summary Prospectus information be updated quarterly. It is important that investors possess timely data regarding a fund's historical returns. For purposes of informed comparisons, it is important that each fund provide this information on a calendar quarterly basis, and not by quarters dictated by their fiscal years (which may be different).
- c. SAI Availability Online. NAPFA strongly supports the Commission's requirement in the Proposed Rule that the Statement of Additional Information be made available via the web. Current lack of availability to this information at some fund web sites limits the effectiveness of comparative analyses, whether undertaken by a trained financial advisor or by an individual investor.
- d. E-Mail Alerts On Updating of Revised Web Site Information. NAPFA further suggests that each mutual fund provide a means for fund investors to subscribe to e-mail alerts whenever any new or revised information relating to a particular fund, or a group of funds, is posted to the fund's site. The cost of implementation of such an e-mail alert device would likely be minimal compared to the benefits to fund investors of timely reminders that new information is available. Fund characteristics, including such key factors as portfolio holdings, turnover rates, etc., can

often change frequently. Since mutual fund complexes vary widely as to the dates when fund disclosure documents are made available, e-mail alerts to investors would greatly aid individual investors in the timely monitoring of their current funds.

11. “Past Performance Not An Indication of Future Returns” Statement Enhanced. Given the continuing propensity of individual investors to chase returns, which many studies have indicated lead to long-term underperformance of individual investor portfolios relative to the returns of the average fund, NAPFA recommends that the Commission require that the following statement be highlighted in **bold** and **in red**:

**The Fund’s past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future.**

12. Disclosure of 15 Years Of Annual Returns. The Commission has long mandated disclosure of a fund’s returns for each of the preceding ten years. Given the fact that many funds have now been in existence for a period of 15 years or longer, NAPFA recommends that the “bar charts” setting forth annual returns for a fund be extended to provide up to 15 years of data. Funds should be permitted to provide returns for additional years, if they desire.
13. Disclosure of Fund Holdings: Number of Securities. A key statistic for a fund investor is the amount of diversification a mutual fund actually provides. NAPFA recommends that the Commission mandate, in the Summary Disclosure, the number of distinct securities held by a fund, as well as the percentage of the total fund represented by the fund’s top ten holdings. An actual disclosure of the names of the top ten securities held by the fund would also be useful information to a fund investor. Quarterly updating of this information would be highly beneficial.
14. Disclosure of Payments to Broker-Dealer Firms. The Proposed Rule provides for the following disclosure of payments to broker-dealer firms:

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 influence 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 Web site for more information.

NAPFA is concerned that the different types of compensation provided to broker-dealer firms are not indicated specifically. While NAPFA hopes that further rule-making on Point-Of-Sale disclosures may provide these disclosures, NAPFA recommends the individual investors be proactively advised by mutual fund companies of the precise types of compensation provided by fund companies to broker-dealer firms. Accordingly, it is recommended that the foregoing language be modified to the following disclosure (which would be customized by each fund company to reflect its own sales practices):

**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 include, but are not limited to, sales commissions (sales loads), 12b-1 fees, surrender fees (if the shares of a fund are surrendered prior to the date surrender fees disappear), payment for shelf space, commissions paid to the broker-dealer firm in connection with transactions within the fund effected through that broker-dealer (which may include "soft-dollar compensation" - commissions paid at higher than the lowest rate available in exchange for research), principal mark-ups and mark-downs in connection with trading of fixed income and other securities by the fund through the broker-dealer firm, fees derived by broker-dealer firms through bid-ask spreads (whether by acting as market maker for a security traded by the fund, by ownership of an affiliated firm which acts as market maker, and/or through receipt of payments for order flow), payments for marketing support and/or education of registered representatives, etc. These payments may influence 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 Web site for more information. You are entitled to receive written disclosure of each of these payments from the broker-dealer's registered representative or other financial intermediary, along with an estimate of the amount paid to the broker-dealer firm (or bank) and an estimate of the amount paid to the registered representative(s) which results from your planned purchase of fund shares.

15. NAPFA Supports A Summary Prospectus for Each Particular Fund. NAPFA agrees with the Commission that fund families offering multiple funds should present a Summary Prospectus for each fund, individually. While the Statutory Prospectus remains an efficient mechanism to provide information about many funds, often similarly-related, within a fund family, a single fund Summary Prospectus is better for individual investors to easily compare different funds, whether within or outside the same fund family.
16. Extend Proposed Rule to ETFs, Variable Annuity Sub-Accounts, and Other Pooled Investment Vehicles. NAPFA recommends that the Proposed Rule be extended to provide Summary Prospectus for other pooled investment vehicles, such as exchange-traded funds, variable annuity sub-accounts, and funds made available only to retirement plan participants. When provided in connection with variable annuities, the Summary Prospectus should include as part of the annual expense ratio the mortality and expense charges which might be imposed by the insurance company, including expense charges relating to any riders.
17. Coordination With Department of Labor Initiatives. NAPFA notes that the Commission and the U.S. Department of Labor have pledged to work together to ensure comparable disclosure regimes for funds, whether held inside or outside of qualified retirement plans which are also subject to the fiduciary duty and other requirements imposed by ERISA. NAPFA has previously submitted comments to the U.S. Department of Labor relating to “Fee and Expense Disclosures to Participants in Individual Account Plans (RIN 1210-AD07).” NAPFA encourages the Commission to ensure that the form and content of the Summary Prospectus closely tracks any disclosures which may be required to participants in ERISA plans, for the benefit of both consumers and investment companies.

**In Conclusion.** While NAPFA supports the Commission’s efforts to provide enhanced disclosures through a Summary Prospectus format, such disclosures would be misleading if all of the “total fees and costs” of funds are not revealed. Whether the Summary Prospectus is 2 pages or 7 pages long is unimportant – if omissions of key information, such as transaction costs, would result in lack of investor understanding of the total fees and costs of the mutual fund.

Even with a Summary Prospectus, lack of consumer understanding of even basic investment concepts will likely to continue. For example, a 2002 Forbes Magazine survey finding that eighty-four percent of the surveyed investors believe that higher fund expenses result in higher performance by the fund. Accordingly, many individual investors will both desire and need the assistance of a fee-only, fiduciary-at-all-times financial advisor who represents the interests of the investor at all times, and who can discern the best investment products available for his or her client today.

Again, the National Association of Personal Financial Advisors thanks the Commission for the opportunity to submit these comments. As the nation's leading organization of fiduciary and fee-only financial advisors, we are available to respond to questions or submit further comments as you may desire.

Respectfully,

Tom Orecchio  
Chair, NAPFA

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Diahann Lassus,  
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<sup>i</sup> NAPFA has more than 1,700 members across the United States.

All NAPFA-Registered Financial Advisors must submit a comprehensive financial plan and undergo a thorough review of their qualifications prior to admission.

NAPFA-Registered Financial Advisors all sign a Fiduciary Oath which states that the advisor will only work in good faith and with the best interests of the consumer at heart. NAPFA-Registered Financial Advisors are strictly Fee-Only<sup>®</sup>, which means they do not accept commissions or any additional fees from outside sources for the recommendations they make to their clients.

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ii A copy of NAPFA's July 24, 2007 comment letter to the Office of Regulations and Interpretations, Employee Benefits Security Administration, Department of Labor, can be found at [www.NAPFA.org](http://www.NAPFA.org), under "Press Room," and then under "Comments on Industry Issues."

iii John Bogle, founder and former Chairman of The Vanguard Group, recently stated that the "average total all-in costs may reach as much as 3 percent a year or more." "High Standards of Commercial Honor . . . Just and Equitable Principles of Trade . . . Fair Dealing with Investors," Remarks by John C. Bogle at the Financial Industry Regulatory Authority conference, Washington, D.C., October 15, 2007.

iv The costs resulting from trading within a fund can often be greater than the fund's disclosed annual expense ratio. See Edelen, Evans and Kadlec, "Scale effects in mutual fund performance: The role of trading costs" (March 17, 2007), available at: [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=951367](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=951367). The authors of this paper provide the following summary:

"[O]ur paper makes four empirical contributions to the literature:

- Mutual funds' annual trading costs are larger in magnitude than the expense ratio. In contrast to the ambiguous relation between turnover and performance, annual trading costs bear a statistically significant negatively relation to performance.
- The negative impact of trading on performance is most pronounced for funds with a relatively large average trade size. Trading does not adversely impact performance at funds with a relatively small average trade size. Moreover, after controlling for trading costs fund performance is no longer related to fund size. Thus, trading costs are the dominant source of diseconomies of scale in investment management.
- Flow-driven trades are shown to be significantly more costly than discretionary trades in a much larger sample and longer sample period than previously documented. This nondiscretionary trade motive partially – but not fully – explains the negative impact of trading on performance.
- Conrad, Johnson, and Wahal (2001) document that soft-dollar trades have higher costs. We show that soft dollars are also associated with substantially higher levels of trading activity and a negative impact on fund performance."

NAPFA-Registered Financial Advisors often employ various means to estimate a fund's true "total fees and costs." One such method is illustrated in the paper by NAPFA member Ron A. Rhoades, "Estimating The Total Costs of Stock Mutual Funds" (2006), available at [www.josephcapital.com](http://www.josephcapital.com), under "Resources," then under "White Papers."

The Commission has acknowledged the inadequacy of current disclosure of transaction costs. "Although transaction costs are taken into account in computing a fund's total return, they are not included in a fund's expense ratio because under generally accepted accounting principles they are either included as part of the cost basis of securities purchased or subtracted from the net proceeds of securities sold and ultimately are reflected as changes in the realized and unrealized gain or loss on portfolio securities in the fund's financial statements. As a result, current disclosure requirements focus on providing fund investors with information about two items that are related to transaction costs - portfolio turnover rate and dollar amount of brokerage commissions. All mutual funds (except money market funds) are required to disclose in their prospectuses the annual rate of portfolio turnover that they have incurred during the last five fiscal years. Investors can compare turnover rates to obtain an indication of how transaction

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costs are likely to vary among different funds. Funds (with the exception of money market funds) also must disclose in the Statement of Additional Information ("SAI") the actual dollar amount of brokerage commissions that they have paid during their three most recent fiscal years. The Commission is concerned that the current disclosure requirements do not directly address a fund's overall transaction costs or elicit sufficient information about these costs ... Although estimates of the magnitude of transaction cost and its components vary, the following estimates are representative. For the average stock fund, commission costs have been estimated at almost .30% of net assets (an amount equal to approximately 20% of the 1.42% expense ratio of the average long-term mutual fund in 2002); and spread costs have been estimated at approximately .45% of net assets (approximately 30% of the average expense ratio.) Market impact cost and opportunity cost are more difficult to measure. One study estimates that total transactions costs (including market impact and opportunity costs) for large capitalization equity transactions range from 0.18% to as much as 1% of the principal amount of the transaction. Another study estimates that for institutional investors, under relatively stable market conditions, opportunity costs may amount to 0.20% of value. To summarize, commissions are explicit costs, readily identifiable and quantifiable. Spread, impact, and opportunity costs are implicit costs. Because the implicit costs, which are difficult to identify and quantify, can greatly exceed the explicit costs, there is no generally agreed-upon method to calculate securities transaction costs." Concept Release, "Request for Comments on Measures to Improve Disclosure of Mutual Fund Transaction Costs," SEC Release Nos. 33-8349; 34-48952; IC-26313; File No. S7-29-03 (Dec. 18, 2003).