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Opening Remarks
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Thank you so much for inviting NASD to participate in this roundtable. The Commission's decision to hold this session concerning mutual fund disclosure is very timely. Nearly half of all U.S. households own mutual funds. The 91 million Americans who invest in funds do so for many reasons – including retirement and education – that are critical to their well-being and to our economy.

Investors have at their fingertips a vast array of information about mutual funds. They can consult the media and other independent sources such as Morningstar, they can read the literature produced by mutual fund companies themselves, and they can talk to many different types of financial advisers. The Internet offers a tremendous amount of information. A Google search of one popular mutual fund – Fidelity Magellan – generated 508,000 references.

Thus, the problem is not that investors lack access to information about their mutual fund choices. A wealth of information is available in many formats. The problem is that the documents that investors are certain to receive and should be able to count on the most – federally mandated disclosure documents – do not serve their needs. The mutual fund prospectus is lengthy, at times difficult to sort through and comprehend, and an unwieldy way to compare different funds.

The Commission has recognized this critical problem. Only 10 years ago, the Commission re-wrote the mutual fund prospectus and introduced the fund profile. In doing so, the Commission improved the clarity and quality of the prospectus. But today much more can be done to modernize the type of information that federal law requires, and particularly given technological advances in the last decade, the manner in which it must be delivered to investors.

1. Disclosure Must Help Investors Make a Decision

Disclosure works only if it helps investors make the right decisions. Disclosure should deliver useful information in an easily digestible format, and not just be a device to protect issuers from liability.

Our challenge is to determine how to provide investors with the type of disclosure that they need, at the time that they need it, in a format that actually helps them make choices. The overwhelming majority of investors will not read long, complicated documents like the traditional fund or corporate prospectus. There is widespread recognition of this fact and we must act on this recognition if we want to help the retail investor.

2. The "Profile Plus" Would Provide Clear and Simple Disclosure

In part to address the need for better disclosure, NASD formed the Mutual Fund Task Force, which in 2005 proposed the "Profile Plus." The Profile Plus incorporates elements of both the fund profile and the SEC's point of sale disclosure proposal. Thus, the Profile Plus sets forth key information about a fund, such as its investment strategies, risks, fees and performance and includes information about dealer conflicts of interest, such as revenue sharing and differential compensation.

The Profile Plus provides meaningful disclosure not only because of what it contains, but what it does *not* contain:

- It is deliberately short and easy to understand. It does not include information that is not critical to an investment decision, such as information about how to redeem the fund.

- It avoids lengthy narratives and uses graphics where possible, such as a bar chart to depict volatility. It provides an example of fees and expenses at different investment levels, in tabular form. It also sets forth the total expense ratio, without breaking it down into its components.

It always will be possible to think of some additional item of information that might be added to the Profile Plus – but disclosure creep will destroy the document's usefulness.

3. Internet Delivery Will Prevent "Disclosure Creep" and Help Investors

There is a way to solve this problem and avoid "disclosure creep." That is by linking the Profile Plus to the full prospectus through the use of hyperlinks or other technology. If the Profile Plus provides an investor with immediate access to the full prospectus, through Internet hyperlinks, then the pressure to add more disclosure to the Profile Plus will be alleviated.

- Investors will be able to access the information at the time they need it – point of sale.

- Investors will be able to review as much or as little disclosure as they want.

- For the first time, disclosure will not be "one size fits all."

The Task Force proposed that a broker-dealer provide an Internet-based Profile Plus for every fund that it offers. Through hyperlinks to the fund prospectus and dealer disclosure statements, an investor could review the disclosure in the level of detail that he chooses.

Internet delivery will allow an investor easily to compare different funds by providing concise information about each fund in a standardized format. Studies show that some investors will not be comfortable with Internet-based delivery. Our proposal would accommodate investor preference; any investor who would prefer paper or oral delivery could choose to receive point of sale information in that manner. However, the percentage of investors who would not prefer Internet delivery likely will continue to shrink over time. Given the ability to allow investors to choose their preferred mode of delivery, there is no reason to delay implementation of an Internet-based option.

Some have proposed that dealers orally disclose the information over the telephone. Others have suggested that even with Internet delivery, the investment should be held up until the broker can obtain assurances that the investor has read the disclosure. Both ideas are impractical. They would harm investors, not help them, by confusing them with detailed oral disclosure and by impeding their ability to invest as they choose, when they choose.

The NASD has called on the fund industry to populate an on-line database of point of sale documents as it did with the breakpoints database. To support that effort, reaffirming NASD's commitment to providing investors with the information they need, NASD is prepared to help build and finance this database.

4. Retirement Plan Investors Deserve Better Disclosure

As we consider ways to improve mutual fund disclosure, it also is appropriate to focus on those investors who may not receive adequate information today. Employee plan sponsors are not required to deliver a prospectus or any meaningful disclosure about the mutual funds in a 401k or similar employee plan. Millions of investors buy mutual funds through their employee sponsored plans.

Some plan administrators and fund groups deliver the fund prospectus voluntarily. Others have developed their own fund summaries that are included in retirement plan packets. ERISA imposes some disclosure requirements. The SEC and the Department of Labor should ensure that all employees receive useful information about the funds that they can purchase through their employee plans.

Years ago, the SEC granted the fund industry the ability to use the fund profile in the employee plan market. Regulators should go further, and mandate whatever short-form disclosure document the SEC approves – hopefully, the Profile Plus.

5. Investors in Other Products Also Deserve Better Disclosure

We also have to keep in mind those investors who purchase other vehicles, such as ETF's, commodity pools, insurance products and separately managed accounts. Mutual funds are the most popular investment product today. But they are not the only one. If the SEC proceeds with a mandated, short-form disclosure document for mutual funds, it should consider extending a similar requirement to other investment products.

Once again, thank you for providing NASD the opportunity to participate in the discussion of these critically important issues.