28 February 2008

Nancy M. Morris
Secretary
U.S. 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

Dear Ms. Morris:

The CFA Institute Centre for Financial Market Integrity (CFA Institute Centre)[1] appreciates the opportunity to comment on this SEC rule proposal whereby registered investment companies could use a summary prospectus to provide essential information to investors while satisfying its statutory delivery obligations. We believe that use of a summary prospectus, written in plain English, would be a major step forward in reducing the confusion to investors as they try to ascertain the information they need in order to make meaningful investment decisions.

As the staff considers the comments received on the specifics of this proposal, we urge that the final rule still maintain an approach that requires or eliminates certain disclosure, rather than adopting an approach that makes certain information discretionary. Inconsistencies in either the provision of substantive information or the format in which it is presented will undermine a fundamental goal—to provide the investor with meaningful information in a readable format.

Comments

We strongly support the intent, through this rule proposal, to provide investors with more direct and understandable information. History has shown that more information alone is not necessarily in the best interests of investors; instead, investors need to receive information that addresses the key areas, in a concise and readable way—both in language and presentation. We have long supported initiatives to simplify

[1] The CFA Institute Centre for Financial Market Integrity is part of CFA Institute. With headquarters in Charlottesville, VA, and regional offices in New York, Hong Kong, and London, CFA Institute is a global, not-for-profit professional association of more than 94,500 investment analysts, portfolio managers, investment advisors, and other investment professionals in 133 countries of whom more than 79,800 are holders of the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 135 member societies in 56 countries and territories.

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disclosure documents in order to enable investors to understand a fund's risks. [2] Similarly, we have also historically supported use of a profile or summary prospectus to present investors with key information relating to a fund, including the fund's investment strategies, risks, performance and fees.[3]

Thus, we think that use of the summary prospectus is a move in the right direction of providing investors with information in a succinct format that the typical investor will understand.

A. Meaningful Disclosure

Through proposed amendments to Form N-1A, mutual funds would be required to provide a summary section in the front of each prospectus that includes key information about the fund. This summary would be written in plain English.

As a general objective, we strongly support the proposed approach to provide meaningful disclosure to investors in a succinct, easily readable format. A key component of providing meaningful information is the accompanying requirement that it be written in plain English. For clarity and consistency, we agree that the same plain English requirements should be applicable to the summary section as to the remainder of the prospectus. Moreover, we would encourage further direction and oversight to ensure that the principle of plain English is actually observed. While principles-based regulation is currently receiving great attention, the implementation of the plain English "principle" in U.S. regulatory filing has been unsatisfactory across many disclosures, including mutual fund documents.

As fund families have grown in complexity investors have faced sometimes lengthy and often unclear descriptions relating to the fund's portfolio, practices, risks, fees and expenses, and long-term costs borne by shareholders. The introduction of multiple classes of shares has further complicated the disclosure that is required. As a result, while perhaps compliant with Form N-1A requirements, mutual fund prospectuses often have contained such a volume of information that it had the inverse effect of educating and empowering the investor.

B. Standardized format

The information provided is only as good as the investor's ability to understand it. A format that obfuscates information, no matter how vital the information, misses the mark. We therefore support the goal of standardizing the disclosure to be provided investors in a summary format. Realizing that a "one size fits all" disclosure approach is not always possible or desirable, certain templates do lend themselves to such an approach. We do find great merit in providing investors with information in a consistent format that allows

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[2] See letter dated March 24, 1997 from Linda Rittenhouse to Jonathan G. Katz, U.S. Securities and Exchange Commission (File No. S7-3-97—*Proposed Rules on Plain English Disclosure*).
[3] See letter dated June 9, 1997 from Linda Rittenhouse to Jonathan G. Katz, U.S. Securities and Exchange Commission (File No. S7-18-96—*Proposed New Disclosure Option for Open-End Management Investment Companies*).

them to make meaningful comparisons among investment choices. We thereby support the use of a standardized format to provide key mutual fund information in the front of the prospectus. It is important in our view that any such summary accurately portray risk. A summary that devolves into boilerplate descriptions over time and uses language to minimize or downplay actual risks for fund investors would be counterproductive.

Given that a basic benefit of a standardized format is the ability of investors to more easily compare the information provided by funds, we support general limitations on the amount of information that funds provide in the summary section of the prospectus. While we do not support mandating a certain page length, we do encourage the SEC to provide guidance in the final rule on an optimal range. Similarly, we encourage guidance on the acceptable range of fonts as a means of standardized the format. Requiring separate summary information for each fund, regardless of the number of funds in the family would further aid the investor's ability to perform comparisons.

Information not required in the summary should be prohibited (although references to information provided later in the prospectus or SAI could be appropriate in certain situations). If the objective is to streamline the information in order to enable investors to make direct comparisons, additional information that can be provided at the discretion of the fund will distract from this goal.

We understand that the costs of investing in a fund continue to be a source of confusion for investors. Thus, we support the proposal to move the fee table forward so that investors encounter this information more prominently. We also support the proposed requirements that funds provide additional information in the fee table section, including the availability of discounts, clarification of the ongoing expenses investors may pay as a percentage of their investment in the fund, disclosures relating to portfolio turnover and its effect on transaction costs and performance (except for money market funds), and additional information to address the effects of fee reimbursements or expense waivers.

A consistent source of confusion seems to surround the purposes and use of 12b-1 fees. While a considerable expense in some cases, we do not believe that investors fully understand the impact of 12b-1 fees on their overall costs of investing in the fund. We strongly encourage the final rule to eliminate reference to "12b-1 fees" and instead require a narrative explanation in plain English of the purpose and impact of this expense.

Finally, we support the use of pictorials, graphs or tables to supplement narrative descriptions in the summary section as an effective means for aiding comparison.

C. Delivery Obligations

This proposal would allow mutual funds to incorporate by reference to the full/statutory prospectus in order to meet delivery obligations, as long as the prospectus is accessible on the Internet. We support this approach.

In a time of electronic accessibility, this approach is in keeping with movement taken by the SEC through other proposals to streamline the process and reduce expenses to investment companies, while preserving investor protections. Given that a fund would have to provide investors with a paper copy upon request and that this is made clear, we believe that the investor's access to full disclosure is preserved.

Conclusion

We support the Commission's proposal to adopt the use of a summary prospectus aimed at providing investors with straightforward information in a straightforward manner. We believe that by focusing on the amount, type, and format of information provided to investors, the summary prospectus will serve to eliminate a range of confusions and ease the investor's ability to compare among investment options.

We appreciate the opportunity to comment on this proposal. Should you have any questions about the views expressed herein or need additional information, please feel free to contact Kurt Schacht at 212.756.7728 or by e-mail at kurt.schacht@cfainstitute.org or Linda Rittenhouse at 434.951.5333 or by e-mail at linda.rittenhouse@cfainstitute.org.

Sincerely,

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