



FIREHOUSE | Financial Communications LLC

WHAT'S REGULATION GOT TO DO WITH IT?

SIMPLIFYING YOUR COMMUNICATIONS
AS A BUSINESS STRATEGY

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FIREHOUSE FINANCIAL: PROFILE AND APPROACH

Firehouse Financial Communications

- Founded in 1997 by writer Josiah Fisk and designer Lynn Riddle
- Provide writing, design, production and consulting
- Specialize in simplified communications
- Experience working with many leading firms: State Street Research, Dreyfus, Neuberger Berman, Scudder, Kemper, SchwabFunds



What Do We Mean By Clear Communication?

- Simplify, yes; dumb down, no
- Don't let major concepts get lost in the details
- Organize for the reader, not the writer
- Include "educational" information — preferably alongside main text
- Most important of all: use the visual dimension

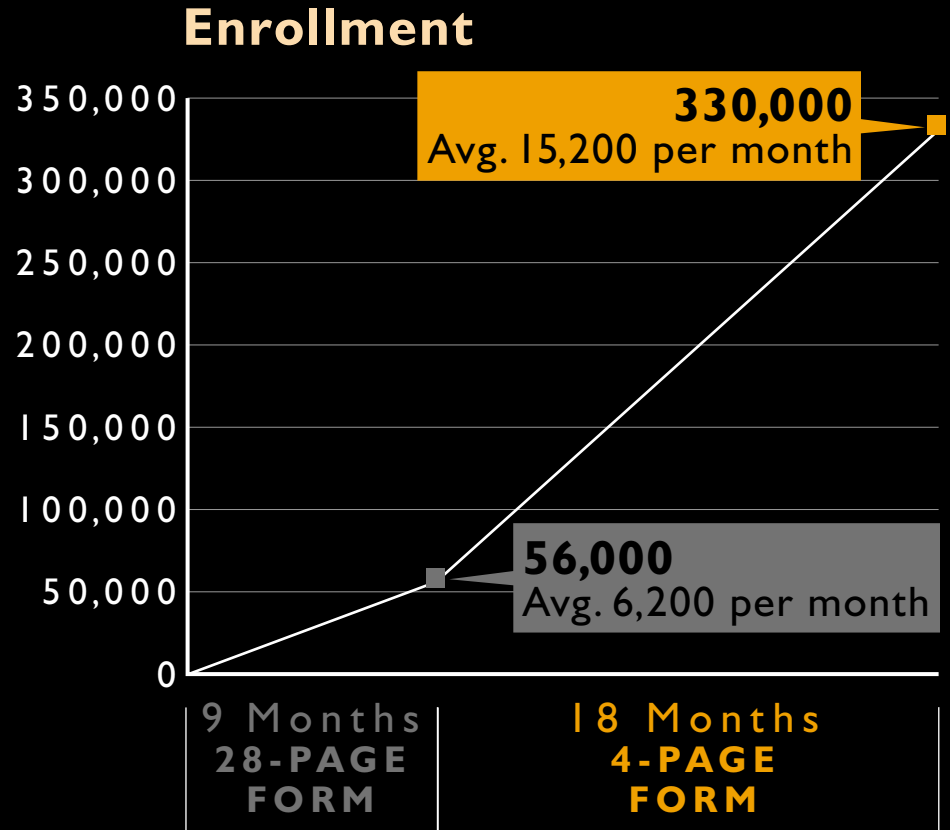
**CLEAR COMMUNICATION:
HOW MUCH DIFFERENCE
CAN IT MAKE?**

THREE “REAL WORLD” EXAMPLES

EXAMPLE 1

Healthcare Money for Uninsured Children

- In California: 28-page application got 56,000 participants in 9 months
- Switched to 4-page form: enrollment rate more than doubled



Source: NY Times, 24 September 2000

EXAMPLE 1 — DISCUSSION

- California forfeited \$590 million (69% of its allotment); forms were a major factor
- 40 of 50 states lost part of their allotments
- \$1.9 billion returned to federal government



Source: NY Times, 24 September 2000

EXAMPLE 2

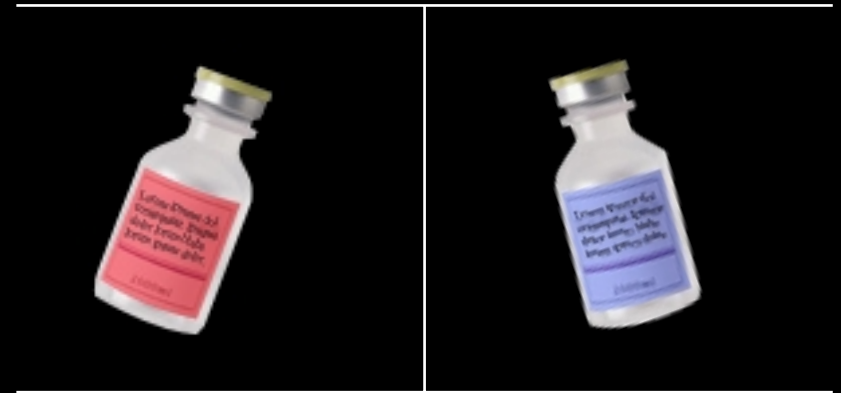
Medical Mistakes

- Paralyzing drug and reversing agent used in surgery: same container, cap/label color, drawer
- Five of six surgeons at Denver hospital gave the wrong drug at least once



EXAMPLE 2 — DISCUSSION

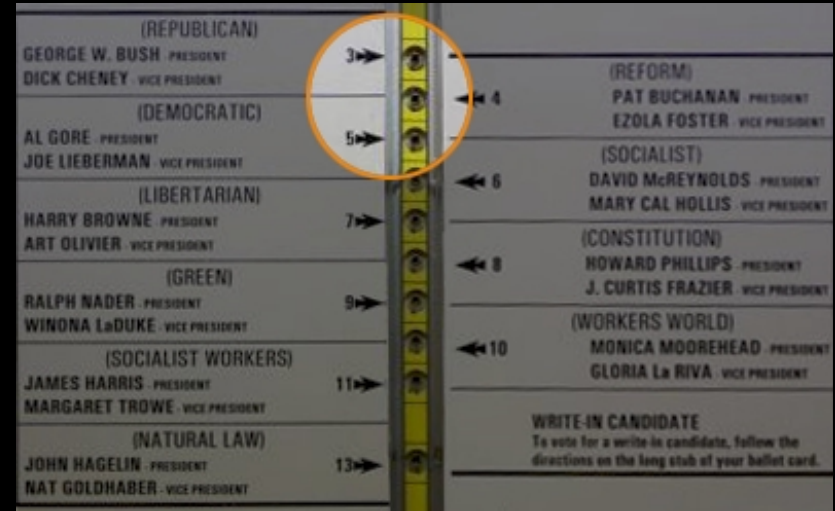
- Institute for Healthcare Improvement: doctors are “working under conditions that do not account for the fact that they are human”
- Hospital now color-codes, uses separate drawers
- No patients died — but medical errors kill 44,000 to 98,000 a year in the U.S.



EXAMPLE 3

2000 Presidential Election

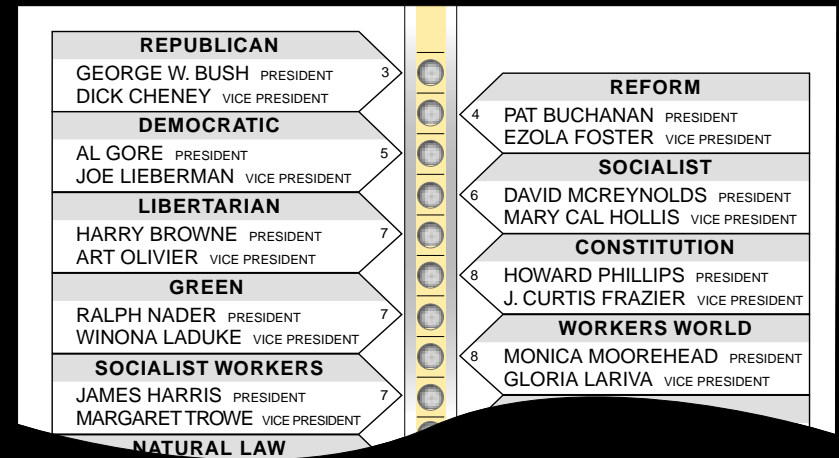
- Palm Beach County “butterfly ballot”
- Lines separating boxes led eye to wrong punch hole
- Over 19,000 ballots disqualified because of double votes for president; compare to 3,800 in senate race (no “butterfly”)
- More votes for Buchanan than expected
- Election decided by 537 votes



Sources: Associated Press, 9 November 2000, NY Times, 12 December 2000

EXAMPLE 3 — DISCUSSION

- 2001: Vote-O-Matic machines outlawed in Florida
- With more focus placed on ballot design, most confusion likely could have been avoided



Source: Firehouse — possible design to make butterfly-style ballot less confusing

Special Circumstances Brought These Cases to Light

- New administration's simpler forms boosted enrollment
- Chief surgeon broke medical "culture of silence"
- Close election led to scrutiny of ballots

But poor communication exists everywhere, and so do its effects — whether or not they are measured.

CLEAR COMMUNICATION AT WORK: MUTUAL FUND DOCUMENTS

Fidelity Investments

- 1991 research: why did many people ask for sales kits but then fail to invest?
- One reason many cited: couldn't read prospectus
- In response, Fidelity developed the first simplified fund prospectus (1991-2)
- Done for business reasons

Before



After



State Street Research

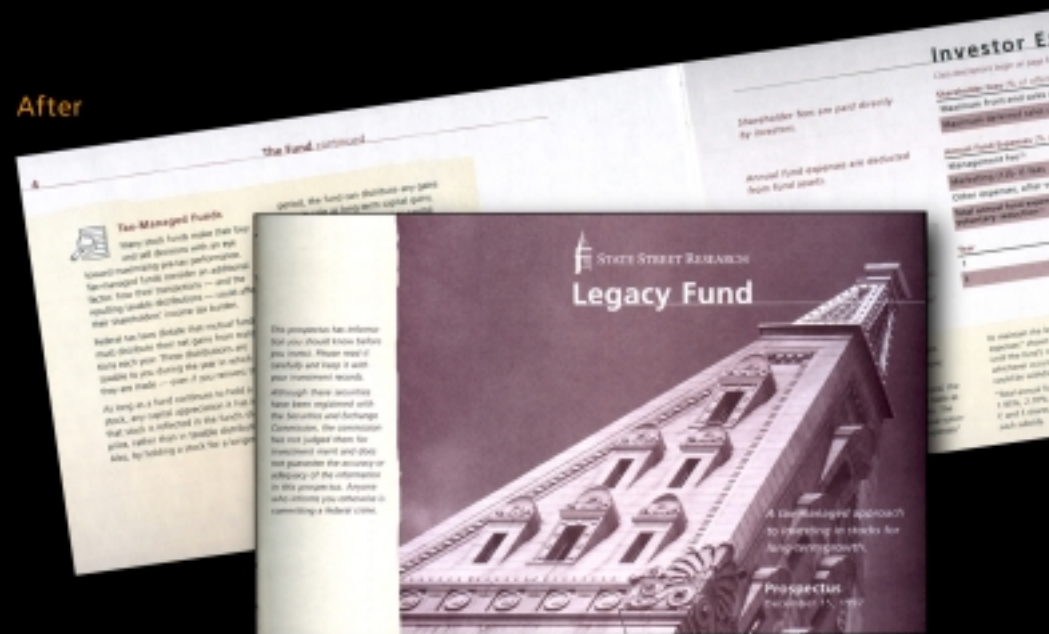
- Old prospectus
- 11,500 words
- First-year graduate school reading level



Source: Mark Hochhauser, PhD

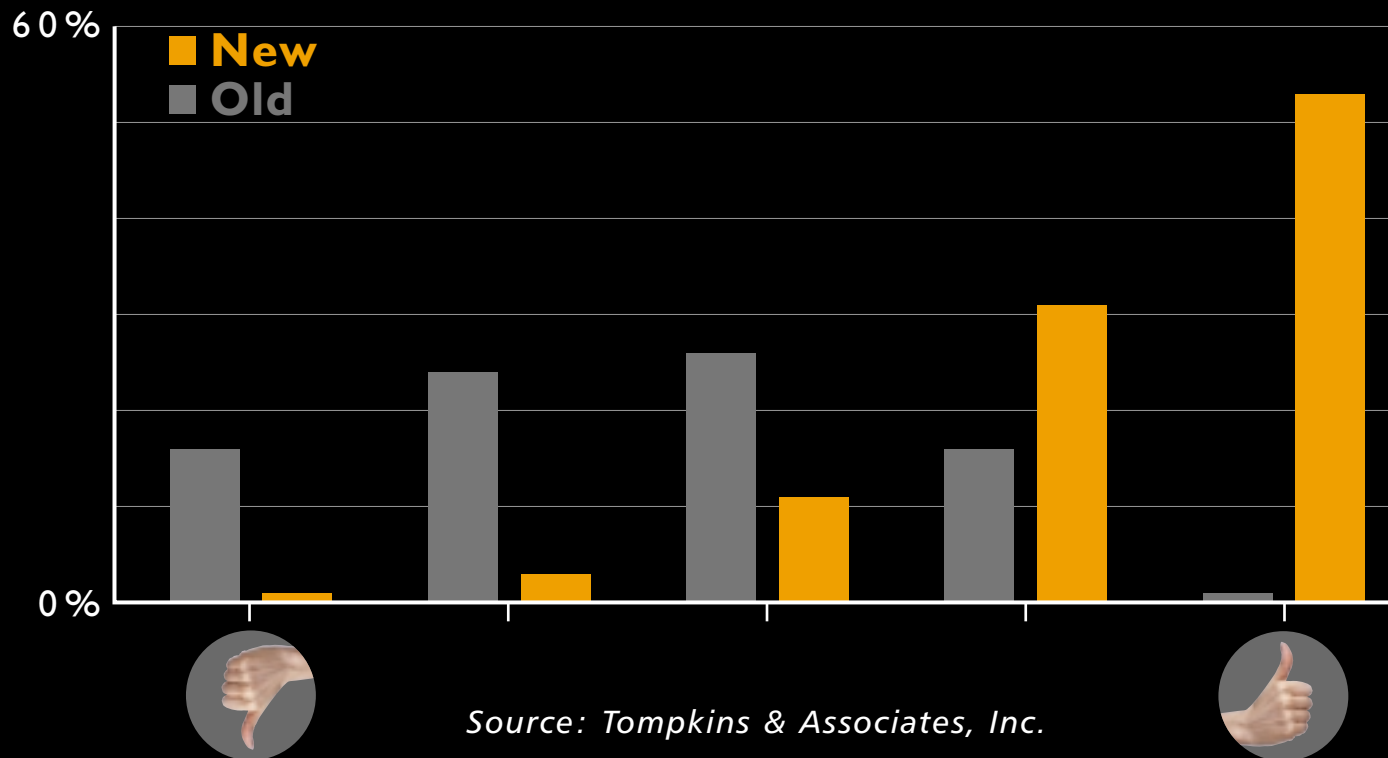
State Street Research

- Simplified prospectus
 - 4,500 words
 - First-year college reading level



State Street Research

- Broker reaction as tool for education, marketing, disclosure



Schwab Funds

- Prospectus front cover suffered from “information overload”

Before



After



Simplified Language

EXAMPLE 1

Existing language:

“The net asset value of the Fund’s shares fluctuates as market conditions change.”
(13 words)

Plain English:

“The value of the fund’s shares will rise and fall.”
(10 words)

The new version is only slightly shorter in its word count, but it uses shorter, more familiar words, and focuses on conveying one key point. It also drops the unnecessary use of capitalized terms.

Simplified Language

EXAMPLE 2

Existing language:

“If no selection is indicated on the application, that account will automatically be coded for reinvestment of all dividends and distributions in additional shares of the same class of the applicable Fund.” (32 words)

Plain English:

“Unless you give us other instructions, your distributions will automatically be reinvested in the fund.” (15 words)

By changing from passive to active voice, the new version makes it clear that the sentence is talking about consequences of the reader’s actions. Discussions with the client and their legal counsel also revealed that some details in the original were not necessary.

WHY SIMPLIFY?

Reasons Companies Have Cited

- Educate; help investors form realistic expectations
- Make people more comfortable with investing
- Demonstrate business ethics: good companies attract good customers

Reasons Companies Have Cited

- Support corporate identity/brand
- Cut cost of multi-language documents
- Cut costs of printing, mailing and ongoing legal review
- Improve how documents adapt to the Internet
- Turn a “dead expense” into an asset

What Are the Drawbacks?

- Initial costs — higher for those who go first
- Value exists, but is hard to measure
- Fear of the unknown

First Firms Out Have the Most Opportunities

- At the outset:
 - you gain competitive advantages
 - you have an excellent news story
 - you take the lead in shaping industry standards
- If everyone copies you:
 - you benefit from higher industry standards
- If no one copies you:
 - you still have the competitive advantages, cost savings

Potential to Set Standards — A Closer Look

- Simplified prospectuses in US:
 - Fidelity (1992)
 - Vanguard (1994)
 - John Hancock (1996)
- Showed SEC the industry was open to simplification



Potential to Set Standards — A Closer Look

- Some Hancock innovations reflected in new SEC rules
- Industry leaders shifted focus from compliance to business opportunities





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