Broadridge®

Charles V. Callan
SVP Regulatory Affairs
Broadridge Financial Solutions, Inc.
51 Mercedes Way
Edgewood, NY 11717
[redacted]

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Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Subject: Comments on Proposed Rule 30e-3, Investment Company Reporting Modernization, File Number S7-08-15

Dear Mr. Fields:

We appreciate the opportunity to comment on the proposed rules contained in the Securities and Exchange Commission's ("SEC") release, *Investment Company Reporting Modernization*.

Over the years, Broadridge has worked closely with the SEC and other interested parties to implement technology solutions for shareholder communications, including delivery options for fund summary prospectuses and proxy notice & access. Our comments, therefore, pertain specifically to proposed rule 30e-3 which outlines a notice & access delivery option ("Fund Notice & Access") for the dissemination of annual and semi-annual shareholder reports of mutual funds and ETFs ("fund reports").[1]

Broadridge supports the SEC's laudable goals of improving the overall accessibility of fund report information by taking advantage of technological advances while realizing cost savings to investment companies on printing and postage. However, the data show that this proposal would not accomplish these goals. The very small cost savings it offers fund companies (a projected $0.02 per report) would come at the expense of millions of individual investors that look at the fund reports they receive by mail. The evidence shows that there would be an over 80% reduction in the number of these investors that look at the information. Since mutual funds are predominantly owned by retail investors -- that is the population that will be negatively impacted.

[1] As the largest provider of shareholder communications services, Broadridge has regularly given the SEC and other interested parties factual information on the technology and processing implications of potential regulatory changes. Our business model is founded on increasing levels of participation and efficiency in serving broker-dealers, custodian banks, investment companies, corporate issuers, and individual and institutional investors. As such, Broadridge will always pursue innovations and implement changes in ways that provide more efficiency, more technology, and more participation.

Therefore, to contribute to the SEC's consideration of the proposed rule, we provide information, processing statistics, cost analyses, behavioral studies, and new, primary research on individual mutual fund investors. Our comments are organized into the following sections:

I. Executive Summary
II. Information on the Growth of Electronic Delivery under SEC Guidance
III. Evidence of the Proposal's Negative Impact on Individual Investors
IV. References to Valid Data and Studies Contained in the Proposal
V. Comparative Cost Savings Analysis: Alternatives to Fund Notice & Access
VI. Critical Role of Broker Dealers
VII. Conclusion

I. Executive Summary

We provide supporting evidence to make the following points in this letter, with respect to proposed rule 30e-3.

- **The technological advances the proposal seeks to accomplish are already occurring due to the SEC's existing guidance on electronic communications.[2]**

One measure of the progress resulting from the SEC's electronic communications guidance over the past twenty years is the growing acceptance by individual investors of electronic delivery of fund reports. Broadridge and its broker-dealer and fund clients have long been investing in technologies and processing services that provide mutual fund investors with efficient and timely electronic delivery of regulatory information. Currently over 43% of fund reports are delivered electronically for funds held beneficially in brokerage accounts (in street name). That means that a material percentage of investors have chosen to receive their fund reports by e-delivery, and this percentage will continue to increase.

- **The rule proposal would not change the process by which millions of investors who have consented to e-delivery receive their fund reports.**

Investors who have affirmatively elected e-delivery would continue to be sent an email message attaching a link by which fund reports are accessed with one click on a designated URL.[3] Fund companies are realizing significant and annually increasing savings on printing and postage, and investors are receiving information by methods they choose and prefer.

- **Several technological advances will continue to drive growth in e-delivery without a change in SEC rules.**

Based on past experience, Broadridge estimates that e-delivery will grow to comprise approximately 59% of all fund report deliveries by the middle of calendar year 2018. Growth is driven by technology including, for example, the greater use of "EBIPs,"[4] ongoing developments to make regulatory communications available on popular digital

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[2] Release No. 33-7233 (Oct. 6, 1995); Release No. 33-7288 (May 9, 1996); and Release No. 33-7856 (May 4, 2000).

[3] Broadridge monitors EDGAR for all fund filings, identifies documents within filings and associates each by CUSIP. Data is tagged. Dynamic links enable access to data points within a document. On average, nearly 4% of fund CUSIPs file a change each day; nearly 23% do so during peak filing periods. Some funds and broker-dealers provide a "compliance envelope" on a single site. A compliance envelope offers convenient, one-click access to fund reports, summary prospectuses, statutory prospectuses, and other fund information and filings.

[4] The SEC introduced the concept of "EBIPs" (Enhanced Broker Internet Platforms) in a 2010 Concept Release on the U.S. Proxy System. A Proxy Fee Advisory Committee under the aegis of the NYSE recommended a regulated incentive fee which was approved by the SEC in 2014.

delivery platforms (such as Dropbox, Evernote and cloud drives from Google, Amazon, and Microsoft), and the launch this fall of newer and more flexible formats for providing information in email messages.

Each of these technologies and developments is based on the fundamental principle of pushing the information directly to investors and not on the notion that investors will search for fund information when notified by a mailed notice where to find it.

- **In its simplest form, the rule proposal substitutes a mailed notice for a mailed fund report.**

Instead of automatically receiving their fund reports, investors are told where they can find them. They would need to take steps to view information online (which many of them do not want to do and will not do) or “re-enroll” in order to continue to receive their full fund reports by mail. As more fully described in this letter, such a change at this time would have a large, unintended impact on millions of individual investors who receive reports by mail. Two recent online surveys confirm what SEC research and empirical data show -- the proposed delivery method has the potential to be very unpopular with individual investors. There would be a significant decrease in the number of individuals who look at or read fund reports.

- **A large body of data shows that the majority of individuals receiving reports by mail will not take the extra steps and, therefore, will not look at or read fund reports. Based on the evidence, the proposal will reduce by over 80% the number of these investors who look at the information today.**

The proposal’s purpose of better protecting more investors is reduced by a Fund Notice & Access delivery mechanism. The proposal postulates specific behavior based on generalized information about the Internet. Against this hypothesis, there is an abundance of specific evidence whose implications for the proposal are consistent and conclusive: mail recipients and those who prefer fund reports in hard copy form will be less likely to look at this information. The projected negative impact will be on individuals that hold an estimated 115+ million fund positions in street name in fiscal year 2018.

- **Our estimates show that the notice option would provide cost savings to funds of $18 million or only $0.02 per report in fiscal year 2018. Two alternatives provide far greater and more significant savings without the negative consequences to millions of individual investors.**

These two alternatives are:

1. **The continued development and growth in the use of e-delivery.** This alternative requires no change to current SEC guidance on the use of electronic delivery. It results in the greatest savings and continues to evolve with new technologies. We estimate that full use of e-delivery would save fund companies approximately $203 million on printing, postage, and fees in fiscal

year 2018. This is more than ten times greater than the projected savings of the notice option. Even under current SEC guidance for e-delivery, without a change in rules, the incremental annual savings of sending 59% of all deliveries by email amounts to over $100 million.

2. **A summary report delivery option, modeled after the SEC's successful summary prospectus delivery option.** In comparison to the Fund Notice & Access option, this alternative would result in estimated savings of approximately $130 million on printing, postage, and fees. It could be used to provide investors with key information in a more user-friendly format, without a change in the underlying default.

- **Finally, the proposal does not contemplate the significant processing complexities and incremental costs of adding a third delivery method. And, it does not acknowledge the essential role broker-dealers would play in making the rules work in practice.**

Each "job" to distribute fund information would continue to provide the two current methods of delivery (i.e., e-delivery and full reports sent by mail). The proposal would add a third delivery method (i.e., the mailed notice). This additional method would add cost and complexity to processing an entire distribution of fund reports. The processing complexities of Fund Notice & Access are similar to those of proxies. The proposal does not appropriately contemplate or measure these extra costs.

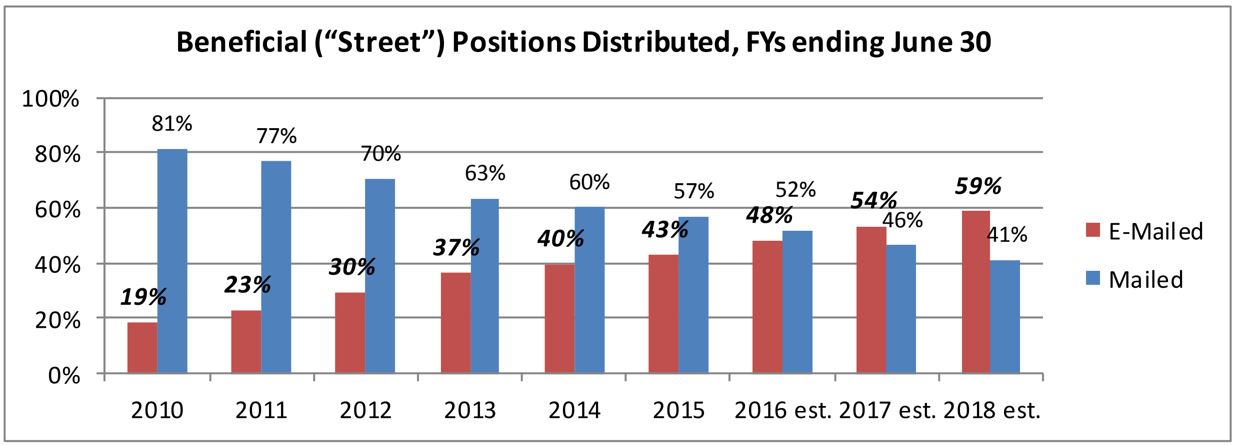
Given the complexities and efficiencies of street record keeping, broker-dealers would have to continue to service the communications needs of their clients holding funds in street name. This would include performing such functions as applying an investor's consents and preferences on the basis of all positions held in his or her account. The costs of servicing these "street name" accounts are not reflected in the proposal.

II. Information on the Growth of Electronic Delivery under SEC Guidance

- **Shareholders who prefer to receive reports electronically are already receiving them in that manner pursuant to long-standing SEC guidance.**

E-deliveries are projected to exceed mailed fund reports in the next 12 months, under existing SEC rules. In the past year, approximately 43% of all deliveries of annual and semi-annual reports were sent electronically.[5] During the past five years, the number of reports sent electronically has grown by an annual average rate of over 20% and, at current growth rates, the number of reports delivered electronically will soon exceed the number sent by mail.

E-delivery will comprise 59% of all fund report deliveries in FY18.



Investors' actual elections of e-delivery are consistent with their stated delivery preferences as reported in the SEC's 2011 survey and in the two surveys conducted in the past two months. We present further details on this below and in the attachments.

- **Current and new technologies are attracting large numbers of investors to choose e-delivery.**

Current and new technologies not only provide the greatest cost efficiencies of any of the methods of delivery but also offer the potential for new and evolving levels of investor engagement and information access. For example, the SEC's decision to encourage development of enhanced broker Internet platforms ("EBIPs") is resulting in more brokers providing access to shareholder reports by displaying them on their client websites. This technology is supporting greater enrollment by investors in e-delivery. As a consequence, issuer savings on printing and postage are a multiple of the one-time

[5] Investors are aware of e-delivery as an option. Broadridge has distributed over 2 billion shareholder communications alerting investors to the options to receive regulatory information electronically.

incentive fees paid.[6] Under the NYSE fee structure, the use of EBIPs for fund reports is essentially a free ride.

- **Currently, the Investor Mailbox, Broadridge's version of an EBIP, is installed on broker systems that are available to over 51% of retail investor brokerage accounts.**

Investor Mailbox is installed on broker systems that are available to over 51% of retail investor brokerage accounts. Soon, additional installations by brokers will increase the availability of the Investor Mailbox to 55% of retail investor accounts. When investor communications such as fund reports become available for distribution, investors receive email messages containing a link to their broker's login page. The communications each investor receives are based on his or her specific holdings. As a group, brokers that have installed the Investor Mailbox have experienced far higher rates of consent to e-delivery than have brokers who do not provide this technology.

- **Digital delivery platforms provide opportunities to drive further growth in e-delivery.**

Rapidly growing and popular digital delivery platforms can provide delivery of fund reports, along with other financial information, to the sites currently being visited by the fund investors (rather than at sites where the proposal suggests they should go to find them). Interfaces are now available for Dropbox, Evernote, and other leading digital channels.[7]

- **Enhancements are also being made to the format and content of email messages for delivering fund reports and other regulatory communications electronically.[8]**

For example, issuers and brokers can more easily add branding to their e-delivery messages. This can enhance interest in the material and provide a communications "dialogue," such as for a discussion of market outlook. Customizable messages can provide useful information in the body of the email message itself, as well as the link for compliance. These new formats offer opportunities to improve viewing rates of fund information.

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[6] Refer to SEC Concept Release on the U.S. Proxy System, File No. S7-14-10

[7] Digital delivery platforms for these purposes require the participation of brokers and investment companies, as well as shareholder consent to e-delivery.

[8] The anticipated launch is September, 2015.

III. Evidence of the Proposal's Negative Impact on Individual Investors

The proposed method is projected to impact individual investors who hold an estimated 115 million fund positions in street name and cause a reduction of over 80% in the number who look at fund reports.

The SEC's Investment Company Reporting Modernization proposal would enhance disclosures by investment companies yet, paradoxically, the proposed new rule 30e-3 will significantly reduce the number of investors who actually look at the information. If all funds were to use the Fund Notice & Access option, the impact will fall on individuals that are projected to hold an estimated 115+ million fund positions in street name in fiscal year 2018. This is the number of positions for which a mailed report would otherwise be sent.

A large body of evidence indicates that the proposed delivery method and its associated new "steps" will lead to significant reductions in viewing levels. There is no evidence indicating that the proposal will lead to higher levels of fund information awareness or viewing. A variety of sources indicate that current baseline levels for fund report *awareness* and *viewing* are generally high.

The evidence of this negative impact includes the following:

1. Baseline viewing levels, SEC testing: With respect to baseline viewing levels of fund reports, study participants and online respondents reported high levels of awareness and accessibility. The SEC's 2011, *"Investor Testing of Mutual Fund Shareholder Reports,"* indicates that baseline *awareness* levels ranged from 86% to 91%, depending on the sample group. Baseline *viewing* levels ranged from 74% (for a small "homework group" sample) to 97% (for an online sample).[9]

2. Results of two new surveys. Among other things, these show that the proposed method has the potential to be very unpopular with mutual fund investors and that it entails greater costs for older investors:

- **a.** In June, 2015, Broadridge commissioned Forrester Research to assess the impact of the proposed rule on future behaviors of mutual fund investors who recalled receiving fund reports in the past 12 months. **Those who said they would be likely to look at fund reports under current methods outnumber those who**

[9] *"Investor Testing of Selected Mutual Fund Annual Reports (Revised)." Submitted to: U.S. Securities and Exchange Commission, Feb. 9, 2012.* Ninety-one percent of the "homework group" recalled having received a fund annual report and 74% said they read or scan some or all of it. Eighty-six percent of the "online survey" group recalled having received a fund annual report and, of the respondents who recalled having received a fund report, 97% said they read or scan some or all of it. Refer to pages 60, 61, 67 and 69.

said they would be likely to look at fund reports under the proposed method by a factor of 3 to 1. [10]

b. True North Market Insights ("TNMI") was also asked to conduct an online survey of 1,000 mutual fund investors in June, 2015. The findings on baseline awareness and viewing are directionally consistent with the SEC's testing and with the assessment by Forrester. Eighty-nine percent of respondents indicated they are aware of fund reports. Among recipients of fund reports by mail, a total of 92% indicated they look at them […Always (36%), Most of the time (31%), or Some of the time (26%)] versus only 8% that said they "Never" look at the reports. (Differences due to rounding). [11]

Over 92% of the 1,000 respondents said that receiving reports by mail or email would make them *most likely* to look at them (i.e., 53% said receiving the reports by mail would make them *most likely* to look and 39% said receiving an email with a link would make them *most likely* to look). By comparison, only 7% of the 1,000 respondents said a mailed notice would make them *most likely* to look at fund reports. (Differences due to rounding) [12] We note that this survey data is directionally consistent with the percentages of fund investors that have elected e-delivery or receive reports by mail.

c. **By primarily impacting investors who receive reports by mail, the proposal introduces disparate treatment into fund report delivery and accessibility.** As responses to the Forrester survey show, the preference for the current method is even more pronounced among older shareholders. By a factor of 4 to 1, shareholders ages 65 and older say they would prefer to look at shareholder reports by current methods rather than the proposed method. Refer to chart below.

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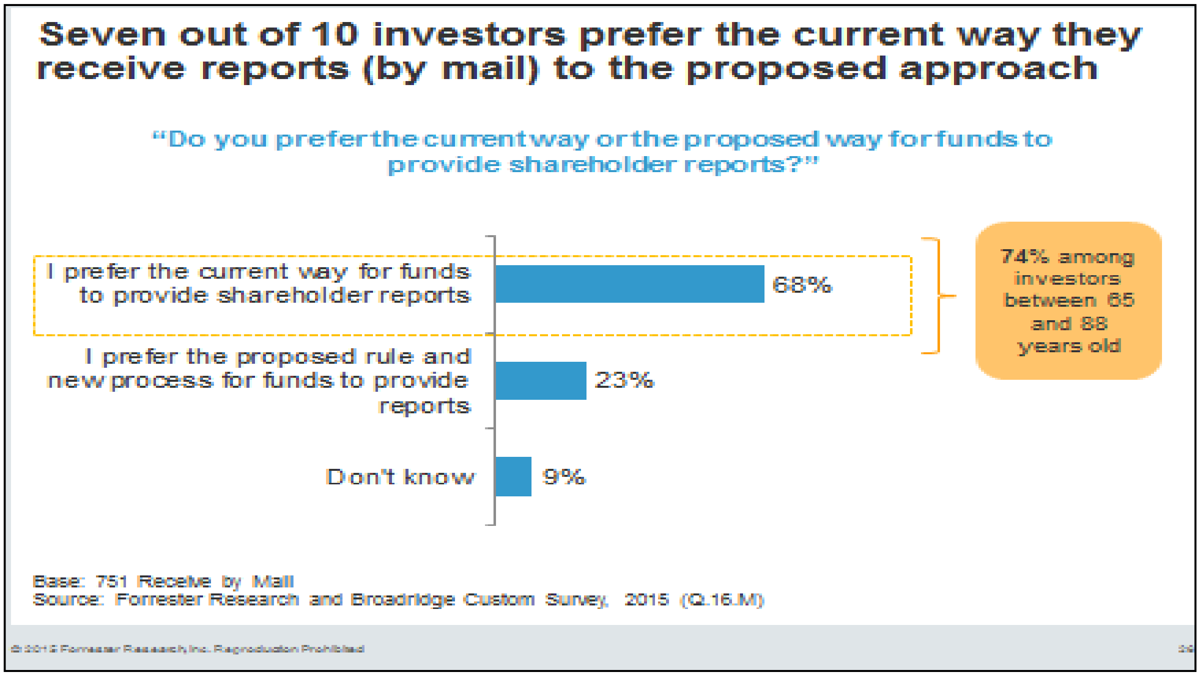
[10] "*How Might the Proposed Rule on Accessing Annual and Semiannual Mutual Fund Reports Affect Investor Behavior", August 7, 2015,* a commissioned study conducted by Forrester Consulting on behalf of Broadridge Financial Solutions, Inc.; Q.10.M.R3 and Q.14.M.R3; "Would the proposed rule make you more likely or less likely to look at your annual and semiannual fund reports in the future?" (Base: 659 investors who say they receive reports by mail and look at them.)

[11] *"Annual Report and Semi-Annual Report Notification Study: Understanding the impact of providing investors with mutual fund and ETF report notifications," June, 2015, True North Market Insights*. Online survey commissioned by Broadridge. Q.1. "Do you recall receiving a mutual fund or ETF annual or a semi-annual report in the past 12 months?" (Base = 1,002, 889 said yes). Q.5. "How often do you look at the annual and semi-annual reports that are mailed to you?" (Base = 407 recipients by mail, Always, Most of the time, Some of the time)

[12] *"Annual Report and Semi-Annual Report Notification Study: Understanding the impact of providing investors with mutual fund and ETF report notifications," June, 2015, True North Market Insights*. Q10. "Which of the following would make you *most likely* to look at an annual or semi-annual report?" (53% say receiving by mail, 39% say receiving an email with a link, and 7% say receiving a mailed Notice. Q11. "Which of the following would make you *least likely* to look at an annual or semi-annual report?" (23% say receiving by mail, 25% say receiving an email with a link, and 51% say receiving a mailed Notice.)

Both recent surveys indicated that the percentage of reports sent by mail is not evenly distributed across investors in different age groups. The proposal will add a comparatively greater burden to older investors than to younger investors.



3. Notice & access for proxies had a significantly negative impact on investor participation.

The negative impact of the notice & access delivery method on proxy participation (both viewing and voting) was immediate and has been persistent.[13] On February 19, 2015, the SEC convened a roundtable, "Retail Participation in the Proxy Process," to bring participants in the proxy process together to discuss their concerns.[14] Panelists presented information on the ill effects of the notice & access delivery method for proxies and offered practical ideas and insights for improving the participation of retail investors. For example, they discussed the use of summary information, "smarter" packaging, reducing the number of steps required to participate, and ways to help investors better understand why the information is important to them. Aspects of what the panelists discussed are

[13] Prior to adoption of N&A for proxies, Forrester and comScore Networks confirmed that over 80% of retail shareholders were looking at proxy materials some, most, or all of the time when delivered by mail. Refer to ADP comment letter to SEC on File No. S7-10-05, February 13, 2006.

[14] In opening remarks at the roundtable, Chair White stated, in part, "…facilitating retail shareholder participation is the broader issue and one that we and market participants have struggled with over the years. Greater and more meaningful participation by retail investors is of fundamental importance and we're hoping that today's discussions can spark ideas for not only what we can do but also ideas of how market participants can identify steps that can be taken on their own."

relevant to the discussion of the proposed Fund Notice & Access rule, yet the proposal does not reflect any of the ideas and insights they offered.[15]

Broadridge has regularly provided statistics on the impact of the proxy notice & access experience on investor viewing of proxy information and on investor voting, as well as a quantification of the cost savings to issuers. Over the years, the data have been thoroughly analyzed. Measurements have controlled for differences in account holders, issuers, delivery methods, and other variables. The data on notice & access for proxies are conclusive: viewing levels and voting levels were dramatically reduced by the notice & access method:

- Viewing levels with mailed notices fell immediately and precipitously from pre-notice & access levels and have remained consistently low, at less than one-half of one percent.[16]

- Voting response rates with mailed notices also fell immediately by over 80% from pre-notice & access levels. They have remained at under 5%.

4. Disappointing statistics for fund companies using proxy notice & access over the recent twelve months

The data show that the viewing impact of the proxy notice & access method on mutual fund shareholders is even more pronounced than it is on equity shareholders. In the twelve months ending May 30, 2015, seventeen fund companies used the notice & access method for their shareholder meetings. Of the over 1.9 million shareholders that received a mailed notice, less than two-tenths of 1% (or 3,498 shareholders) went to the website and clicked on "Read Materials."

5. The negative impact of the proposed rule's change in "defaults" on investor viewing and participation is predictable.

The proposal suggests that because people generally use the Internet for all sorts of things today, they will logically use it to access shareholder reports when they are told by mail where to find them, even if they do not access or look at fund reports online today. This hypothesis was advanced by the SEC in 2005 when notice & access rules were first proposed for proxies. Regarding the belief that a mailed notice would increase proxy participation, SEC Chair Christopher Cox said:

[15] Refer to SEC Roundtable on February 19, 2015 -- comments by Alan Beller, former Director SEC Division of Corporation Finance, Bob Schifellite, President Broadridge Investor Communications Solutions, John Blajkowski, President, American Association of Individual Investors, Reena Aggarwal, Professor of Finance, Georgetown University, and others.

[16] "Ensuring the Proxy Process Works for Shareholders," Commissioner Luis A. Aguilar, U.S. Securities and Exchange Commission, SEC Roundtable on Proxy Voting, Washington, D.C., February 19, 2015

> *We want to help shareholders get all the information they need in order to make their decisions. Several of the SEC's proposed rules over the past few months are aimed at doing just that.*
>
> *Take our electronic proxy proposal…By giving investors more, and importantly, more usable information we can enable increased participation by better informed shareholders.*
>
> *A postcard-sized notice would apprise shareholders of the availability of their proxy materials on the Web. By going online, they could search the proxy statement for the items they want, and follow links to other, more detailed information. They could do everything they do now with paper proxies, just more of it, and faster and more efficiently. Investors who want paper in addition, or instead, would simply call a toll free number.*
>
> *With more than 75% of Americans having access to the Internet — and spending an average of 25% of their waking hours online -- it's high time to bring this revolutionary technology to the world of shareholder democracy.*[17]

Despite the documented reduction in viewing and voting of over 80%, an analogous hypothesis is being advanced again for fund reports. These hypotheses miss the larger point. Notwithstanding the differences in the content and purpose of fund reports and proxies, the empirical data, and the surveys, the proposal's negative impact on practical access levels is predictable because it changes the underlying "default" on how the information is accessed and viewed.

6. A substantial body of behavioral research on defaults, "switches," and "nudges" in a variety of applications is clear and irrefutable: when there is a change in the default, individuals typically take no action. They neither opt-in nor opt-out, even when it is in their best interest.

Behavioral research makes clear that new, seemingly small steps in a process, such as those introduced by notice & access, can pose "psychological factors" that block effective access to information. "Implied" consent is a weak reflection of actual willingness, yet that is the standard upon which the proposal is based.

The negative impact of notice & access in the proxy area is well known. White papers by Eric Johnson and Sendhil Mullainathan are on file together with Broadridge's comments on the proxy notice & access proposal. These eminent behavioral economists summarized the available research on defaults, including Thaler and Bernatzi, as well as forty other studies on defaults, and they proved to be remarkably prescient. The decrease

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[17] "Remarks Before the Committee for Economic Development," SEC Chairman Christopher Cox, March 21, 2006

in viewing was immediate and persistent. Their observations and the empirical data stand in stark contrast to the proposal's assertion that access would increase.[18]

Notice & access causes reductions in viewing, as seven years of statistics in the proxy context show. (Refer to seven year statistics on notice & access in the appendix.)

In his 2006 paper, titled "Defaults and Deciding to Use Information**,** A White Paper Reviewing the Role of Defaults in Decision Making: Implications for Investor Participation in the Proposed Notice and Access Scenario," Eric J. Johnson, Columbia Business School, stated:

> *"Of course, the current protocol for information provision does have its costs, and a targeted benefit of the proposed regulation is significant cost savings for public companies. However, existing data provides an important cautionary note: Such a system could decrease use of information and participation in voting by investors. Given that danger, the SEC might well want to proceed with caution."*

And in their 2006 paper, titled *"Channel Factors That Block (Psychologically) Effective Access: Unforeseen Risks of the Proposal on "Internet Availability of Proxy Materials,"* Daylian M. Cain and Sendhil Mullainathan, Harvard University, stated:

> *"We worry that Notice and Access may provide lower levels of psychologically effective access than those provided to investors today. The evidence cited so far hopefully makes clear that apparently small barriers to access and changes in the status quo can effectively deter access. There are good reasons that the SEC would demand that shareholders be at least mailed "notifications" of the presence of online proxy materials, rather than merely leaving it up to shareholders to "check online, from time to time." Likewise, there are good reasons to put substantial information into the actual hands of investors. As a default, consumers should receive enough information to make informed decisions, though perhaps not so much as to overwhelm them. The information in-hand should be sufficient to inform investors and provide sufficient momentum towards maintained participation. At the very least, it is our strong belief that any proposed method of shareholder notification (and even the current) ought to be properly tested to assess its true effectiveness."*

[18] Regarding the proposed delivery option, the SEC states, "We believe it would improve the information's overall accessibility…" (Refer to page 149 of the proposed rule).

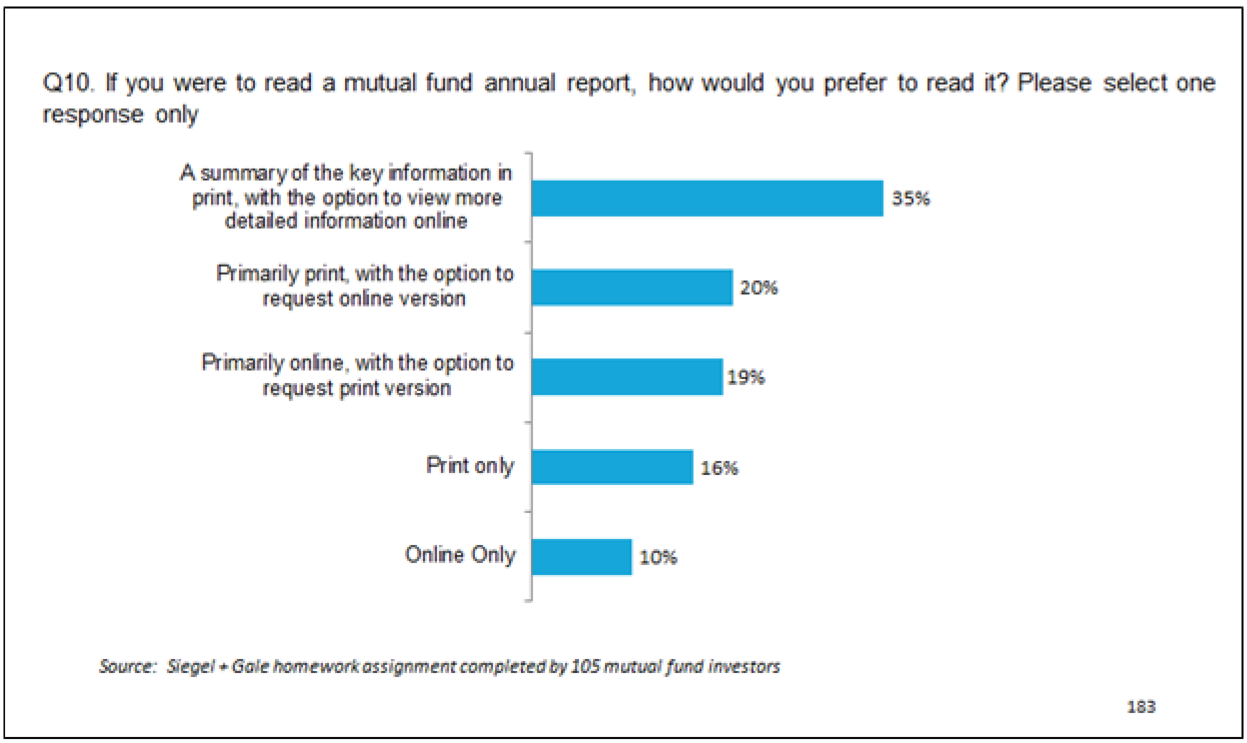
IV. References to Valid Data and Studies Contained in the Proposal

The proposal makes reference to valid SEC surveys and research but omits some of their most relevant findings.

The proposal references the SEC's 2011 study, "Investor Testing of Mutual Fund Shareholder Reports," but fails to mention specific findings on how individuals say they would prefer to read mutual fund annual reports.[19]

Q.10: "If you were to read a mutual fund annual report, how would you prefer to read it?"

Seventy-one percent of respondents in the "homework group" said they prefer to read annual reports in some form of hard copy, that is: 35% prefer a summary in print with an option to view detailed information online; 20% prefer print with an option to request online; and, 16% prefer print only. On the other hand, 29% of respondents said they prefer to read annual reports online (i.e.: 19% prefer online with an option to request print; and 10% prefer online only).



We note that the SEC sample group's stated preferences were strikingly aligned with the actual percentages of investors who were receiving materials electronically and by mail at that time. This supports the point that investors who want the reports electronically are getting them electronically.

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[19] The proposal does not cite the findings from Q.10. Refer to Siegel & Gale report, p. 183.

The proposal also references research by the Pew Research Center showing growing Internet usage. Yet it does not mention that growth in Internet usage is driven in part by a greater penetration of mobile devices whose use to access regulatory reports on the Internet would add costs to investors. Pew's research indicates that 91% of U.S. adults have a mobile device and that 34% of mobile users go online mostly using their mobile phones. Pew also reports that large numbers of users often experience slow download speeds. Many say they frequently "max out" on their monthly-minute plans. Pew reports that Internet access, exclusively by mobile device, is a phenomenon that is skewed to younger people and those with lower income and educational attainment levels. Although use of the Internet is growing, the proposal does not estimate these potential impediments to current or future mutual fund shareholders.[20]

The proposal also cites valid studies showing that more individuals than ever before use the Internet. But it uses broad, macro observations to make the large and unsubstantiated leap that more investors would seek out and look at fund reports online if notified where to find them. The recent surveys of mutual fund investors indicate that use of the Internet varies significantly by application and purpose. This is intuitive. For example, large numbers of fund investors say they frequently use the Internet to plan vacations, manage bank accounts, or interact socially, but lower numbers say they use it to look at regulatory filings or read annual reports.[21]

In the Forrester study, 50% of the respondents aged 25-34 who say they look at fund reports indicate they "save them and refer to them as needed." By comparison, 30% of all respondents that look at reports say they save them.[22] Forrester's survey also confirms that not all Internet users use it for all purposes. Whereas 87% of respondents indicated that they have managed a bank account online during the past six months, 48% indicated that they researched mutual funds or other investing topics, and only 26% indicated that they used it to read company annual reports.[23]

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[20] Refer to *Mobile Technology Fact Sheet, October, 2014* and related information published by the Pew Research Center, Internet, Science & Tech at www.pewinternet.org.

[21] *"Annual Report and Semi-Annual Report Notification Study: Understanding the impact of providing investors with mutual fund and ETF report notifications," June, 2015, True North Market Insights*. Q.24.

[22] "*How Might the Proposed Rule on Accessing Annual and Semiannual Mutual Fund Reports Affect Investor Behavior"*, August 7, 2015, a commissioned study conducted by Forrester Consulting on behalf of Broadridge Financial Solutions, Inc.; Q11.M "Which of the following represents what you do with annual reports and/or the semiannual reports after you have reviewed them?" (Base = 113)

[23] *How Might the Proposed Rule on Accessing Annual and Semiannual Mutual Fund Reports Affect Investor Behavior"*, August 7, 2015, a commissioned study conducted by Forrester Consulting on behalf of Broadridge Financial Solutions, Inc.; Q.02.DM, "Which of the following activities have you performed on the Internet in the past six months?" (Base= 751 Receive by Mail)

V. Comparative Cost Savings Analysis: Alternatives to Fund Notice & Access

The Fund Notice & Access option is estimated to save funds $18 million (or $0.02 per report) in fiscal year 2018. By comparison, the cost savings from the alternatives are estimated to be $203 million for the e-delivery option and $130 million for the summary report option (or $0.28 and $0.18, respectively, per report).

We estimate that approximately 75% of fund positions are held in street name and 25% of fund positions are held directly with the funds themselves. These estimates apply to the street. When proxy notice & access rules were first proposed, Broadridge commented that the rules would have a neutral to somewhat positive impact to it from a financial perspective but that the new method would reduce viewing and voting levels by individuals. The processing complexities of Fund Notice & Access are similar to those of proxies, and we believe the outcome would be similar if the proposal is adopted.

Based on our experience with proxy notice & access, we believe there are two alternatives to the proposed Fund Notice & Access method that are less complex and costly to process and that do not have the proposal's negative impact on viewing levels. These two alternatives are:

> **1. The continued growth in the use of e-delivery.** This requires no change to current SEC guidance on the use of electronic delivery and results in the greatest savings.
>
> **2. A summary report delivery option, modeled after the SEC's successful summary prospectus delivery option.** This alternative would result in more savings than the Fund Notice & Access option and provide investors with key information in a more user-friendly format, without a change in the underlying default for that information. A summary report could incorporate detailed information by reference to a complete report on the Internet.

Methodology for quantifying proposed rule 30e-3's delivery cost savings for Fund Notice & Access and comparing them to our two suggested alternatives.

Based on empirical data and sound estimates, the proposal provides little cost savings to funds overall. We quantify the cost savings based on the assumptions found below. We also quantify the savings that would derive from the two alternatives.

- **Scope:** The analysis covers the printing (paper, envelopes, and forms), postage, and processing fees for reports of funds and ETFs held in street name. If an investor holds 1,000 shares of a large-cap growth fund in her brokerage account, she holds one "position" and she would be delivered two reports for that fund (an annual and a semi-annual report). We estimate that approximately 75% of fund positions are held in street name and 25% of fund positions are held directly with the funds themselves. Our estimates *exclude* funds held in employer-sponsored retirement plans and direct-sold funds.

- **Estimate of the current cost baseline:** We include a full year of recent data. Because Broadridge reports on the basis of its fiscal year, the current baseline includes data for the twelve months ending June 30, 2015. For those 12 months, we estimate the industry spent $354 million on printing, postage and processing fees for processing street positions and distributing reports for funds held in street name. This includes fees for electronic delivery, householding, and other consolidations which resulted in printing and postage cost savings to fund companies on nearly 60% of all street positions held.

- **Estimate of the baseline, three years from now:** Appreciating that proposed rules take time to be adopted and implemented, the estimates reflect the rapid pace of ongoing technological advancement. The three-year baseline reflects the continual improvement that is expected to occur without the proposed rule. Over the next three years, the number of fund positions is estimated to grow by approximately 7% annually. Because e-delivery has been increasing rapidly, at over 20% annually, *industry spending on a per report basis will continue to decrease every year*. E-delivery continues to make the entire process more efficient. Industry spending on a per report basis decreases with greater adoption of e-delivery and, therefore, baseline spending grows at a slower pace than the number of fund positions processed. Industry spending is forecast to be $382 million in FY18 without the adoption of the proposed rule.

- **Printing costs**: These are based on actual costs for notices and industry estimates for digests and complete reports; they are held constant. Printing costs include paper, forms and envelopes. The model is based on the current mix of digests and lengthier reports, and an average size for annual and semi-annual reports; these factors also are held constant.

- **Postage costs:** These are based on USPS rates and are held constant.

- **Processing fees:** These are based on NYSE-regulated rates for an "Interim" communication (i.e., $0.15 per position processed and $0.10 suppression incentive applied to e-deliveries).

- **Fund Notice & Access option:** The Fund Notice & Access option for mailing fund reports assumes that 90% of all mailed deliveries are instead sent as notices and 10% of mailed deliveries are sent as complete reports based on standing consent. This is for the mailed portion of deliveries which, as indicated above, is projected to become a decreasing proportion of all deliveries. The model *excludes* costs associated with fulfilling new requests for mailed reports (such as first class postage for reports sent by a new request). Fund Notice & Access processing fees are estimated using NYSE-regulated rates for proxies. [24] The model applies

[24] Recently, proxy notice & access fees were extensively reviewed and analyzed by a New York Stock Exchange ("NYSE") Proxy Fee Advisory Committee (2011-12). The Committee acknowledged the significant incremental work to implementing the notice & access delivery method, and after an extended period of public comment, the Committee's recommendations on fees were codified in NYSE regulations

these fees on the basis of job size "tiers" (that range from $0.05 to $0.25 depending on size). E-delivery volumes are unchanged from baseline levels. The model assumes all funds utilize the option in each baseline year.

- **Summary report option:** This assumes all of the mailed report deliveries are instead sent as summary reports (4 pages in length). E-delivery volumes are unchanged from baseline levels. The model assumes all funds utilize the summary option in each baseline year.

- **E-delivery option:** This assumes 100% of all deliveries are sent electronically in each baseline year.

- **Initial Statements**: The estimates *exclude* costs for mailing Initial Statements.

- **Combined mailings:** The estimates *exclude* potential cost savings from combining fund reports with other mailings.

- **Start-up, development and capital investment**: These are *excluded* from the model.

Findings: The notice & access option is estimated to save funds $18 million (or $0.02 per report) in fiscal year 2018. By comparison, the cost savings from the alternatives are estimated to be $203 million for the e-delivery option and $130 million for the summary report option (or $0.28 and $0.18, respectively, per report).

	Industry Spending (Printing, Postage and Fees)		FY18 Savings Opportunity (vs. FY18 baseline)	Net Savings Per Report (vs. FY18 baseline)
	FY15 ($m)	FY18 est. ($m)	FY18 est. ($m)	FY18 est. ($)
Baseline	354	382	-	-
Notice & Access Option	318	364	18	0.02
Comparison of the Alternatives				
E-Delivery Option	144	179	203	0.28
Summary Report Option	221	252	130	0.18

which went into effect with the SEC's approval in early 2014. Refer to "Recommendations of the Proxy Fee Advisory Committee to the New York Stock Exchange, May 16, 2012."

- **Fund Notice & Access option**

In comparison to a proxy statement (and annual report on Form 10-K) which typically contains many more pages to print, and greater postage cost, the savings for a fund report are simply less significant to begin with. On a total industry basis, the incremental savings of the proposed option are estimated to decrease from $36 million in FY15 to $18 million in FY18, in comparison to baseline spending levels in those years. On a per report basis, the net savings of mailing a notice are de minimis, at $0.02 per report. Considering a $10,000 initial investment by a fund investor, the savings difference would amount to 0.2 basis points over a five-year period. (Two reports per year @ $0.02 savings per report x five years = $0.20, or 0.2 bps on an initial investment of $10,000.)

A notice is somewhat more costly to print than a four-page summary report (because, for example, notices enclose a form and business return envelope). Moreover, the incremental processing costs of using the Fund Notice & Access method would significantly erode the savings of printing a smaller mailing. By contrast, use of e-deliveries and summary reports does not entail additional notice & access processing complexities and costs.[25]

The Fund Notice & Access method adds a third delivery alternative (i.e., a mailed notice) to the two existing methods of delivery (i.e., e-delivery and mailed full reports). The processing complexities of Fund Notice & Access are similar to those of proxies. As proposed, the requirements would involve, for example: a new control number system for managing client-specific information; systems development for identifying and processing "implied" consents; capacity and modification of notice processing equipment; and, among other requirements, new workflow to manage and merge three different production streams within the same notice "job." (Refer to additional details provided below.) Our estimates of the proposal's costs utilize the NYSE's current regulated and tiered fees for proxy notice & access – the estimates apply those fees on the basis of fund job size.

- **E-Delivery option**

The technologies provided by Broadridge and its broker and fund clients will continue to reduce the net unit cost of delivering fund reports. An e-delivery is less expensive than mailing a complete report, or a notice, or a summary report; the NYSE incentive fee is far lower than the printing and postage costs. If e-delivery were used to send all of the reports which would otherwise be mailed, the incremental savings to the industry would be an estimated $203 million in FY18, in comparison to the projected baseline for that time period. Even under current SEC guidance for e-delivery, without a change in rules, the incremental annual savings of sending 59% of all deliveries by email amounts to over $100 million.

---

[25] A vast majority of mailed fund reports are posted as bulk mail. Because the lowest bulk postage rate tier is for items weighing less than 3.3 ounces, there would be little postage savings from mailing notices or Summaries in place of complete reports.

- **Summary Report option**

Use of summary documents for all physical mailings would also result in substantial incremental savings, approximately $130 million in comparison to the projected baseline in FY18. Mailed summaries are less expensive than mailed reports and mailed notices, but more expensive than e-deliveries.

The SEC's summary prospectus delivery option is a success by many measures. It results in significant cost savings to funds and brokers and affords investors a more user-friendly, "accessible," and understandable format.[26]

The greater use of summary documents is a key recommendation of the SEC's Dodd-Frank mandated "Study Regarding Financial Literacy Among Investors." This recommendation is not mentioned in the proposal. Among the financial literacy study's observations was a conclusion that summary documents should be used for investment products or services "wherever possible." Key findings on the timing, content, and format of disclosures are found in the executive summary to that report, and include verbatim the following from page IV:

- *"Investor preferences are mixed with respect to the method of delivery. Some investors prefer to receive certain documents in hard-copy, while others favor online disclosure.*

- *With respect to the format of disclosure documents, investors prefer that disclosures be written in clear, concise, understandable language, using bullet points, tables, charts, and/or graphs.*

- *Investors favor "layered" disclosure and, wherever possible, the use of a summary document containing key information about an investment product or service."*

[26] Summary Prospectuses were used last year by over 82% of the fund CUSIPs for distributions comprising over 90% of the mailed volume. Based on Broadridge's processing statistics the total savings to investment companies and broker-dealers exceeded $100 million.

VI. Critical Role of Broker-Dealers

The proposal would require the substantial participation of broker-dealers on the street side.

The proposal does not address the critical role brokers play in forwarding communications to client accounts that hold the vast majority of funds in street name. Brokers would continue to act as intermediaries between investment companies and investors while performing the additional work necessary to process Fund Notice & Access jobs. This can have many practical purposes including, for example, the convenience to investors of accessing fund reports at one familiar site for all positions held rather than accessing each of the reports at a different fund company site. None of this additional work or cost appears to have been contemplated in the proposal.

The notice option would entail capital investment, ongoing systems development, and additional processing costs for brokers. Examples of the proposal's additional work effort potentially include the following aspects, among others:

- Notification of new accounts
- New fulfillment processes and obligations: toll-free number and automated response; return card processing; and by website (three-day turnaround on requests for printed copies of reports)
- New control number system would serve a number of purposes that make the entire process more efficient and effective including, for example,
    - to identify shareholders without the risk of disclosing personally identifiable information
    - to capture and process new consent types
    - to provide easy access to the current report for each specific CUSIP
    - to measure process quality and performance
- New consent options for shareholders include, e.g., "implied" consents (resulting from non-response to mailings of Initial Statements) as well as affirmative opt-in consents for complete reports
- New systems and processing for consent options, e.g., for applying consents to all positions within a brokerage account
- Multiple distribution alternatives and production streams within each job
- Potential stratification of shareholders (e.g., mailing reports to a segment of shareholders, mailing notices to others)
- A variety of mail consolidation opportunities and their associated processing requirements
- Sufficient infrastructure for any and all funds that choose to use the new method, including for spikes in activity at different times of the year
- Sufficient infrastructure for any and all shareholders that opt in for hard copy reports

Fund Notice & Access will necessitate the use of control numbers, or their functional equivalent, for several reasons. For example, control numbers make it easier for recipients of a mailed notice to view a report by typing in a relatively limited number of characters on a familiar centralized site.[27] In a recent sample of fund URLs sent as links contained in email messages, we found that URLs ranged from 20 to more than 100 characters in length! Furthermore, many of these sites use 'cookies' that track the user of the site.[28] Under a mailed notice option, these lengthy URLs would need to be typed into a browser. Use of a control number would eliminate this practical impediment for many investors. A control number would be tied to each unique position held, and it would lead the investor directly to the right report.

We believe a control number is necessary also because the proposal gives shareholders options that are not available today, e.g.: accept or reject the "implied" consent on the Initial Statement; change a standing preference after receipt of a notice; and request fulfillment on a case-by-case basis. As the following examples illustrate, there are no practical or effective means for broker-dealers to process these options without a control number:

- Today, the primary option available to a shareholder is whether or not to consent to electronic delivery. This process will continue to require positive identification by either the broker-dealer or its agent for street name investors using login credentials, enrollment numbers, and/or other unique account information known only to the shareholder and broker-dealer.

- When shareholders receive Initial Statements by mail, they may elect to receive mailed reports at the series level or, potentially, at the account level in the case of street ownership. To make an election to receive mailed reports going forward, a shareholder may return a form or call a toll-free number. The most effective and reliable way to process this election for each shareholder is with a control number, or its functional equivalent, provided in the initial notice; it would uniquely identify the shareholder's account and holdings information and enable timely updates to new databases and systems.

- Similarly, when shareholders receive notices by mail, they may request mailed reports going forward by returning a form or calling a toll-free number. The information the shareholder provides must include the information that the broker-dealer would need to identify the shareholder. There is no practical way to do this without the means of a control number.

- When a shareholder receives a notice by mail, he or she may request a mailed report for the specific report referenced in the notice. There is no practical

[27] With proxy notice & access, an analogous broker provided centralized site enables investors to view reports, enroll in electronic delivery, and request mailed reports.

[28] The proxy notice & access rules specifically require sites hosting documents to be 'cookie free' to protect the identity and other information of the shareholder.

alternative means to identify the shareholder and the specific document being requested without a control number.

VII. Conclusion

Broadridge and its broker-dealer and fund clients have long been investing in technologies and processing services that provide mutual fund investors with efficient and timely delivery of regulatory information by the methods investors prefer – including by electronic delivery consistent with existing SEC guidance. One measure of progress in these respects is the growing acceptance by investors of electronic delivery of fund reports. Currently 43% of all deliveries of reports for funds held in street name are electronic, and we project this will grow to 59% in three years based on recent trends and the continued application of technological advances including "EBIPs" and popular digital delivery platforms which make the e-delivery experience more convenient and attractive to investors who now receive reports by mail.

In its simplest form, the proposal substitutes a mailed notice for a mailed report for those investors who have not requested e-delivery. This change would have a large, unintended impact on millions of individual investors who receive reports today by mail. The proposal would require these investors to look at information in a form (online) they do not currently prefer or "re-enroll" to receive their fund reports by mail. As a result, fewer investors would look at or read fund reports. Based on the evidence, the proposal will reduce by over 80% the number of these investors who look at the information.

The proposal postulates large benefits to funds in the form of reductions in expenditures on printing and postage. Yet, in comparison to a proxy statement (and annual report on Form 10-K) which typically contains many more pages to print, and greater postage cost, the savings for a fund report are simply less significant to begin with. Moreover, the proposal does not contemplate the significant work and incremental costs of processing notice "jobs." The savings benefits to funds are de minimis. In return for an estimated savings of $0.02 per report in fiscal year 2018 (or 0.2 basis points in total over five years on an initial investment of $10,000), the proposed method is projected to impact individual investors who hold an estimated 115 million fund positions in street name and cause a significant reduction in the number who look at fund reports.

Two alternatives to the notice method would result in significant savings to fund companies without the unintended reductions in investors looking at fund reports. The continued expansion by the industry in the use of current and emerging e-delivery technologies generates the greatest savings – and does so without a change in the rules. We estimate that full use of e-delivery would save fund companies approximately $203 million on printing, postage, and fees in fiscal year 2018. This is more than ten times greater than the projected savings of the notice option. Even under current SEC guidance for e-delivery, without a change in rules, the incremental annual savings of sending 59% of all deliveries by email amounts to over $100 million.

A summary report delivery option, modeled after the SEC's successful summary prospectus delivery option, would provide significant savings as well as key information in a more user-friendly format, without a change in the underlying default. In comparison to the Fund Notice & Access option, this alternative would result in estimated savings on printing, postage, and fees of approximately $130 million in fiscal year 2018.

Notwithstanding the data presented above, if the SEC should determine that the proposal is right for U.S. markets, Broadridge will work with its clients and the SEC to implement the rules as efficiently and effectively as possible for all funds that may choose the notice option.

Sincerely,

Charles V. Callan

cc: Maryjo White, Chair, U.S. Securities and Exchange Commission
Luis Aguilar, Commissioner
Daniel Gallagher, Commissioner
Michael Piwowar, Commissioner
Kara Stein, Commissioner
David Grim, Director, Division of Investment Management
Diane Blizzard, Associate Director, Division of Investment Management
Jennifer McHugh, Senior Advisor to the Director, Division of Investment Management

ATTACHMENTS

Analysis of Distribution and Voting Trends for Retail Shareholders: Seven Years of Proxy Notice & Access, August 11, 2015, Broadridge

"How Might the Proposed Rule on Accessing Annual and Semiannual Mutual Fund Reports Affect Investor Behavior", August 7, 2015, a commissioned study conducted by Forrester Consulting on behalf of Broadridge Financial Solutions, Inc.

"Annual Report and Semi-Annual Report Notification Study: Understanding the Impact of Providing Investors with Mutual Fund and ETF Report Notifications," June, 2015, True North Market Insights.

"Defaults and Deciding to Use Information**,** A White Paper Reviewing the Role of Defaults in Decision Making: Implications for Investor Participation in the Proposed Notice and Access Scenario," Eric J. Johnson, Columbia Business School, 2006.

"Channel Factors That Block (Psychologically) Effective Access: Unforeseen Risks of the Proposal on "Internet Availability of Proxy Materials," Daylian M. Cain and Sendhil Mullainathan, Harvard University, 2006.

Analysis of Distribution and Voting Trends for Retail Shareholders

Seven Years of Proxy Notice & Access

Submitted to SEC File No. S7-08-15: "INVESTMENT COMPANY REPORTING MODERNIZATION," August 11, 2015

Broadridge®

Overview

Scope of Analysis:

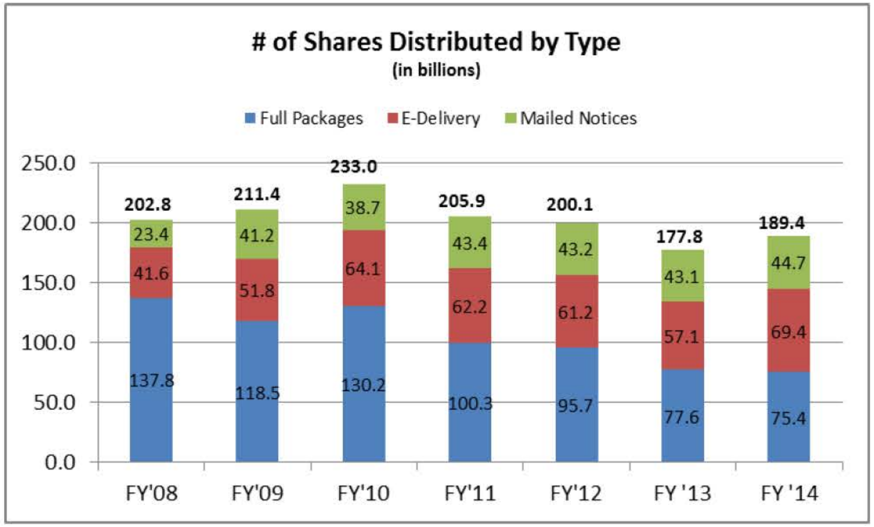
- Broadridge data for beneficial shareholder: retail proxy distributions and retail voting for seven fiscal years (i.e., 12-month periods ending June 30).
- Notice & Access rules for proxy went into effect on July 1, 2007 which, coincidentally, was the start of Broadridge's fiscal year 2008.
- Includes all U.S. distributions ("jobs") processed by Broadridge for equity shareholder meetings -- excludes contests, ADRs, mutual funds, and Canadian issuers. FY14 data omits one penny stock issuer

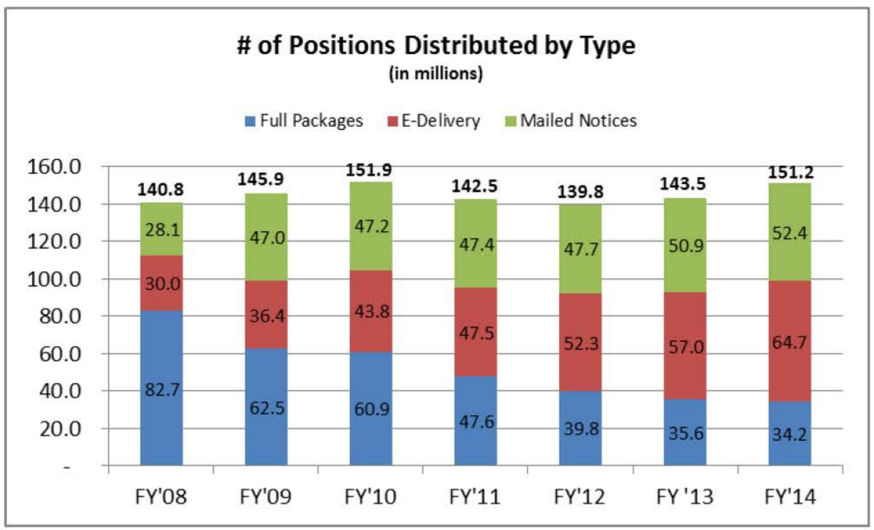
Definitions:

- Retail Position - A beneficial equity record position -- *excludes* record positions for ProxyEdge, the Consolidated Data Feed, Financial Advisors, and Managed Accounts.
- Retail Shares – Each retail position holds a particular number of shares, e.g., 1,000 shares of XYZ, Inc. When voted, then we count that as 1 position voted and 1,000 shares voted. In FY14, retail shareholders held 151.2 million equity positions which collectively comprised 189.4 billion shares.
- Full Package – A complete set of proxy materials mailed under traditional delivery rules or, for N&A , by fulfillment, stratification or prior consent.

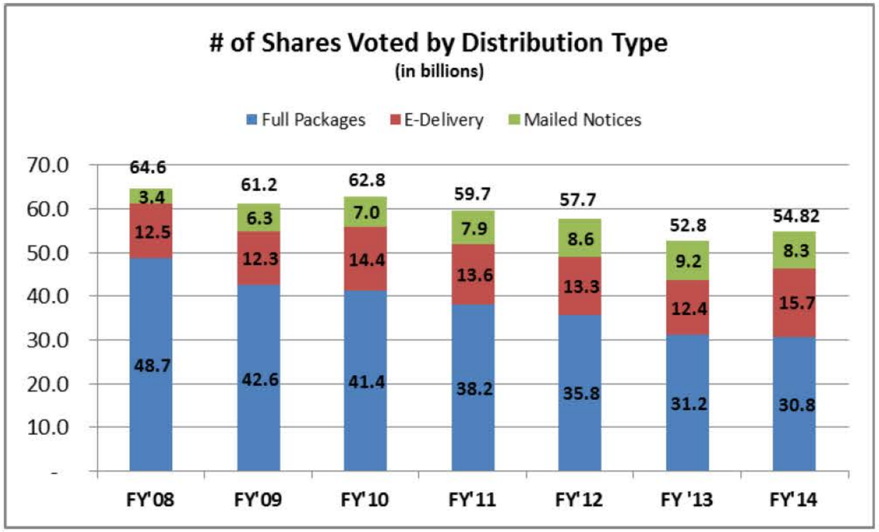
Retail voting participation is measured on the basis of "positions" and "shares."

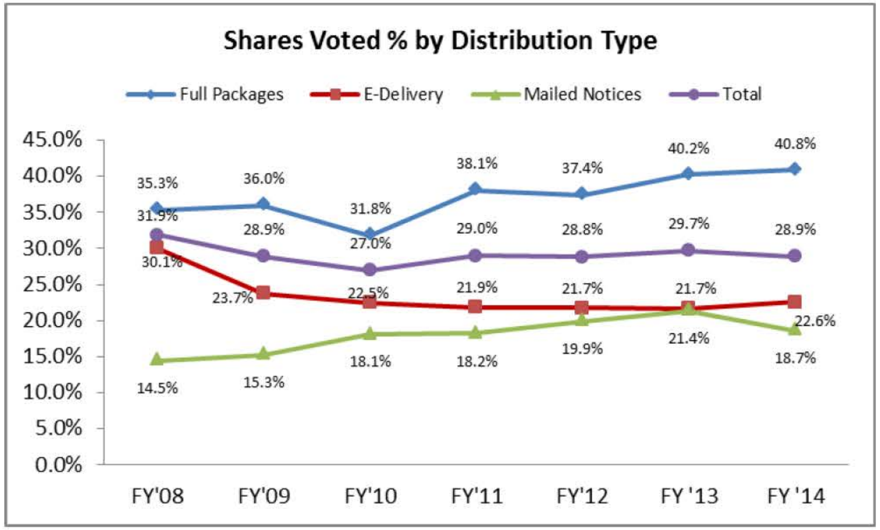
Retail Positions and Shares Distributed by Method of Distribution

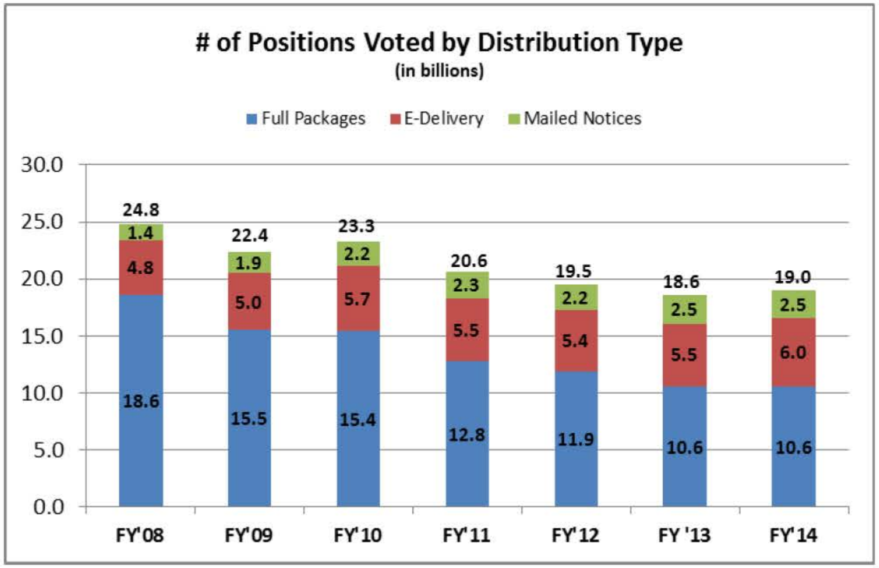


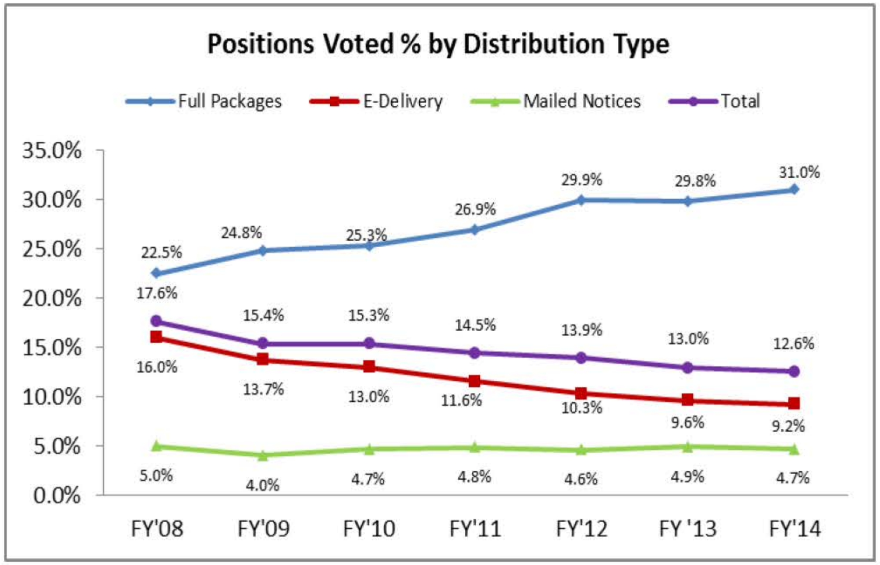


Retail Positions and Shares Voted – Resulting from Each Method of Distribution









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How Might the Proposed Rule on Accessing Annual and Semiannual Mutual Fund Reports Affect Investor Behavior?

Forrester Consulting Report for Broadridge Financial Solutions

Landon Barnes, Data Consultant

Laurence Bloom, Principal Project Consulting Manager

Shaili Desai, Consultant

Bill Doyle, Vice President, Principal Analyst

Sushil Keswani, Senior Research and Analytics Manager

Todd Kozan, Principal Consultant

August 7, 2015

Agenda

- *Project overview*
- *What the research reveals*
- *Current behaviors and preferences*
- *Impact of proposed changes on behaviors and preferences*
- *Recommended response positioning*

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Project overview

Project background

› In response to proposed SEC changes in how investors access annual and semiannual mutual fund reports, Broadridge Financial Solutions commissioned Forrester Research to assess the impact of the proposed SEC changes on future behaviors and preferences.

› The research addressed the following key question: How might the proposed rule on accessing annual and semiannual mutual fund reports affect investor behavior?

Study methodology

› A custom online survey was designed and administered to US individuals who hold mutual funds and/or exchange-traded funds (ETFs) in at least one of the following accounts:

  - Discount direct brokerage accounts
  - Advisor-based brokerage accounts
  - IRAs
  - Mutual fund accounts

› Only those respondents who recalled receiving shareholder reports in the past 12 months were surveyed. All survey respondents are involved in decisions on mutual funds and ETFs that they buy or sell.

Project overview (cont'd)

- The survey was fielded from June 19 through July 6 and yielded 1,037 completes.
- Survey respondents answered a series of questions about their current behavior and preferences. The proposed rule was then described to respondents in detail, and respondents answered questions regarding potential future behavior and preferences if the proposed change were to be implemented.
- The respondent sample is representative of mutual fund and ETF holders in the US. In order to have a representative population, quotas were applied on gender, age, education, and annual household income based on data obtained from Forrester's 2014 North American Consumer Technographics® Financial Services Survey.

Key definitions for subgroup analysis

- **Lookers:** Individuals who always, most of the time, or some of the time look at annual and semiannual mutual fund reports when they receive them.
- **Mail Receipt Lookers**: Individuals who receive fund reports by mail and are Lookers.
- **Non-Lookers**: Individuals who never look at shareholder reports when they receive them.

Agenda

- *Project overview*
- *What the research reveals*
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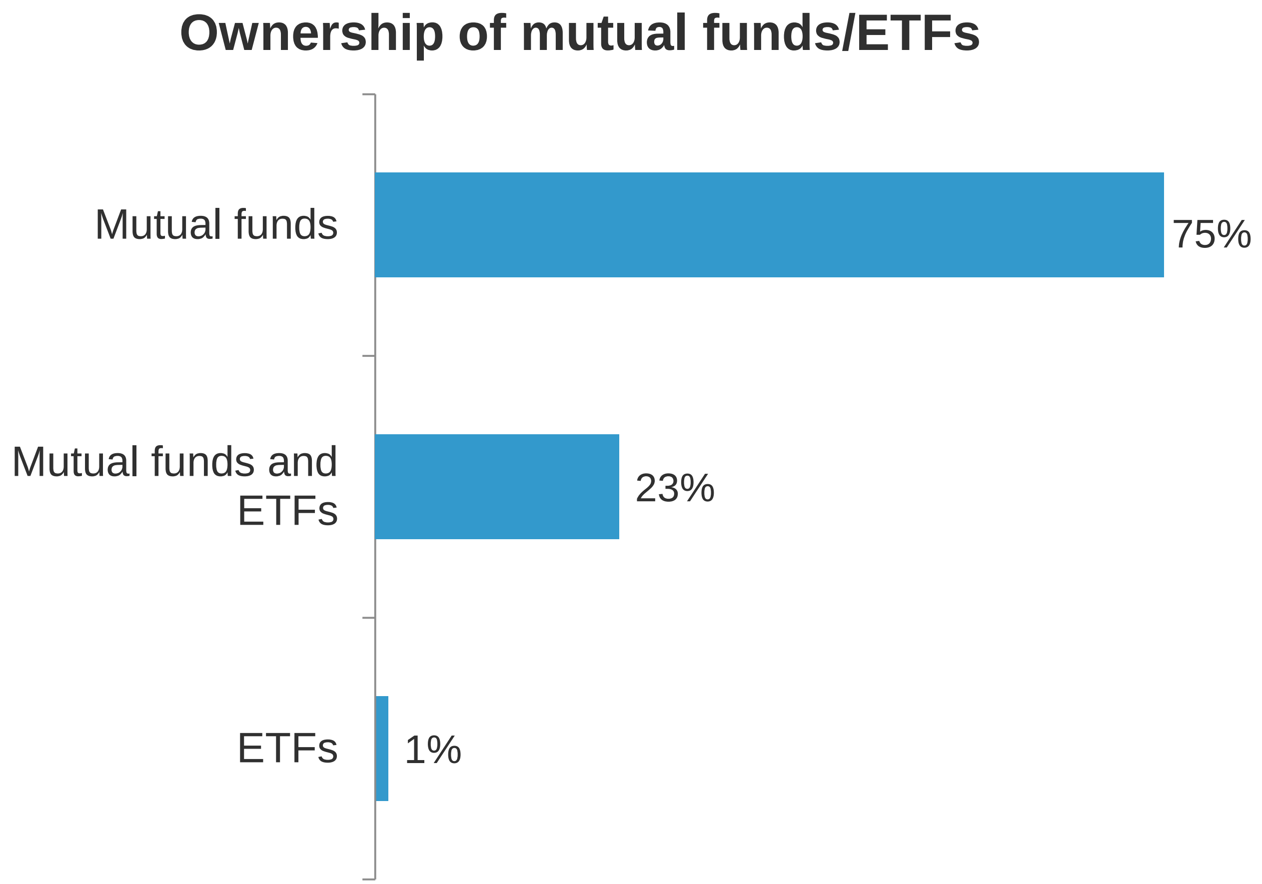
What the research reveals

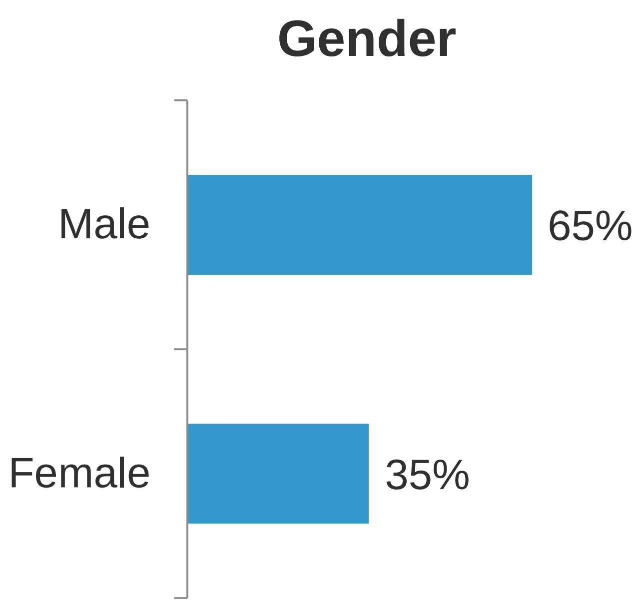
- A strong majority of respondents prefer to receive annual and semiannual fund reports by traditional mail; older investors in particular prefer the mail channel.
- A majority of respondents prefer the way they currently receive reports — by mail — to the approach proposed by the SEC. They not only value receiving the reports by mail as a means of making them aware of the reports, but many also save these mailed copies of the reports for future use.
- Among all the groups most affected by the proposed SEC change, those who look through reports they receive by mail (Mail-Receipt Lookers) are less likely to continue looking and reading these reports if the proposed SEC change is implemented.
- Respondents who do not favor the proposed rule believe that it will take additional effort and expense to obtain reports via mail, and they believe this change will add inconvenience.
- When presented with three alternative options, the majority of respondents say they would prefer to receive a summary report by mail. All investors across age groups and demographics agree that the most important piece of information is the performance summary.
- Forrester Consumer Technographics data supports the survey findings, as investors are already less likely to read annual reports online than to conduct many other online activities.

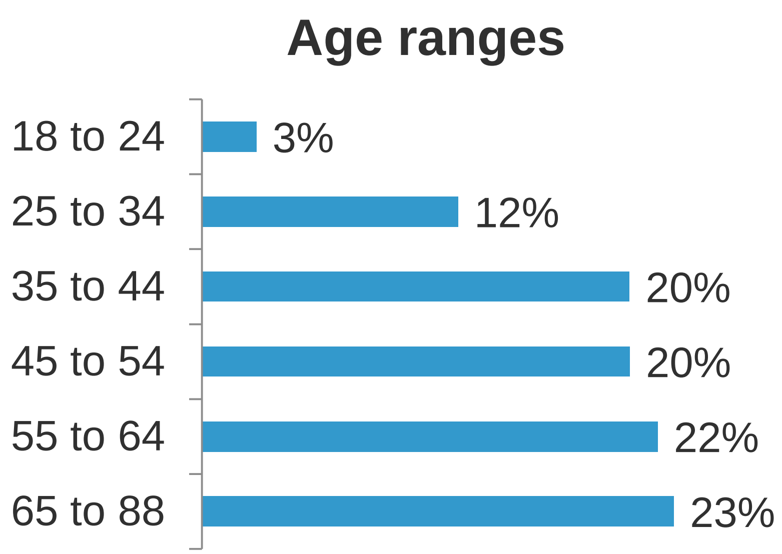
Nearly all respondents own mutual fund accounts



Base: 1,037 total respondents. Percentages do not add up to 100% due to rounding
Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.06.R)

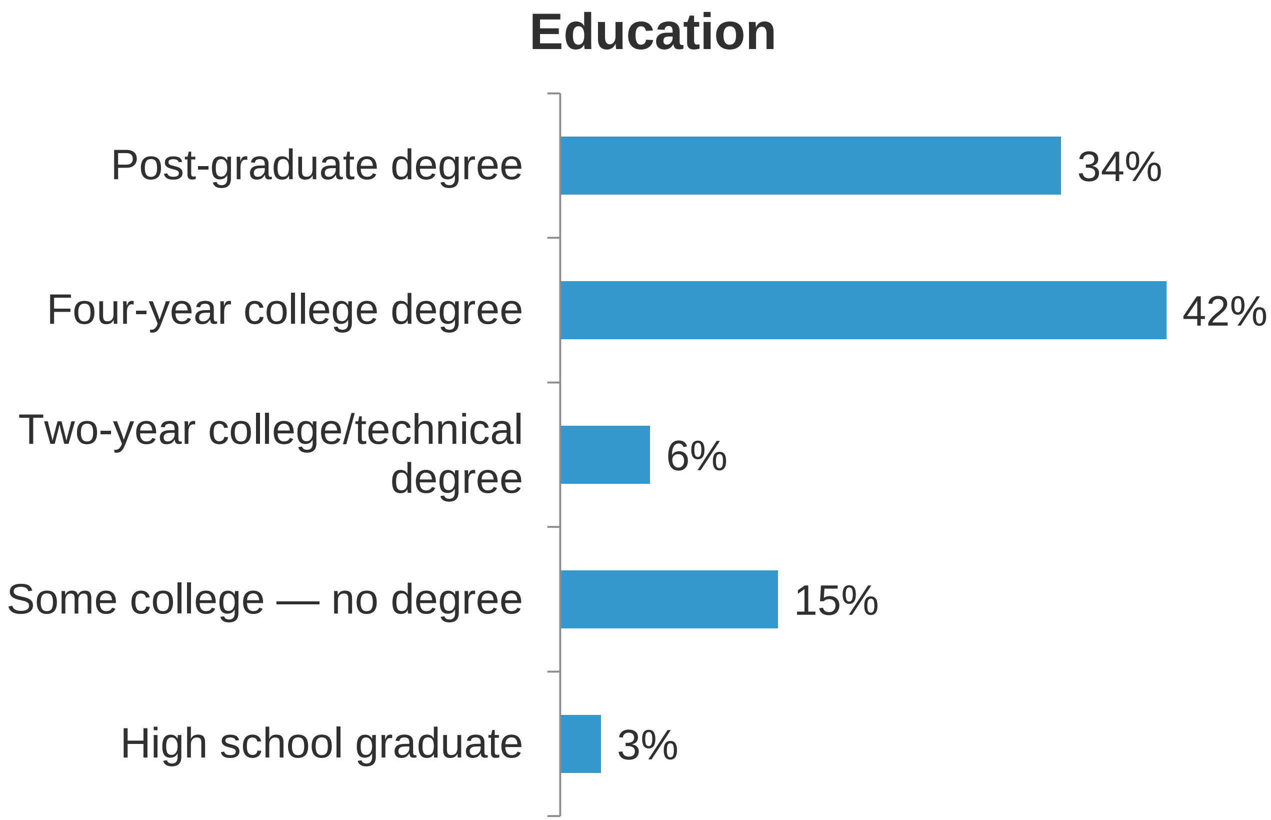
Most respondents are male; 85% of respondents are 35-years-old or older





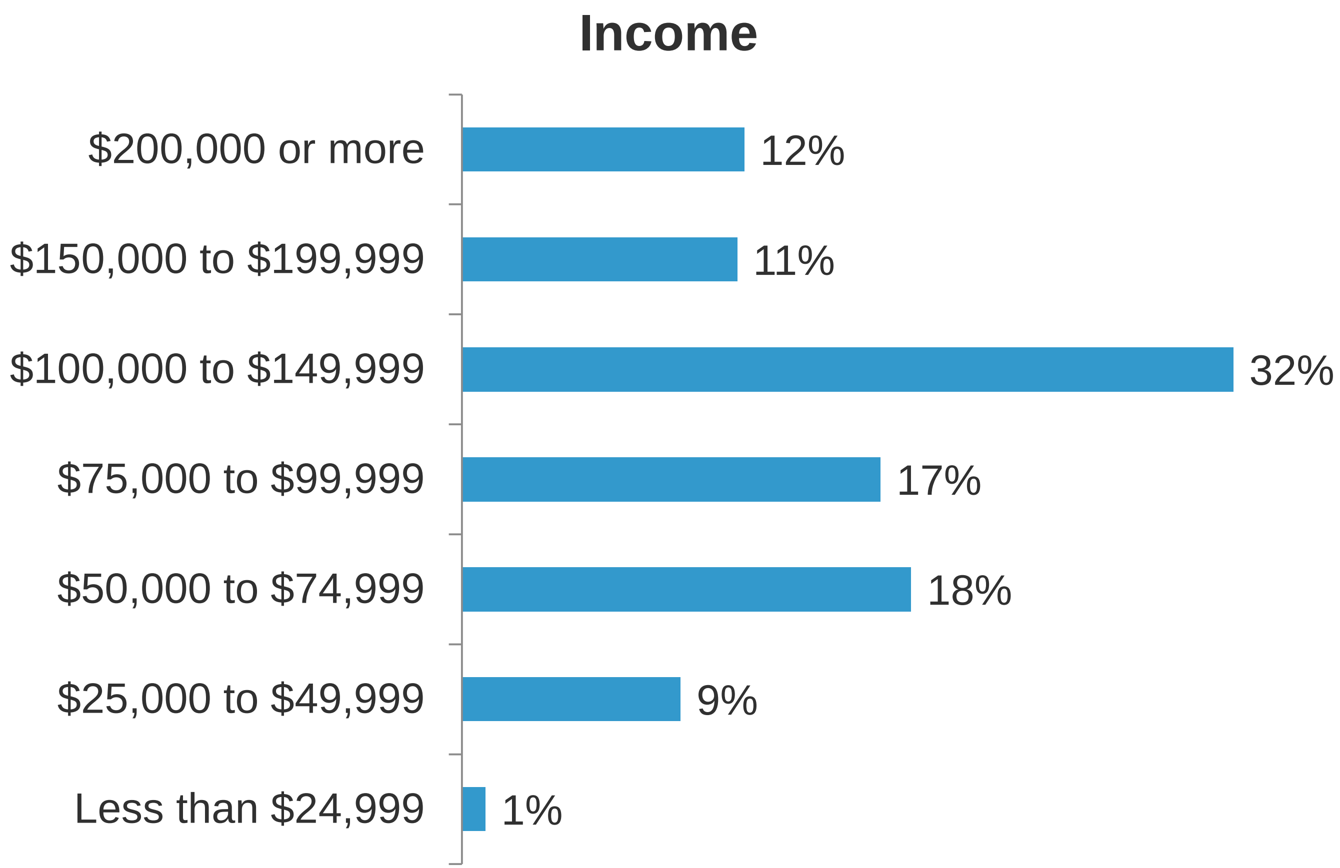
Base: 1,037 total respondents
Source: Forrester Research and Broadridge Custom Survey 2015, (Q.02.S)

Over 80% of respondents have a college degree



Base: 1,037 total respondents
Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.04.S)

Over half of respondents have an annual income of $100K+



Base: 1,037 total respondents
Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.05.S)

Agenda

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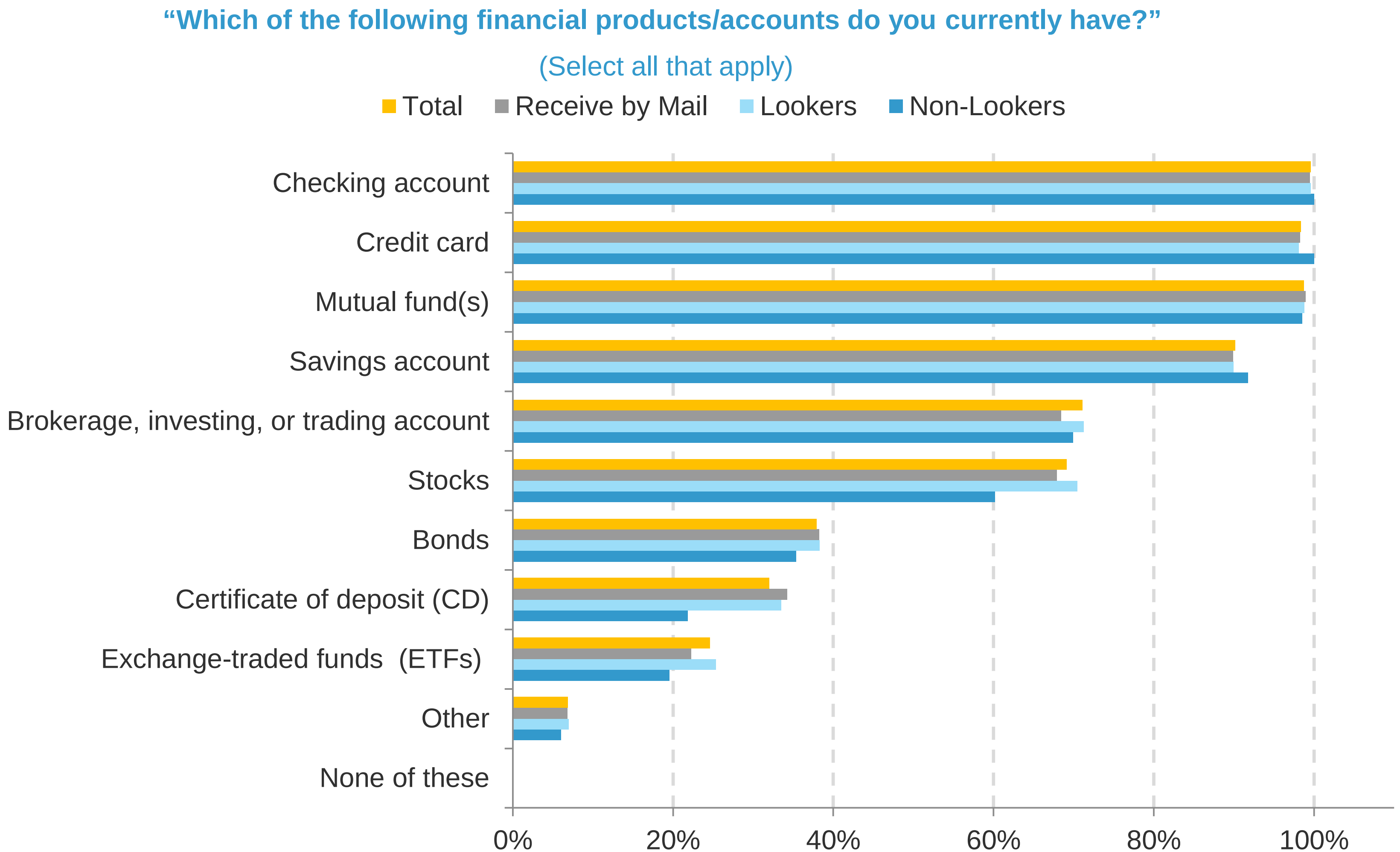
Ownership of financial products is even across main subgroups of mutual fund owners



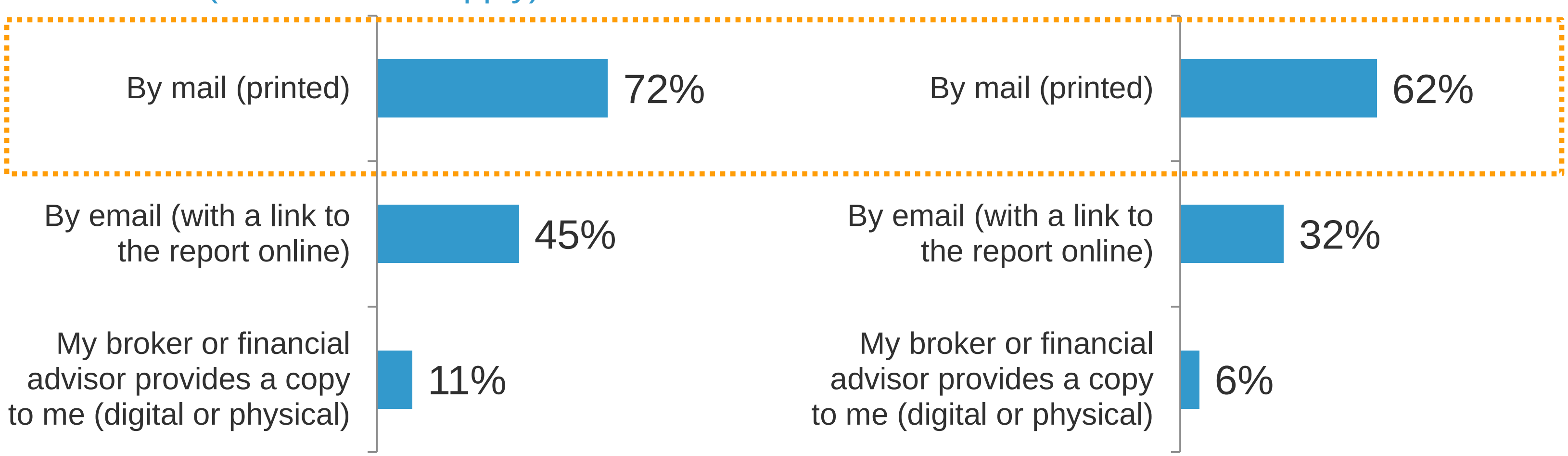
Base: Total: 1,037; Receive by Mail: 751; Lookers: 904; Non-Lookers: 133
Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.06.S)

Mail is the primary method for receiving annual and semiannual reports

"How do you currently receive or get shareholder reports (annual reports and/or semiannual reports) from your mutual fund and/or ETF companies?"

(Select all that apply)

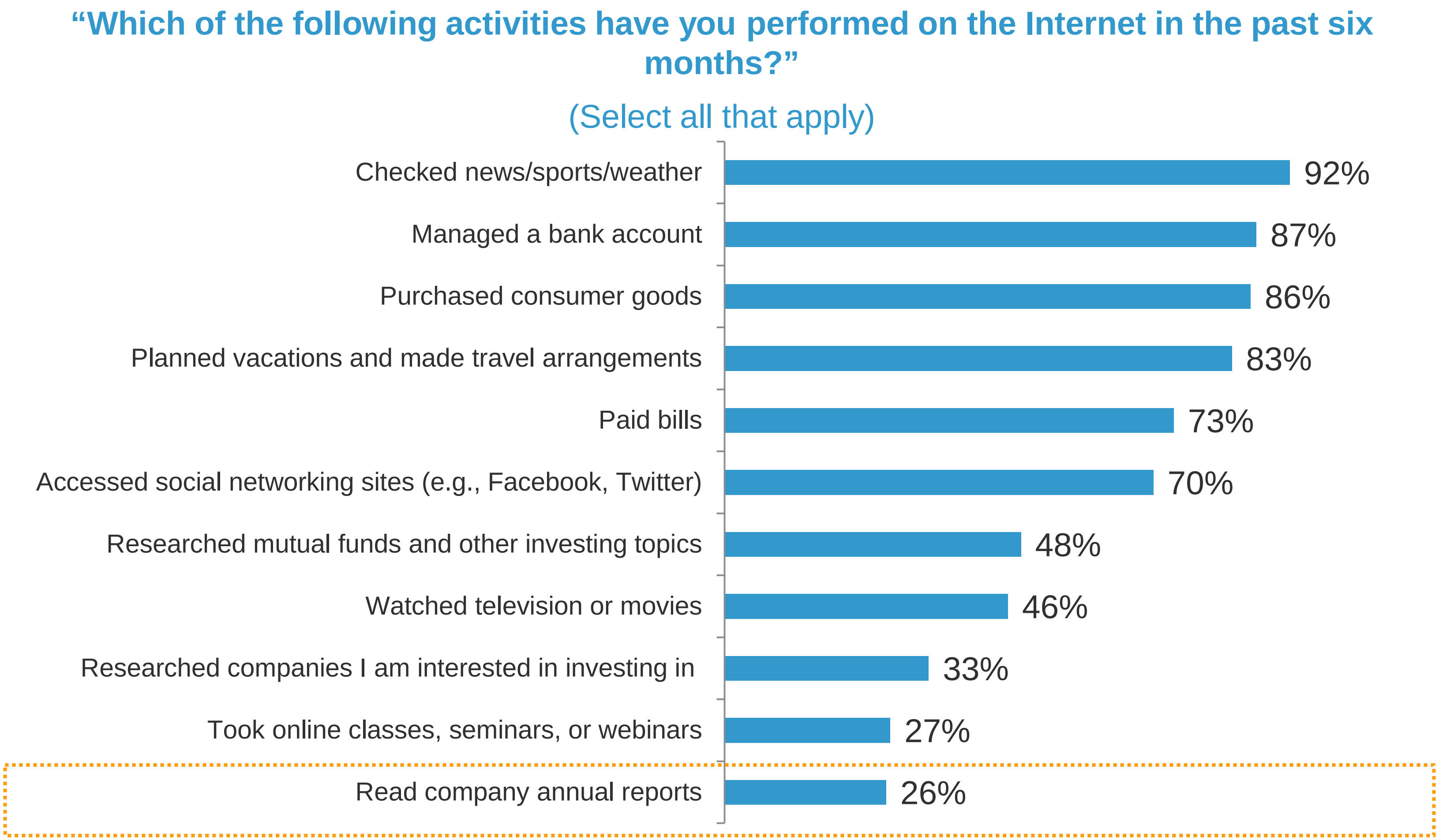
"Which of the following is *your primary method* for receiving or getting shareholder reports (annual and/or semiannual fund reports) from your mutual fund and/or ETF companies?"



Base: 1,037 total respondents

Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.1.M and Q.2.M)

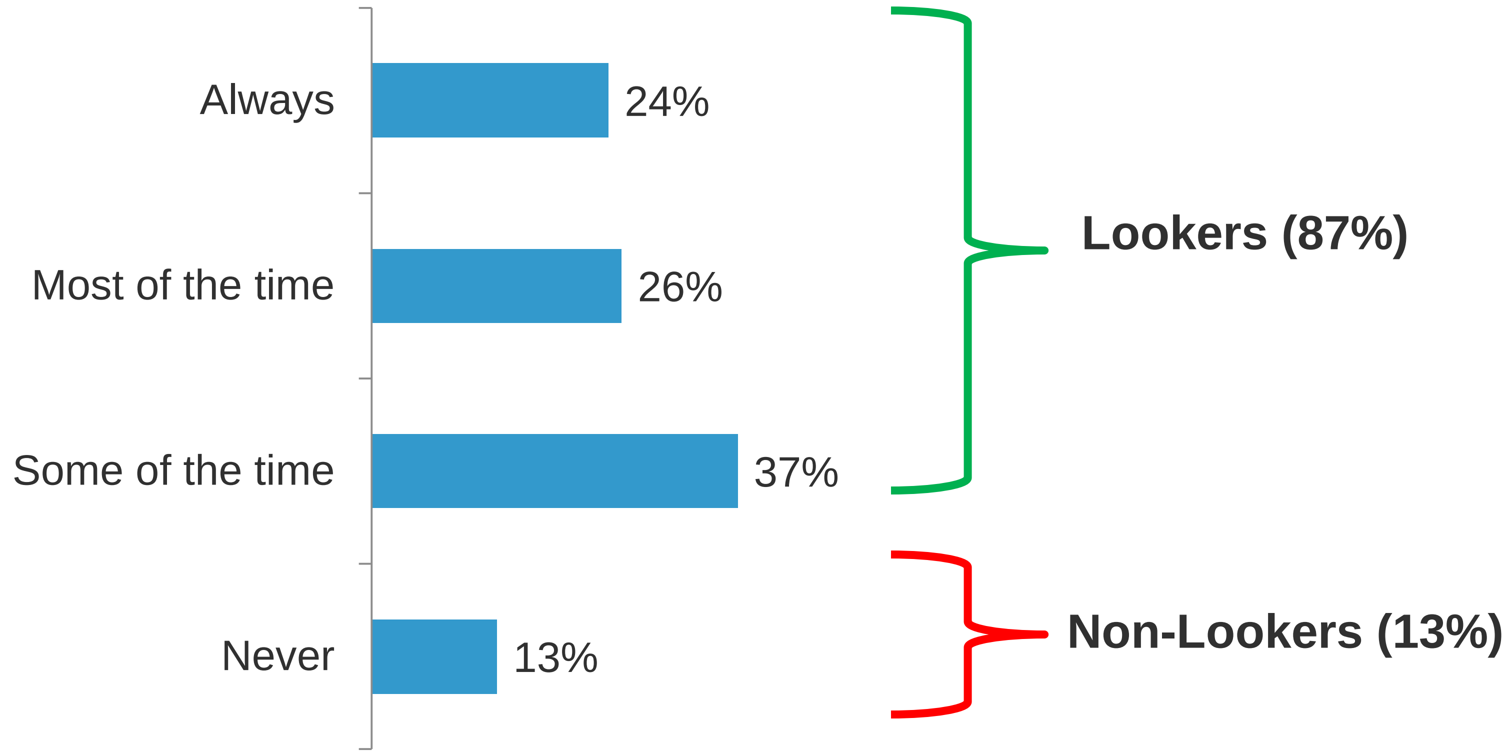
Investors are less likely to read annual reports online than to conduct many other activities



Base: 751 Receive by Mail
Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.02.DM)

The majority of those receiving reports do take the time to "look"

"When you receive or get shareholder reports (annual and/or semiannual fund reports), how often do you look at them?"

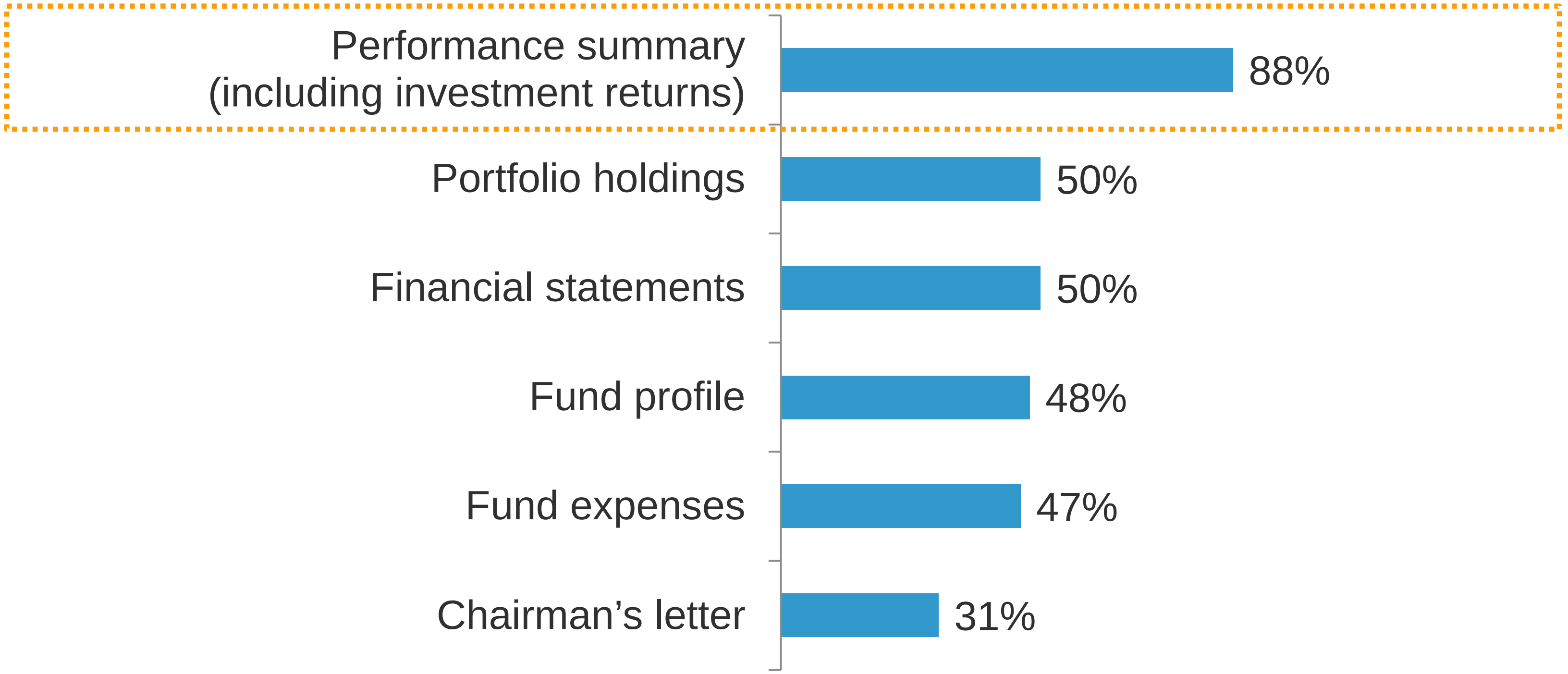


Base: 1,037 total respondents
Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.3.M)

“Lookers” care most about the performance summary

“What information do you look at in your annual reports and/or semiannual reports from mutual fund or ETF companies?”

(Select all that apply)

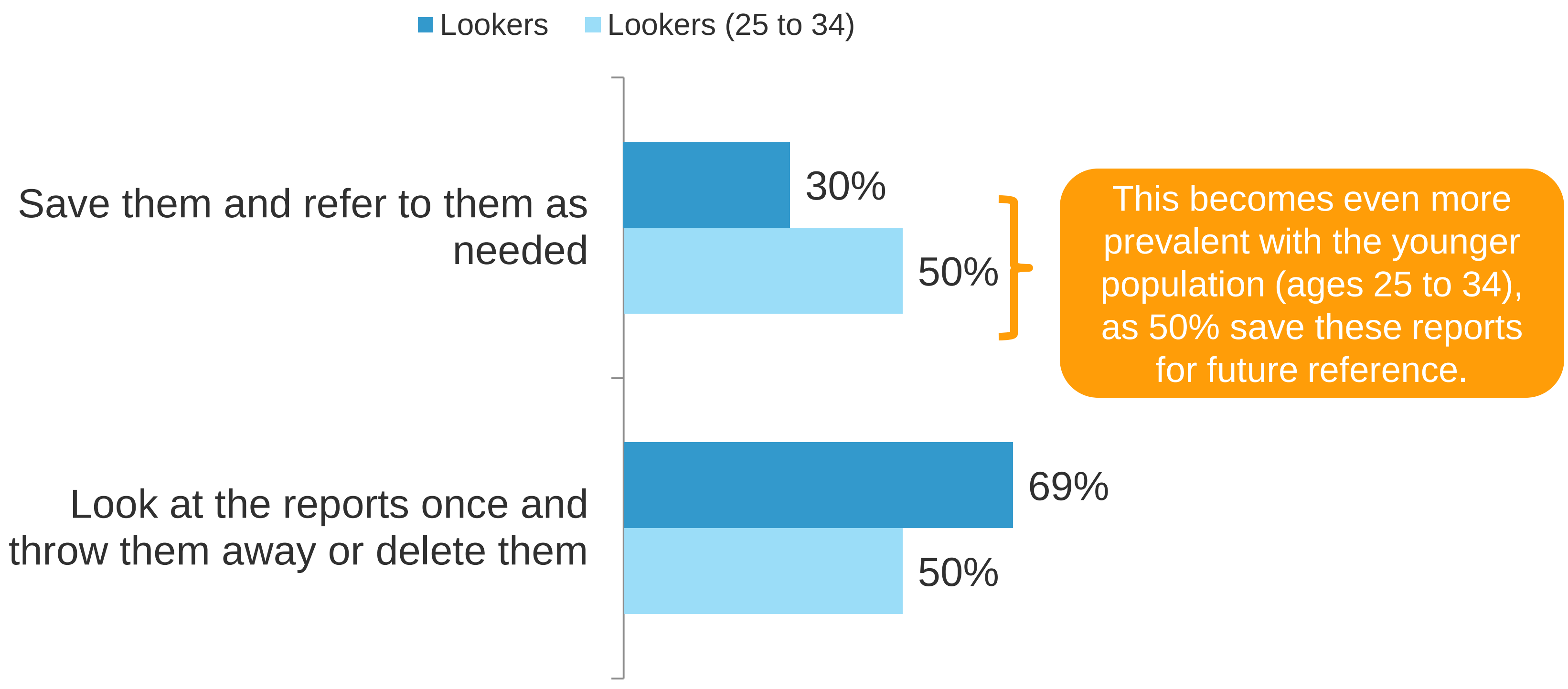


Base: 904 Lookers

Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.6.M)

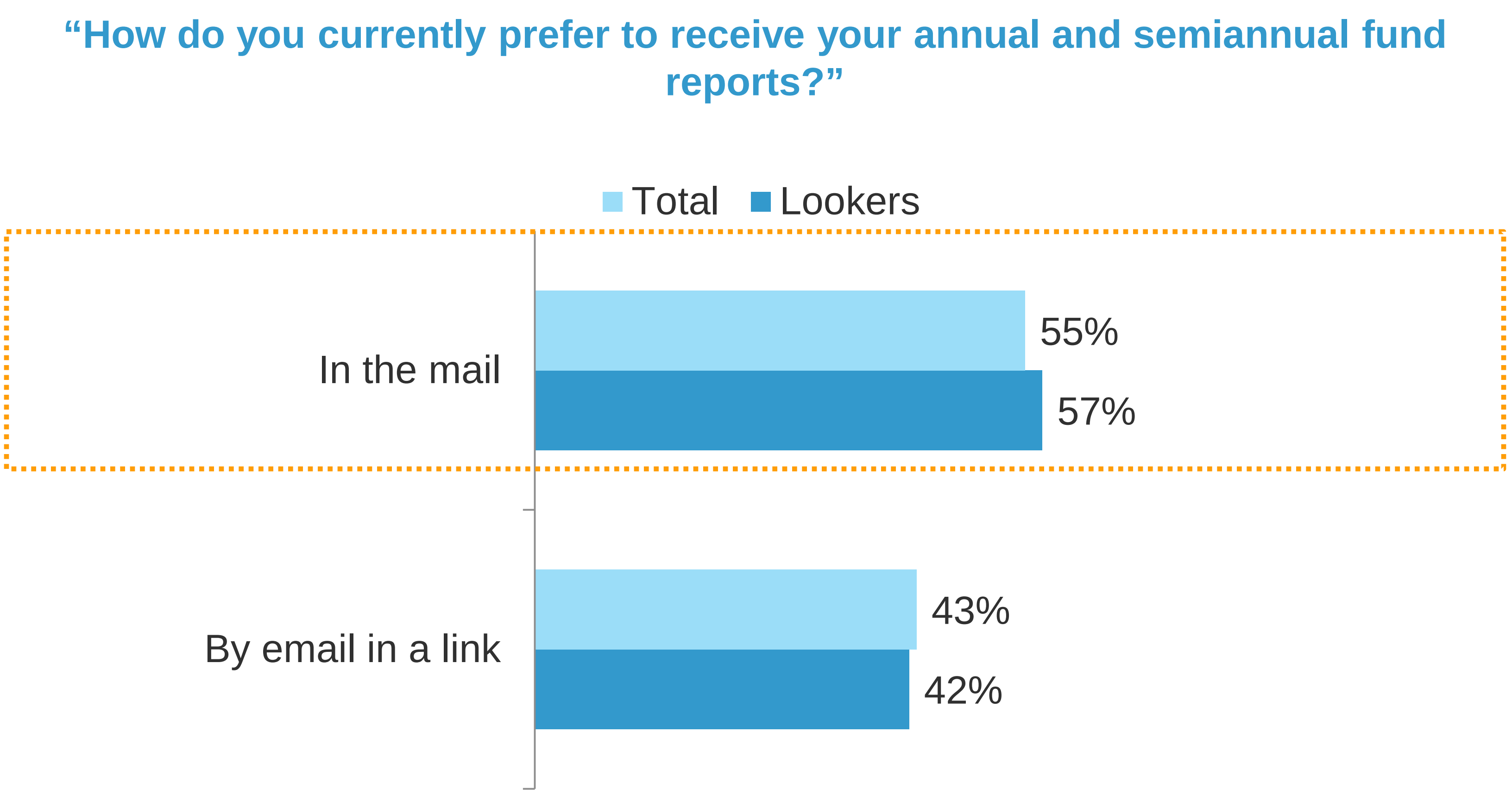
About a third of “Lookers” save these reports for future reference — especially younger investors

“Which of the following represents what you do with annual reports and/or the semiannual reports after you have reviewed them?”



Base: 904 Lookers; Lookers Ages 25 to 34: 113
Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.11.M)

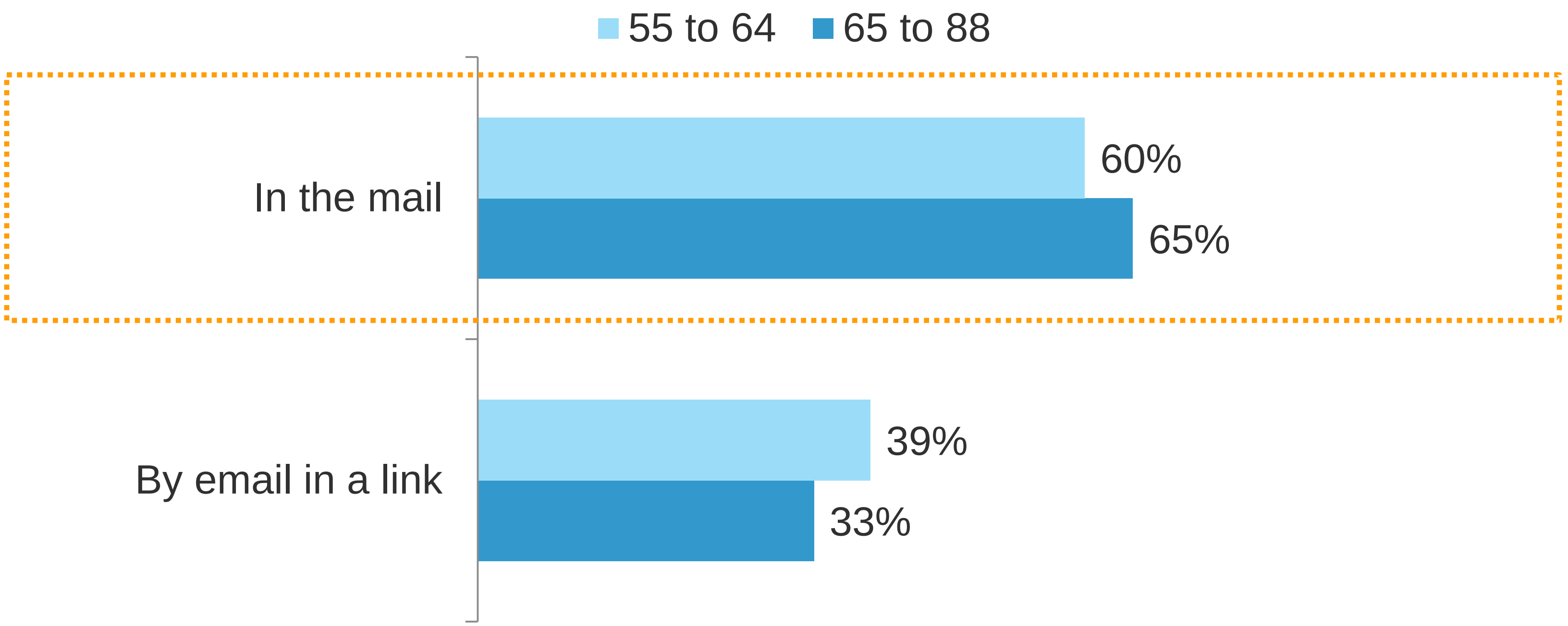
Over half of all respondents and "Lookers" *prefer* to receive reports via mail . . .



Base: Total: 1,037; 904 Lookers
Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.12.M)

. . . and mail is even more preferred by investors who are 55 years and older

“How do you currently prefer to receive your annual and semiannual fund reports?”



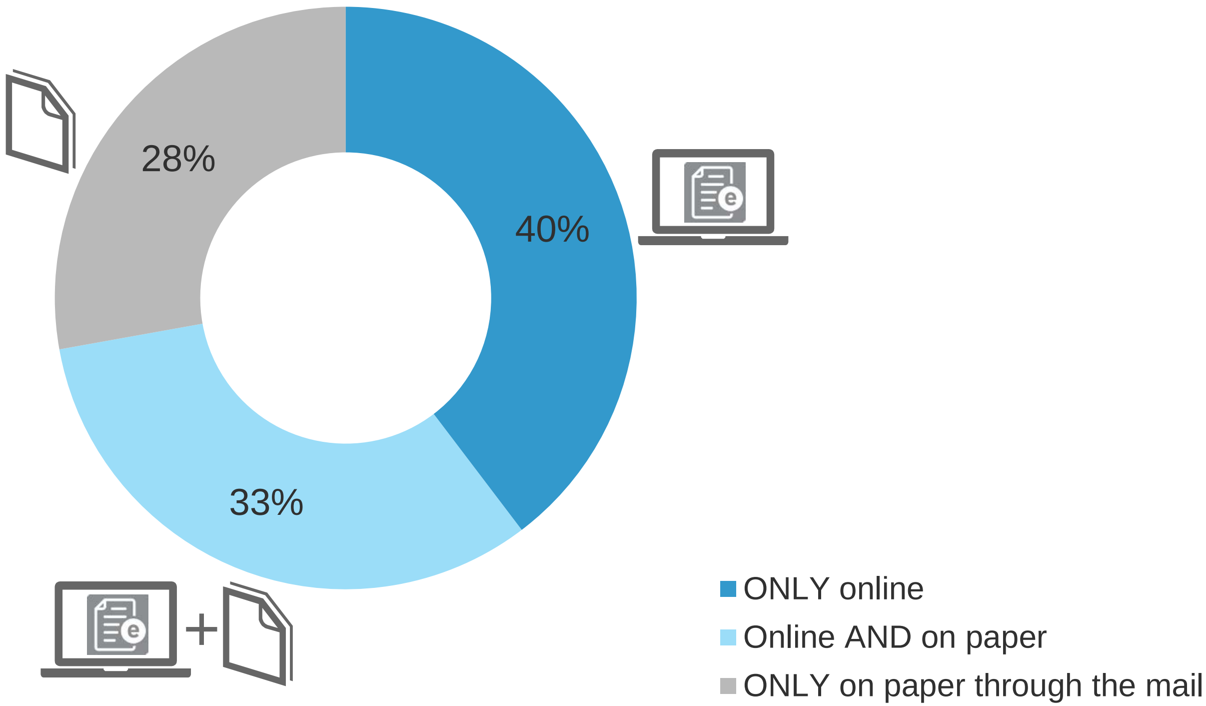
Base: 55 to 64: 226; 65 to 88: 234
Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.12.M)

Most fund investors still prefer to receive account statements on paper through the mail, according to Forrester's Consumer Technographics research

"How do you receive statements for the following financial products/accounts from your financial services providers?"

Mutual fund/ETFs

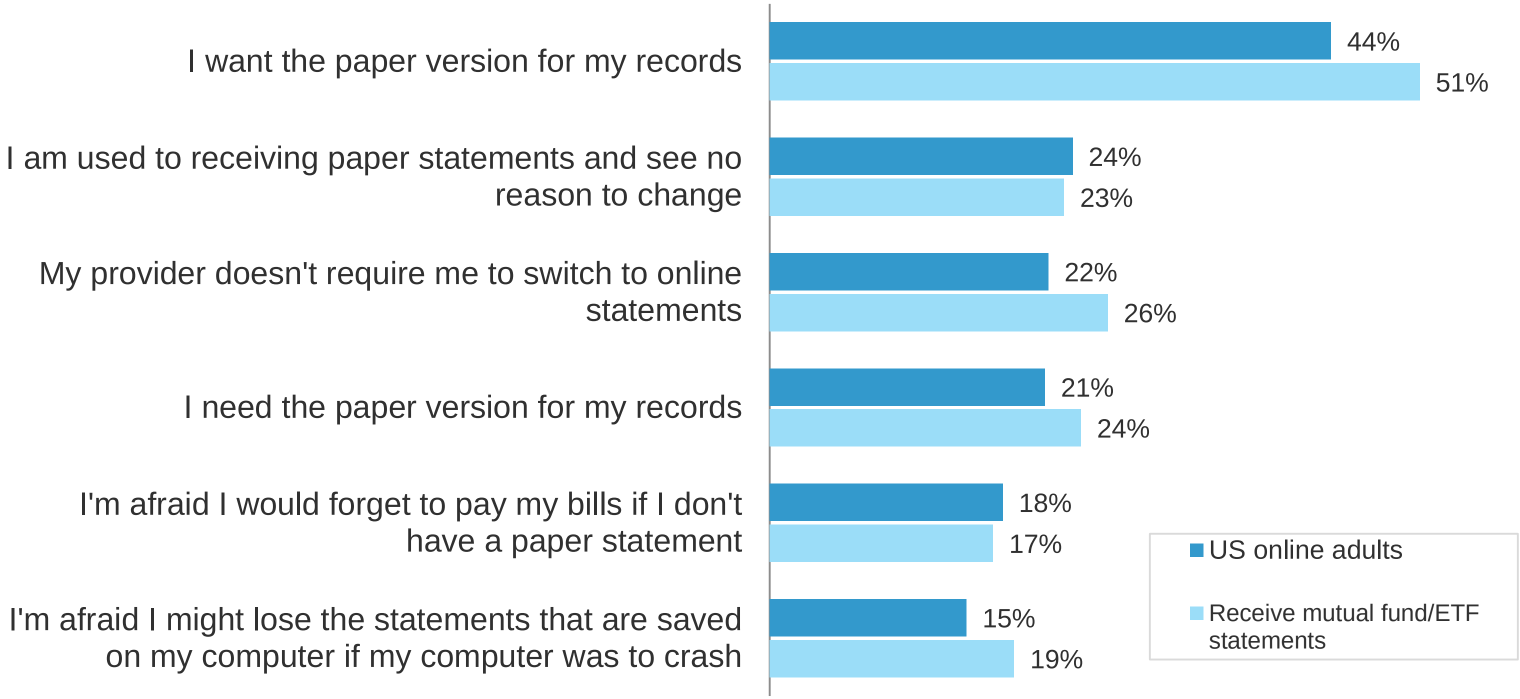
Type of statements among those who receive for mutual fund/ETFs



Base: 1,142 US online adults who receive mutual fund/ETFs statements. Percentages do not add up to 100% due to rounding
Source: North American Consumer Technographics Financial Services Online Benchmark Recontact Survey, 2014

The research also shows that across all financial products, consumers cite strong reasons for continuing to receive paper statements

“Why have you chosen to continue receiving paper statements for your financial products/accounts?”
(*Any* financial product)



Base: Respondents who receive statements for *any* financial products/accounts by “only on paper through the mail" *or* “online and on paper”: 7,064 US online adults; 976 US online adults who receive mutual fund/ETF statements
Source: North American Consumer Technographics Financial Services Online Benchmark Recontact Survey, 2014

Agenda

- *Project overview*
- *What the research reveals*
- *Current behaviors and preferences*
- *Impact of proposed changes on behaviors and preferences*
- *Recommended response positioning*

The proposed SEC rule was described to survey respondents . . .

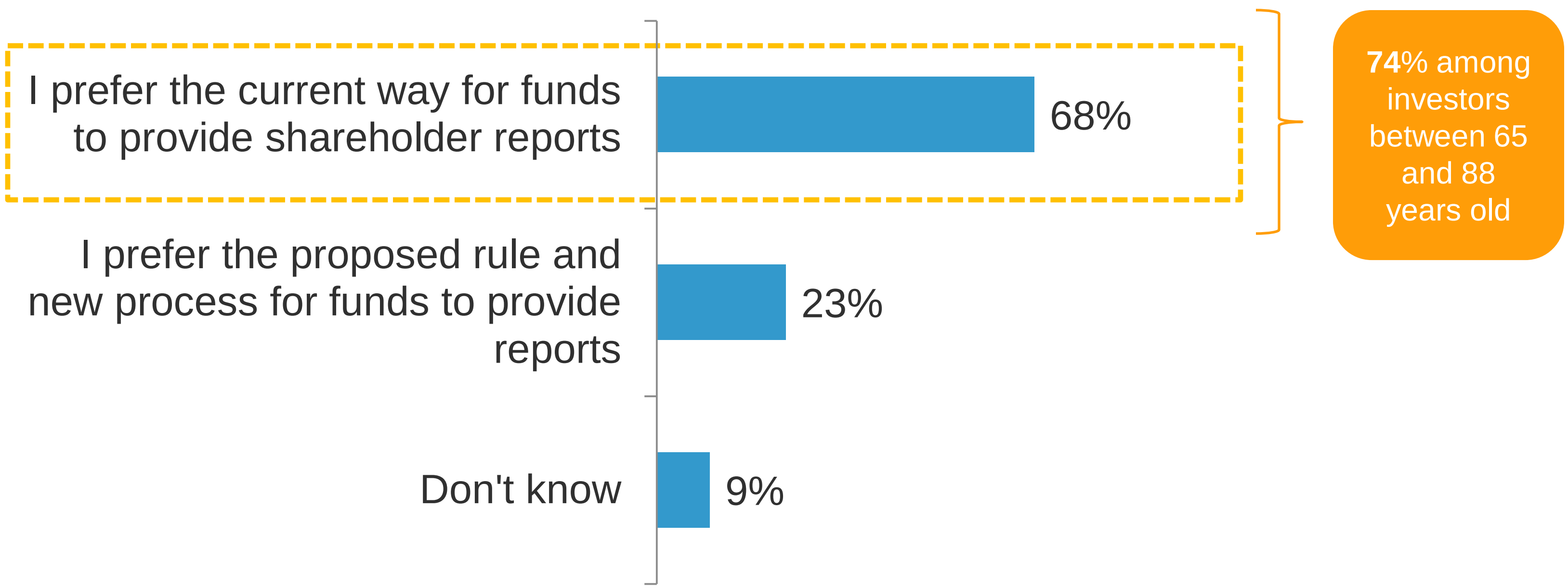
“Currently, mutual funds and ETFs are required to mail or email reports to investors. A proposed rule would change the way in which reports are provided.

That is, if you currently receive a report in the mail, you would instead receive only a notice in the mail.

The notice would explain the steps you can take to access the report online and to request a mailed copy.”

Seven out of 10 investors prefer the current way they receive reports (by mail) to the proposed approach

"Do you prefer the current way or the proposed way for funds to provide shareholder reports?"

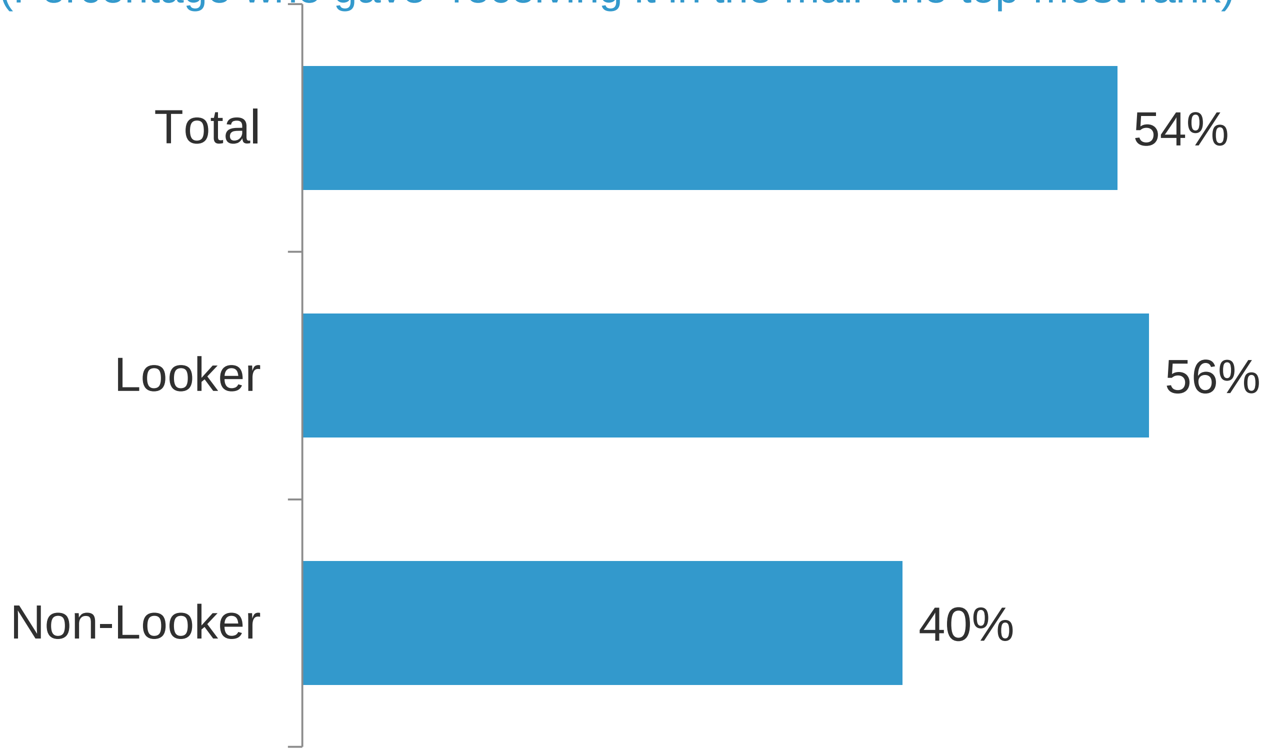


Base: 751 Receive by Mail
Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.16.M)

For more than half of investors, receiving printed fund reports via mail is most likely to make them aware these reports exist

"Which of the following ways of receiving your annual and semiannual fund report will most likely make you aware of its existence?"

(Percentage who gave "receiving it in the mail" the top-most rank)

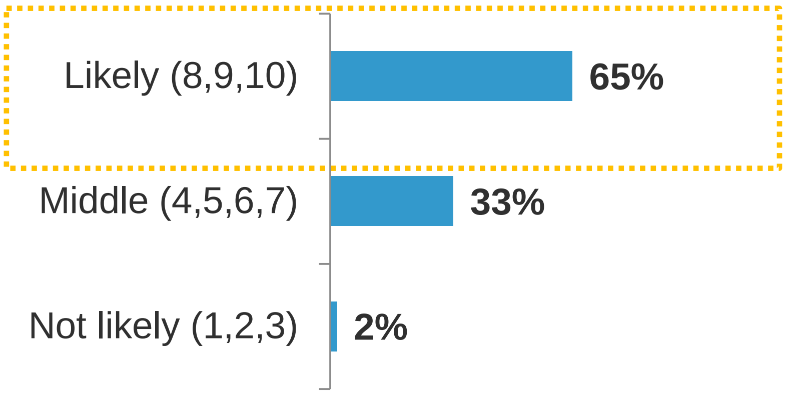


Base: Total: 1037, Lookers: 904, Non-Lookers: 133

Source: Forrester Research and Broadridge Custom Survey , 2015 (Q.17_01.M)

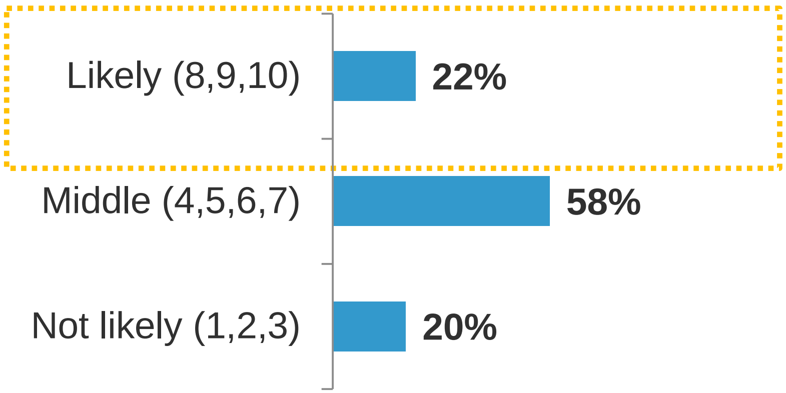
Changing the way investors receive reports by mail will reduce the likelihood that investors will look at reports in the future

"How likely are you to look at or review annual and/or semiannual fund reports in the future?" (With the current process)



Currently, 65% of investors are *likely* to look at or review annual fund reports in the future.

"Would the proposed rule make you more likely or less likely to look at your annual and semiannual fund reports in the future?"



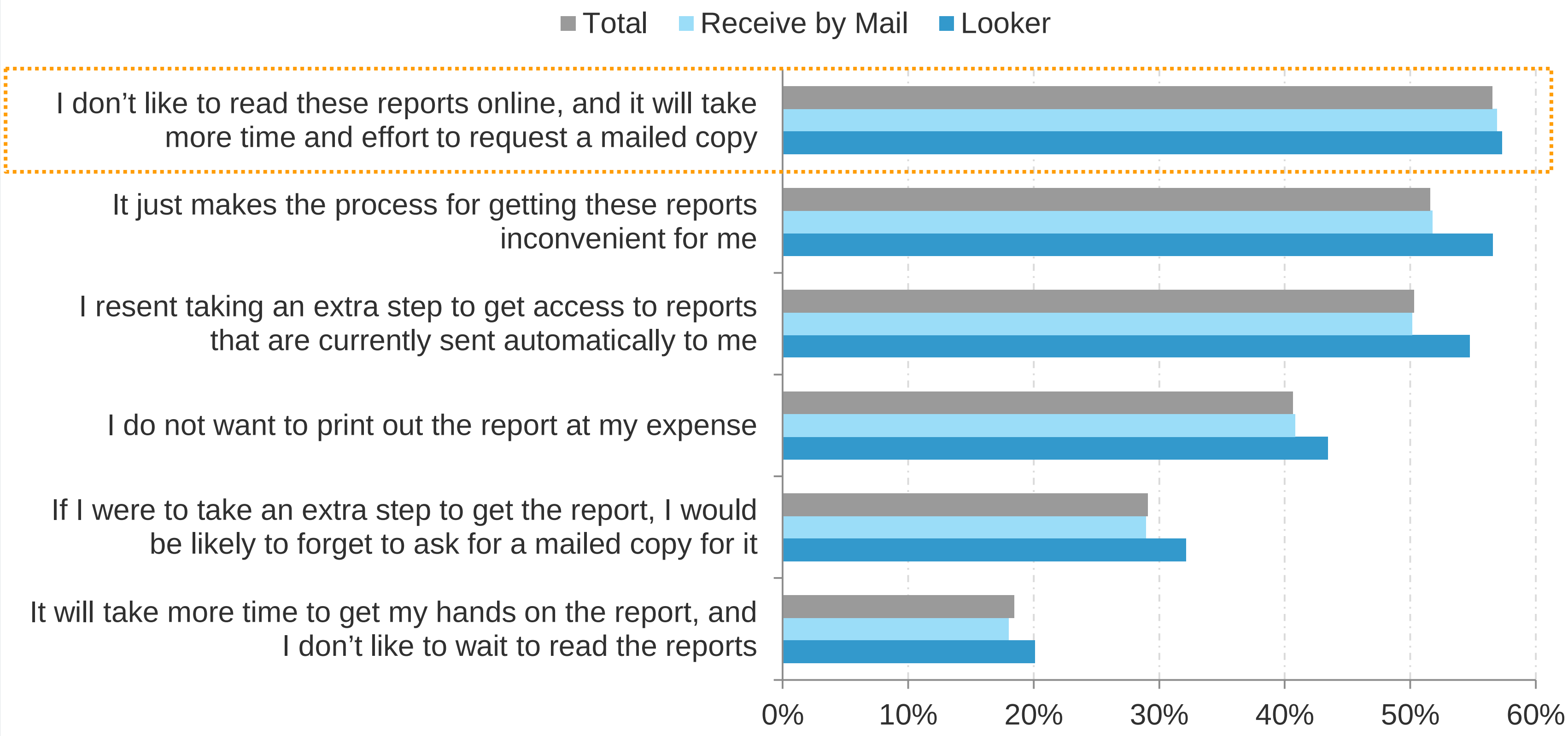
Considering the proposed change, *only* 22% of investors will be *likely* to look at these reports.

Base: 659 Mail-Recipient Lookers
Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.10.M.R3 and Q.14.M.R3)

Investors believe the proposed change will result in greater difficulty and inconvenience for them

"What represents the main reasons why you think the proposed rule would make it more difficult for you to get and look at this report?"

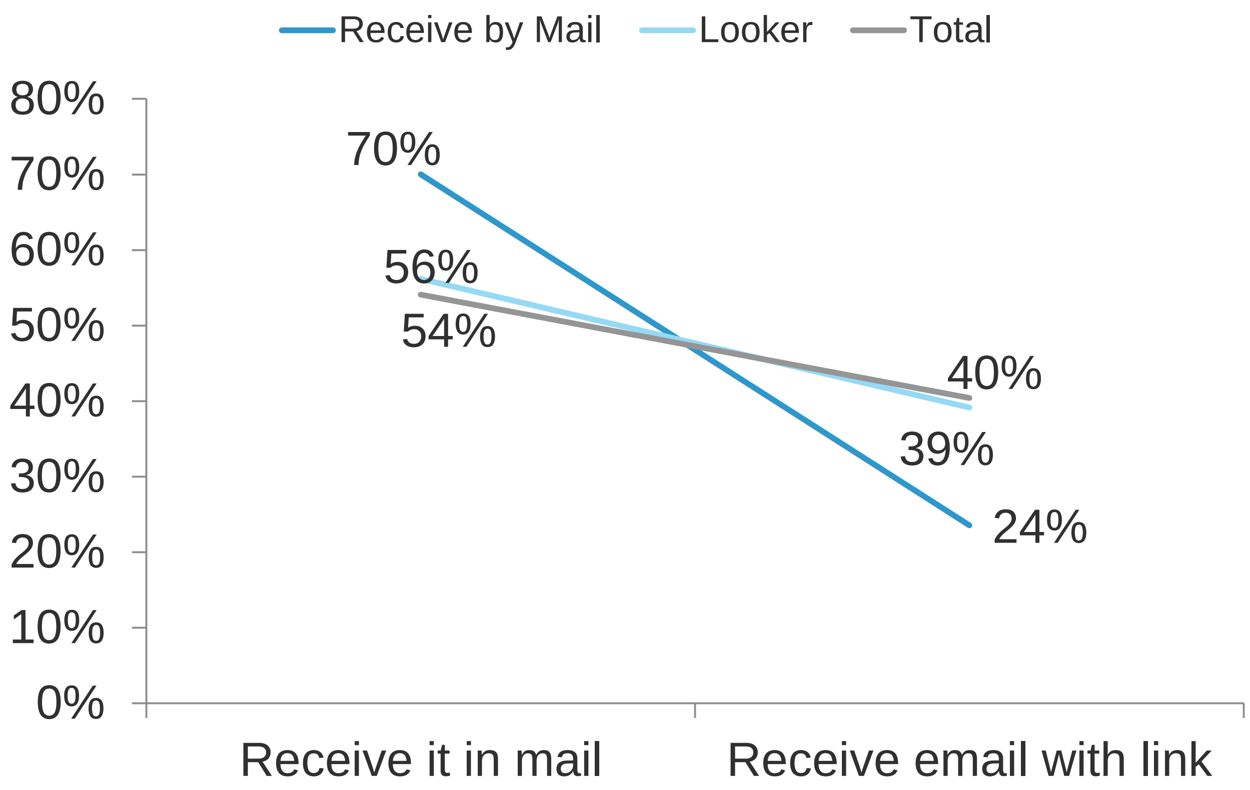
(Select all that apply)



Base: Total: 320; Receive by Mail: 311; Lookers: 274
Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.15.M)

Among investors who currently receive reports by mail, likely awareness of reports would decline significantly (70% to 24%) if they instead receive an email with a link

"Which of the following ways of receiving your annual and semiannual fund report will most likely make you aware of its existence?"



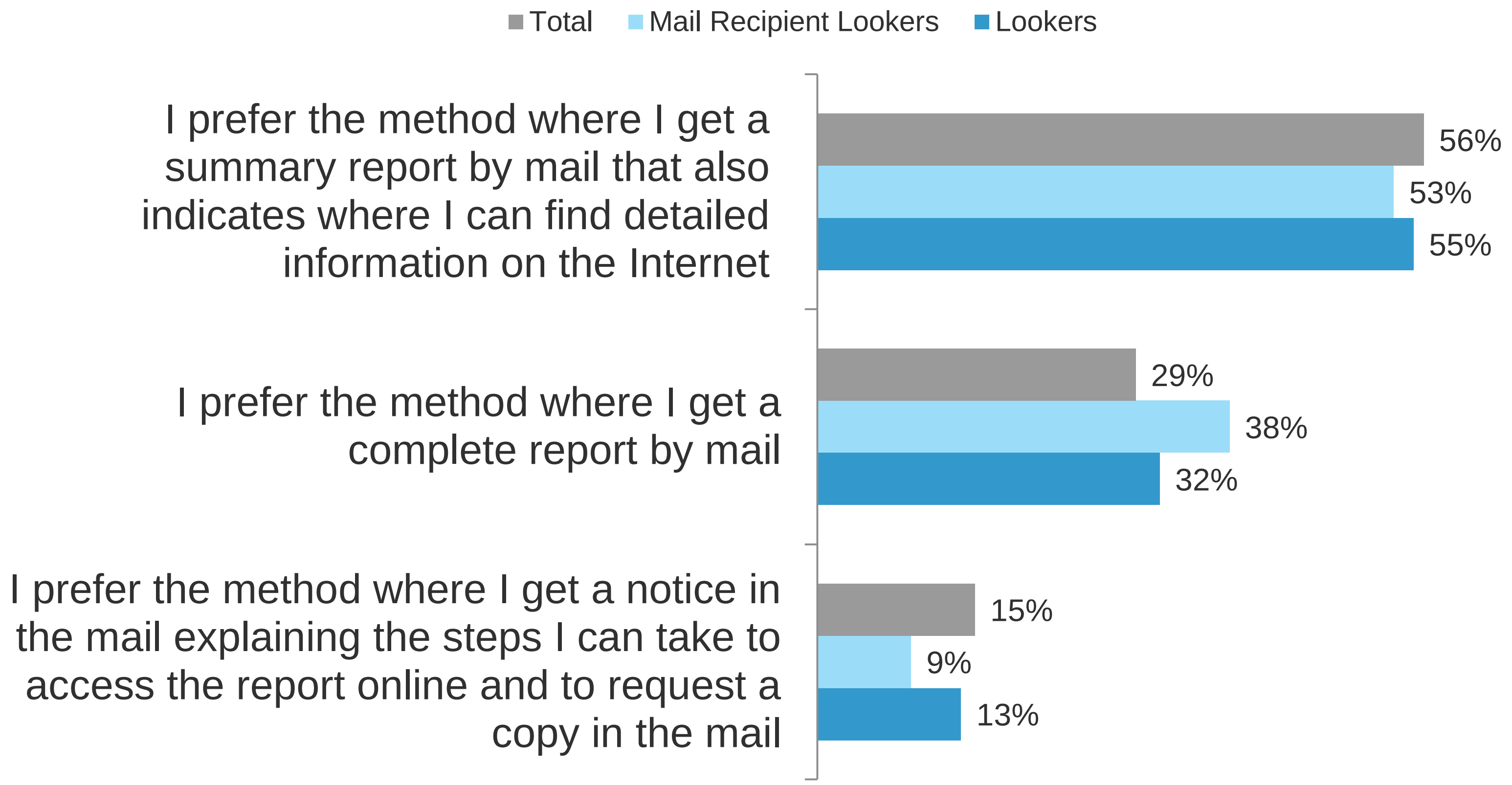
Base: Total: 1,037, Receive by Mail: 751; Lookers: 904
Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.17_01.M and Q.17_02.M)

In thinking about the proposed SEC rule, Forrester presented respondents with three different options for how they prefer to obtain annual and semiannual reports:

- *I prefer the method where I get a summary report by mail that also indicates where I can find detailed information on the Internet.*
- *I prefer the method where I get a complete report by mail.*
- *I prefer the method where I get a notice in the mail explaining the steps I can take to access the report online and to request a copy in the mail.*

When we presented respondents with the three options, receiving the summary report by mail was most preferred . . .

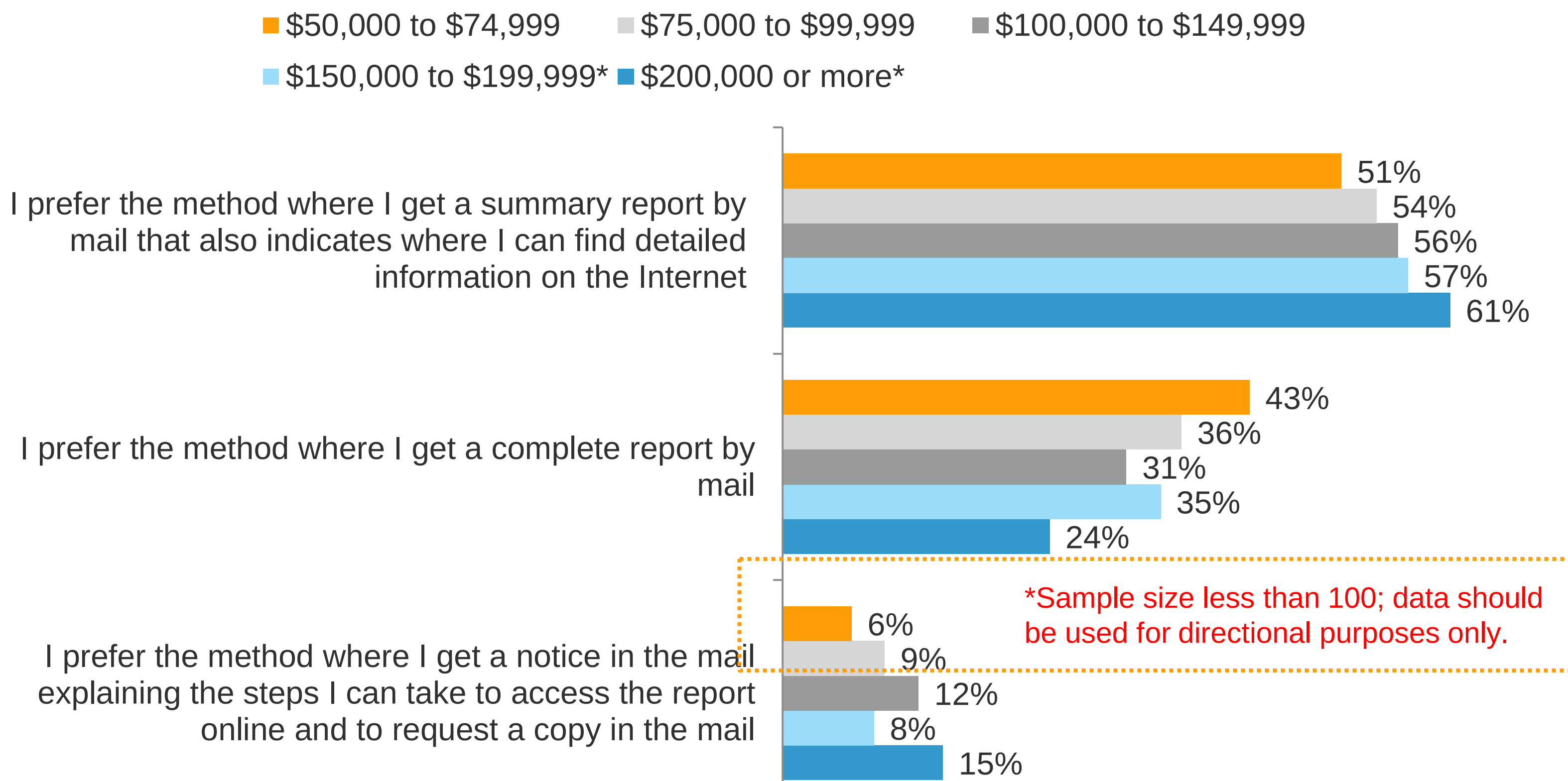
"Thinking about all the options presented here, which method of obtaining annual and semiannual fund reports do you prefer?"



Base: Total: 1,037; Mail Recipient Lookers: 659; Lookers: 904
Source: Forrester Research and Broadridge Custom Survey 2015 (Q.20.M)

. . . and became more popular as income level increased

“Thinking about all the options presented here, which method of obtaining annual and semiannual fund reports do you prefer?”



Base: $200,000 or more: 82; $150,000 to $199,999: 84; $100,000 to $149,999: 242; $75,000 to $99,999:129; $50,000 to $74,999: 143 respondents who receive by mail

Source: Forrester Research and Broadridge Custom Survey, 2015 (Q.20.M)

Agenda

- *Project overview*
- *What the research reveals*
- *Current behaviors and preferences*
- *Impact of proposed changes on behaviors and preferences*
- *Recommended response positioning*

Recommended response positioning

Our survey of a representative sample of mutual fund and ETF shareholders in the US reveals that:

› Changing the way fund shareholders receive reports will reduce the likelihood that shareholders will be aware of or look at fund reports in the future.

- Among shareholders who currently receive reports by mail, likely awareness of reports would decline significantly (70% to 24%) under the approach proposed by the SEC.
- Shareholders who look through reports they receive by mail ("Mail-Receipt Lookers") say they are less likely to continue looking and reading these reports if the proposed SEC change is implemented.

› A clear majority prefer the way they currently receive reports — on paper in the mail — to the approach proposed by the SEC. This is particularly true of older shareholders.

- Most fund shareholders value receiving reports by mail as a means of making them aware of the reports.
- Many fund shareholders save the paper reports for future reference — particularly younger shareholders.
- Respondents who do not favor the proposed rule believe the change will require additional effort and expense and will add inconvenience.
- When presented with three alternative options, most shareholders say they would prefer to receive a summary report by mail.

Thank you

Sushil Keswani
skeswani@forrester.com

Bill Doyle
bdoyle@forrester.com

Landon Barnes
lbarnes@forrester.com

Laurence Bloom
lbloom@forrester.com

Todd Kozan
tkozan@forrester.com

Shaili Desai
sdesai@forrester.com

Annual and Semi-Annual Report Notification Study

Understanding the impact of providing investors with mutual fund and ETF report notifications

RESEARCH REPORT

June 2015

TrueNorth market insights

Broadridge®

Study Overview

Background

Broadridge wishes to understand the impact of providing investors with notifications about mutual fund and ETF annual and semi-annual reports instead of automatically sending them through the mail or providing them online.

Methodology

1002 investors completed an 8-minute survey June 11 through June 16, 2015.

- Surveys were conducted online through a national panel
- Broadridge was not identified as the sponsor of the study

Respondent Criteria

All respondents were screened and qualified as...

- Males and females, 18+ years of age
- Primary or shared responsibilities for investment decisions in household
- Currently have mutual funds or ETFs outside of 401(k) and 403(b) retirement plans
- A mix of non-retirement asset amounts
- *Final incidence 24%*

Executive Summary

The current method of providing mutual fund and ETF annual or semi-annual reports is through the mail or, if requested, via email. Broadridge is interested in learning how investors would react to two different annual or semi-annual report delivery methods:

1) A notice in the mail with instructions on how to obtain the report, either a hard copy or electronic access.

2) A Summary Report where key data is sent instead of the full report, but investors are told how they can obtain the report, either a hard copy or electronic access.

Notification Explanation:

Currently companies providing mutual funds and ETFs are required to send you annual and semi-annual reports. Under a proposed rule, if you receive these reports by mail, mutual funds and ETFs could instead choose to mail you only a notice. The notice would explain where you can access the report online and how you can request a copy by mail. (If you currently receive the reports by email, there would be no change in how those reports are provided.)

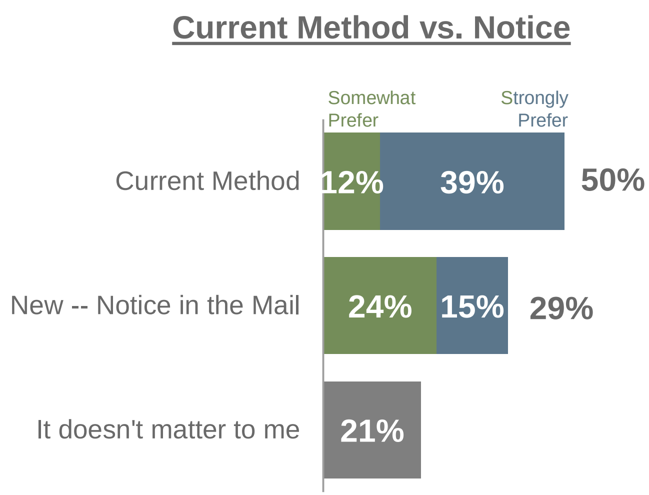
Summary Report Explanation:

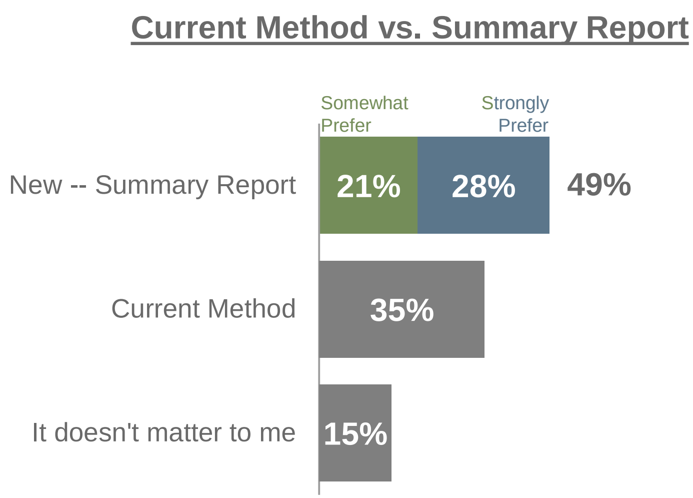
Currently companies providing mutual funds and ETFs are required to send you annual and semi-annual reports. If you currently receive the reports by mail, under a new process you would instead receive a Summary Report by mail. The Summary Report would be 4-6 pages in length and would include key information about the fund. It would indicate where to get detailed information on the internet.

Executive Summary

When evaluated separately, the current method of mailing the report is preferred over the notice in the mail.

- Compared to the Summary Report, the current method is less popular.
- Roughly two in ten have no preference. This is true regardless of the options presented.





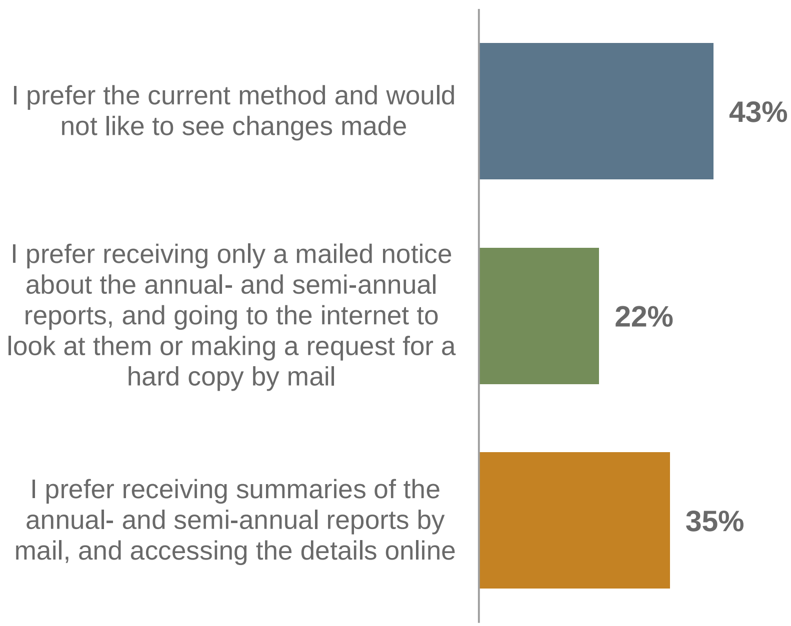
Base: Total Respondents (n=1002)
Q12. Which method do you prefer?
Q13. You say that you prefer the current method. Would you say you strongly prefer that method or somewhat prefer that method?
Q14. You say that you prefer the new method. Would you say you strongly prefer that method or somewhat prefer that method?

Executive Summary

When given the option to choose any of the three methods discussed, the current method of mailing the report is preferred.

The current method is appreciated by investors for many reasons. Many like having a hard copy to read, to make notes on, and retain for their files. Others say they are more likely to read the report when they receive a hard copy.

Overall Preferred Method



"I like having a paper copy for reference."

"I'm more likely to look at it."

"I don't want to have to take another step to find it online."

"Because it is the most economical."

"Easy to access."

"Summary has all the information I need."

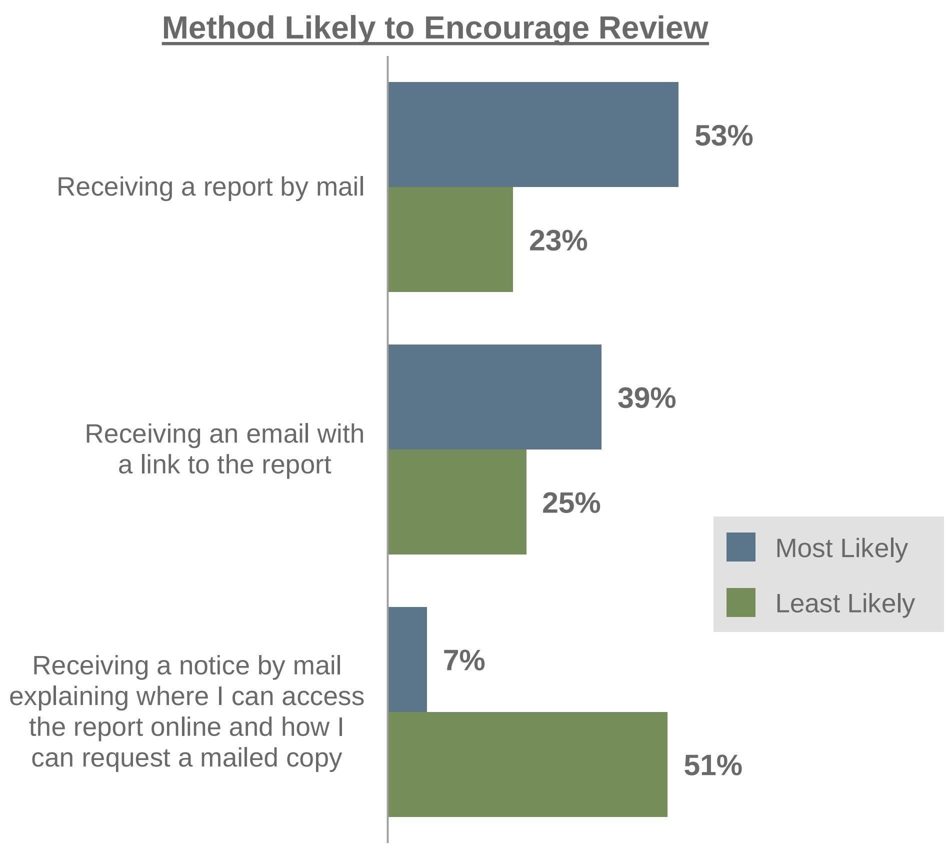
"I only want to see the summary anyway. Also, it would save paper."

Base: Total Respondents (n=1002)
Q22. Thinking about all the options presented here, which method of delivering annual and semi-annual reports do you prefer?

Executive Summary

Reviewing the report is most likely to happen if it is received in the mail.

Over half indicate that they are less likely to look at the annual or semi-annual report if they simply receive the notice on how to obtain the report.



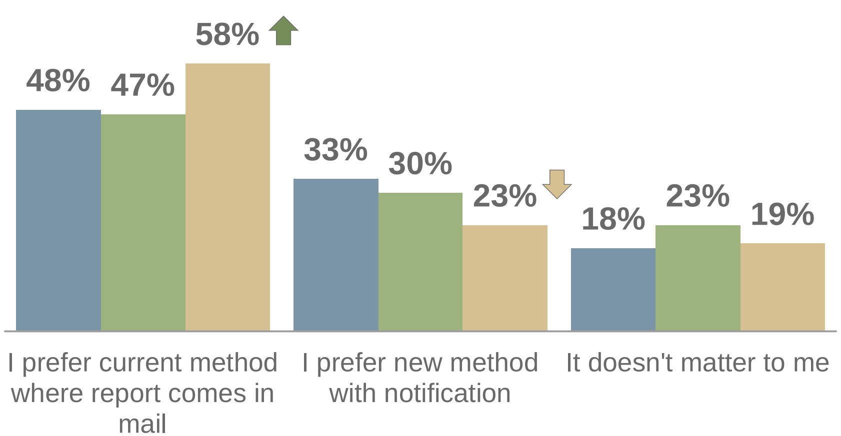
Base: Total Respondents (n=1002)
Q10. Which of the following would make you most likely to look at an annual or semi-annual report?
Q11. Which of the following would make you least likely to look at an annual or semi-annual report?

Sub-Group Analysis – Age

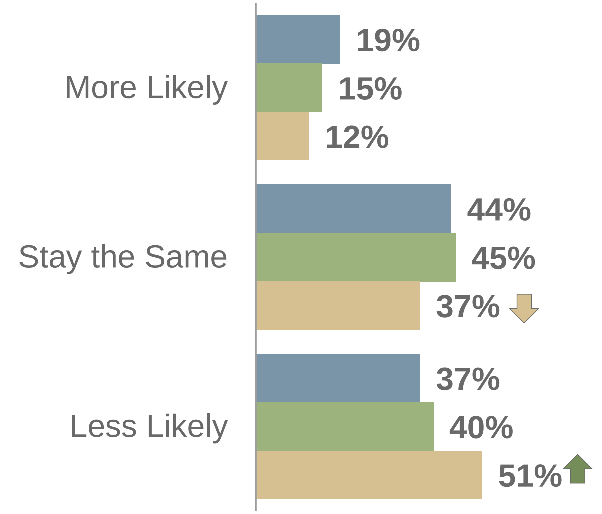
The proposed notification system is met with less enthusiasm than the current method. About half prefer the current mail delivery system compared to a third or less who prefer the new notice system. Two in ten don't have a strong preference.

Likelihood to read the report drops if notification is given. Over a third of younger investors are less likely to review the information, and half of those 65+ are less likely to do so.

Preferred Method of Delivery



Likelihood of Reviewing if Received Notice



18-34 35-64 65+

/ Statistically higher / lower than the other age groups at the 90% confidence level.

Base: Total Respondents (18-34 n=217; 35-64 n=532; 65+ n=253)
Q12. Which method do you prefer?
Q16. Would you be more likely or less likely to look at the annual or semi-annual report if you received a notice of the report's availability on the internet instead of a report in the mail?

TrueNorth market insights

Executive Summary

Changing from the current delivery method will result in fewer investors reading the materials.

- From an investor's standpoint, there is little support to change the current delivery method for mutual fund and ETF annual or semi-annual reports.
- Readership will decline if a report is not mailed to the investor.
- These findings are consistent among all age categories.

If a change is made, the Summary Report is a more viable option than the Notice option.

- The Notification process is the least preferred method. Many voice that they may not take the time to access the report if they have to take that step.
- With the Summary, the investors get critical information and can seek out more if they wish.

Detailed Findings

Understanding the impact of providing investors with mutual fund and ETF report notifications

TrueNorth market insights

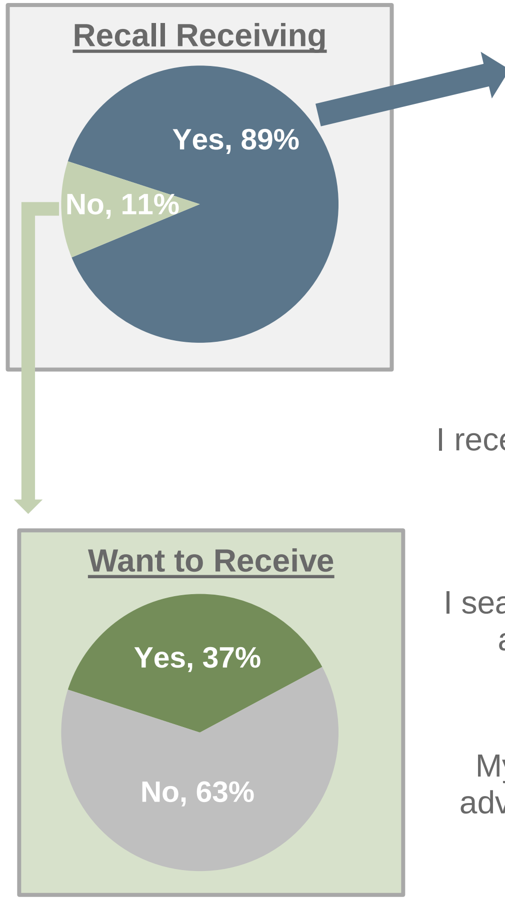
Awareness of Reports

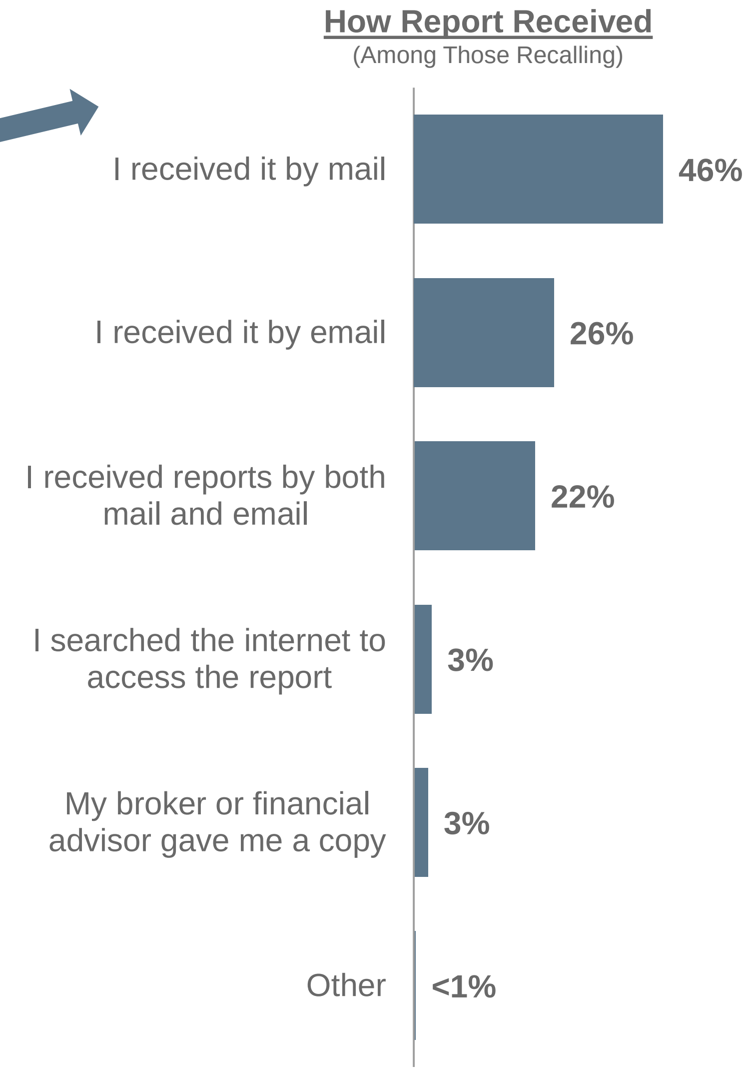
Awareness of Receiving Reports

An overwhelming majority (89%) recall receiving an annual or semi-annual report in the past year.

About half got their report via the mail, while a quarter received it through an email. Another quarter indicate that they get reports by <u>both</u> mail and email.

Of those who don't recall receiving a report, most do not want to receive it.



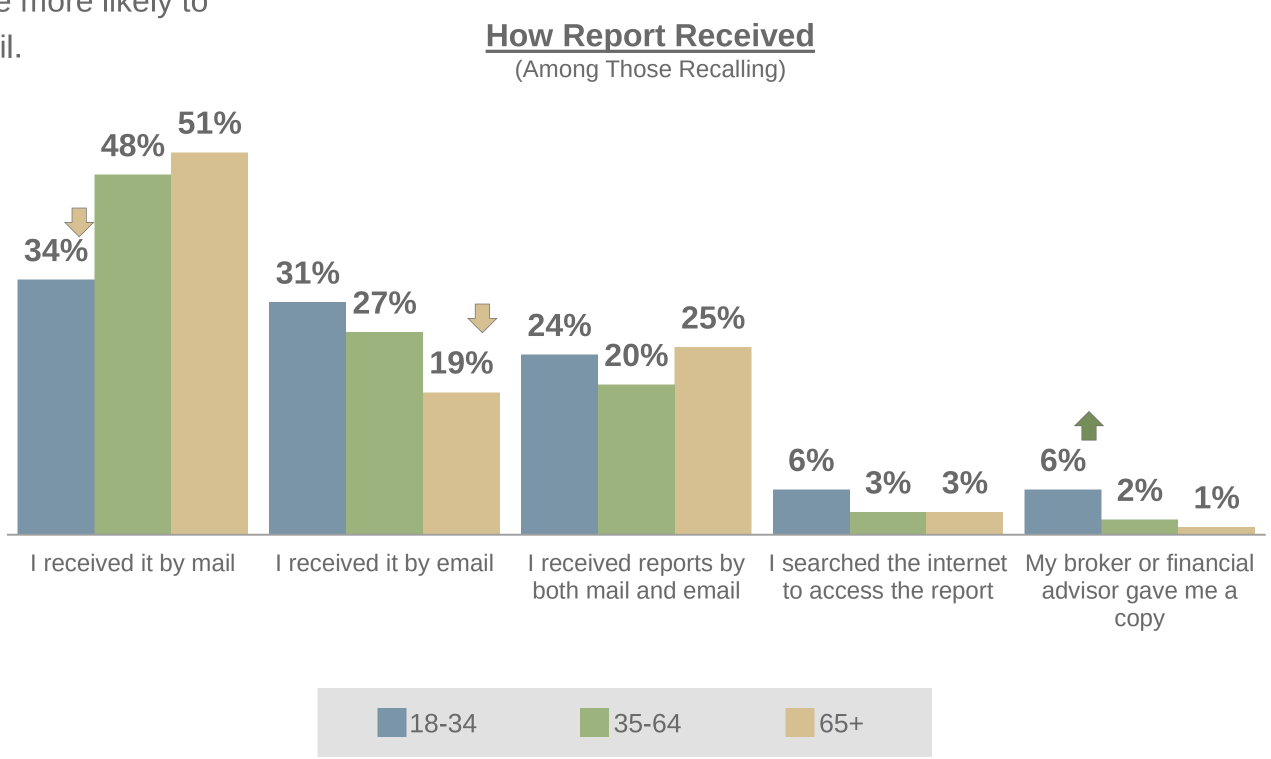


Base: Total Respondents (n=1002)
Q1. Do you recall receiving a mutual fund or ETF annual or a semi-annual report in the past 12 months?
Base: Respondents who recall receiving a report (n=889)
Q2. How did you receive that report?
Base: Respondents who do not receive reports (n=113)
Q8. You mentioned that you did not receive an annual or semi-annual report. Do you want to receive them in the future?

How Reports are Received – By Age

Older investors (i.e., those more likely to own more funds), are more likely to recall receiving these reports through the mail.

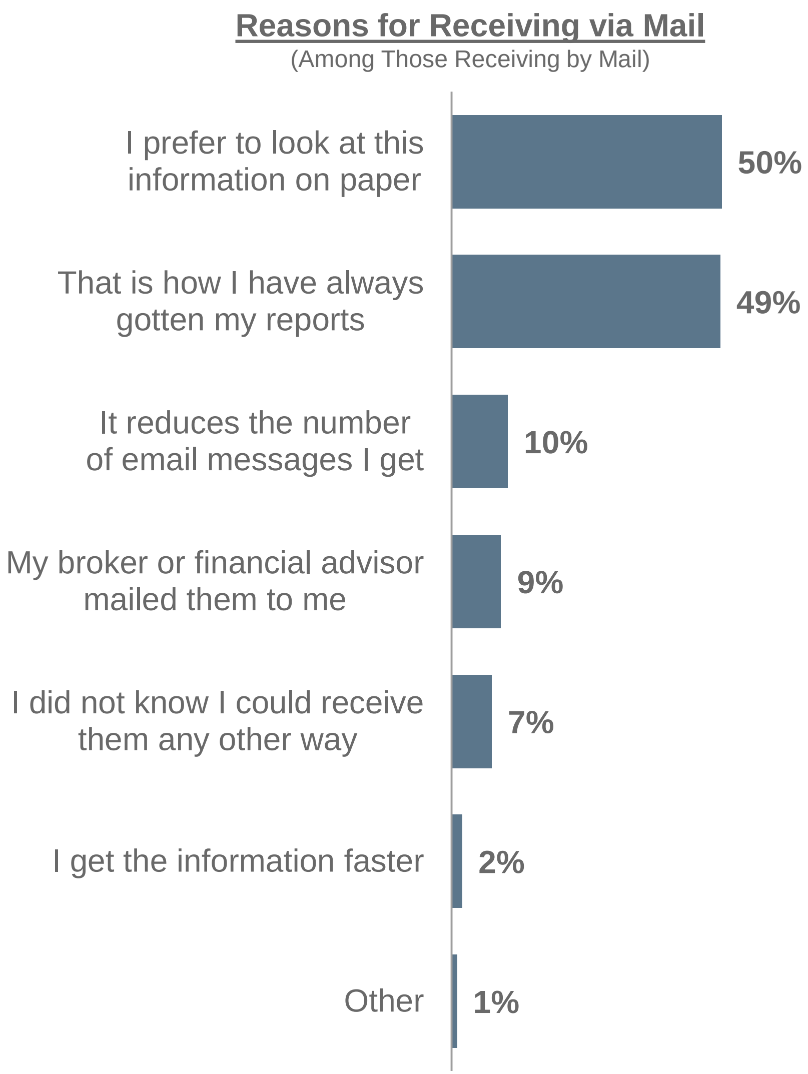
Conversely, younger investors are more likely to recall receiving the report by email.



/ Statistically higher / lower than the other age groups at the 90% confidence level.

Base: Respondents who recall receiving a report (18-34 n=177; 35-64 n=480; 65+ n=232)
Q2. How did you receive that report?

Reasons for Receiving via Mail



Half prefer a mailed copy because they like looking at this type of information on paper.

Another 50% indicate they the mail is simply how they have always gotten their reports.

Base: Respondents who receive report by mail (n=407)
Q2a. Please indicate your reasons for receiving annual and semi-annual reports through the mail. / Multiple responses accepted.

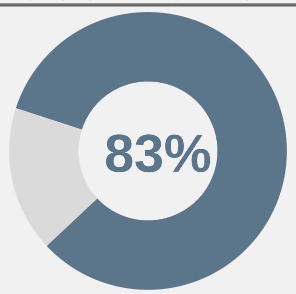
Awareness of Receiving Reports via Email

Over three-quarters (83%) are aware that they could get their annual or semi-annual reports electronically via email.

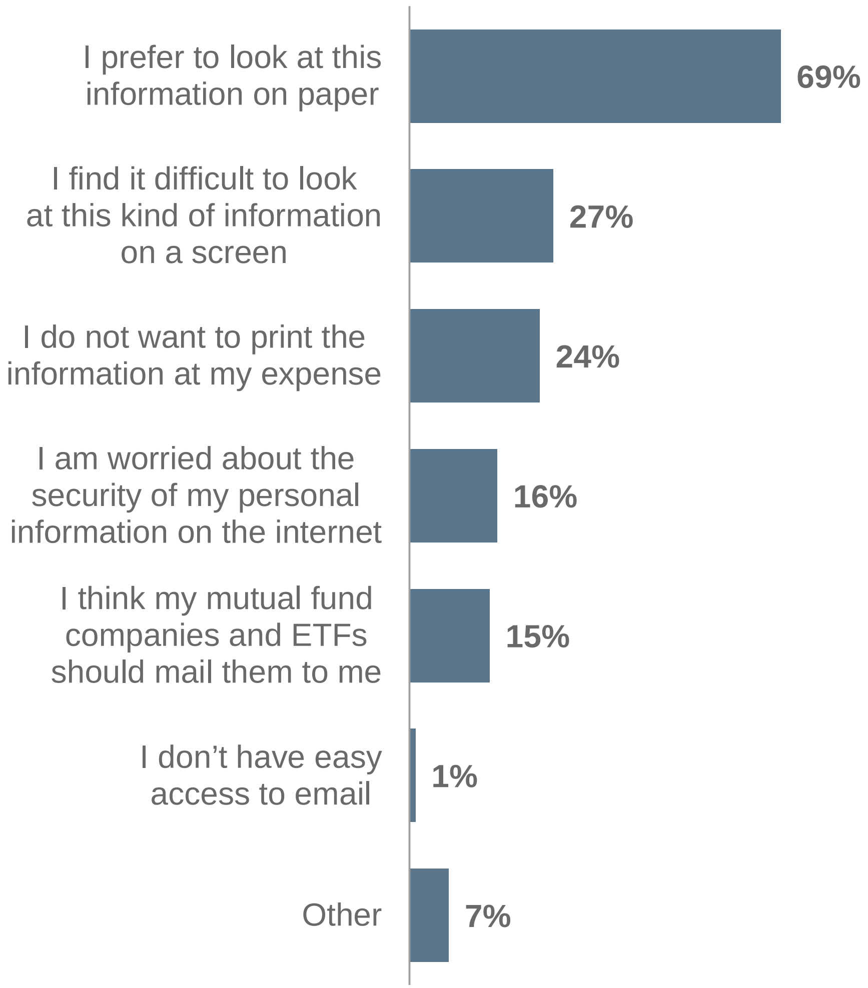
However, they don't choose to do this because they like to look at this type of information on paper.

A quarter find it difficult to look at this type of data on a screen, and another quarter don't want the expense of printing the information.

Aware of Email Delivery



Reasons NOT Choosing Email
(Among Those Aware of Email Delivery)



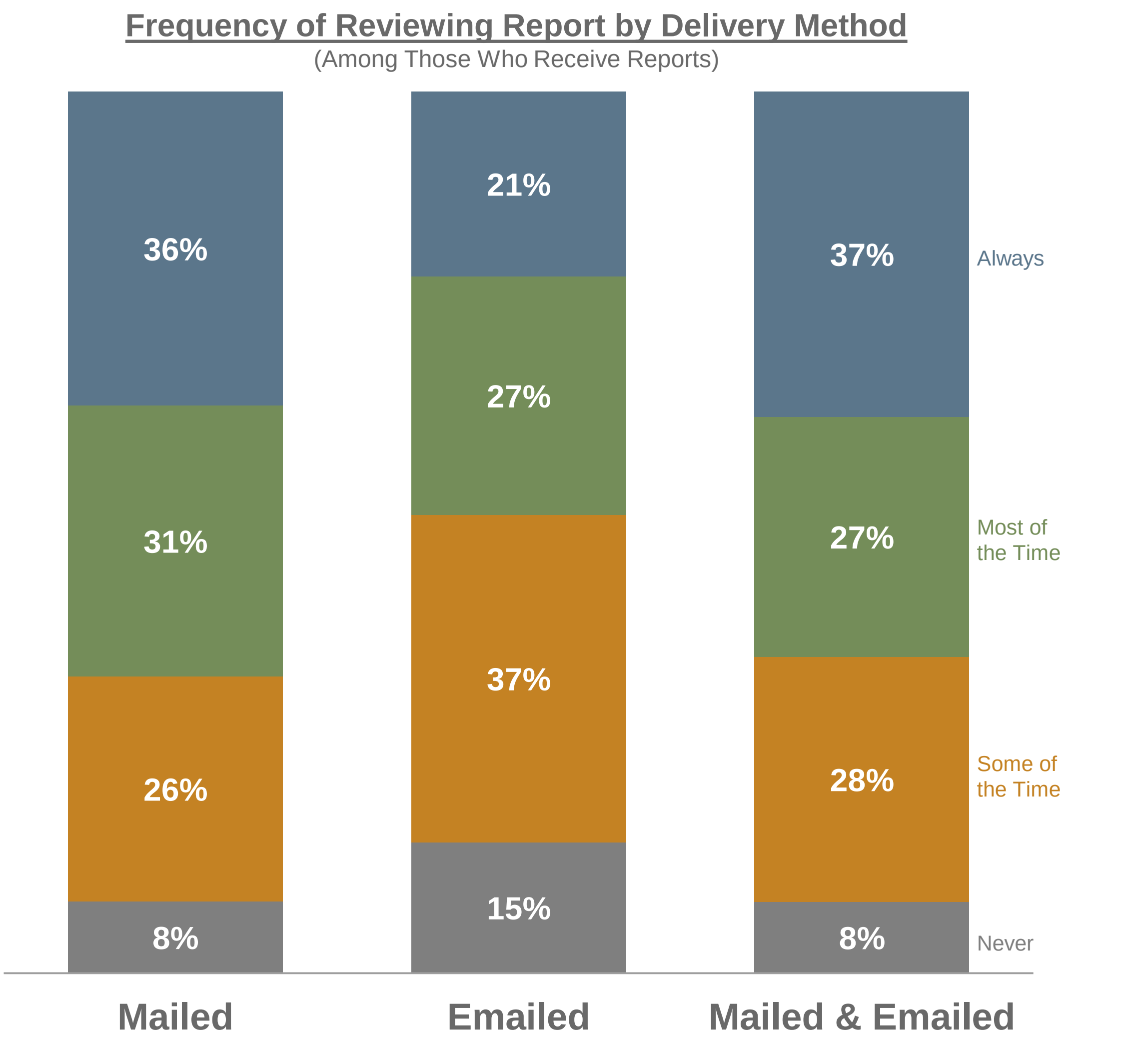
Base: Respondents who receive report via mail through broker (n=430)
Q3. Are you aware that you can receive annual and semi-annual reports electronically by email?
Base: Respondents who are aware of email delivery (n=357)
Q2. What are the reasons you do not choose to receive annual or semi-annual reports electronically by email? / Multiple responses accepted.

Frequency of Reviewing Report by Delivery Method

Reports are more likely to be reviewed if they are sent through the mail as opposed to email only.

Over a third (36%) say they *always* review the report that is mailed to them. The same is true for those who get their report from both email and mail.

Those who received it only through email are less likely to always review it.



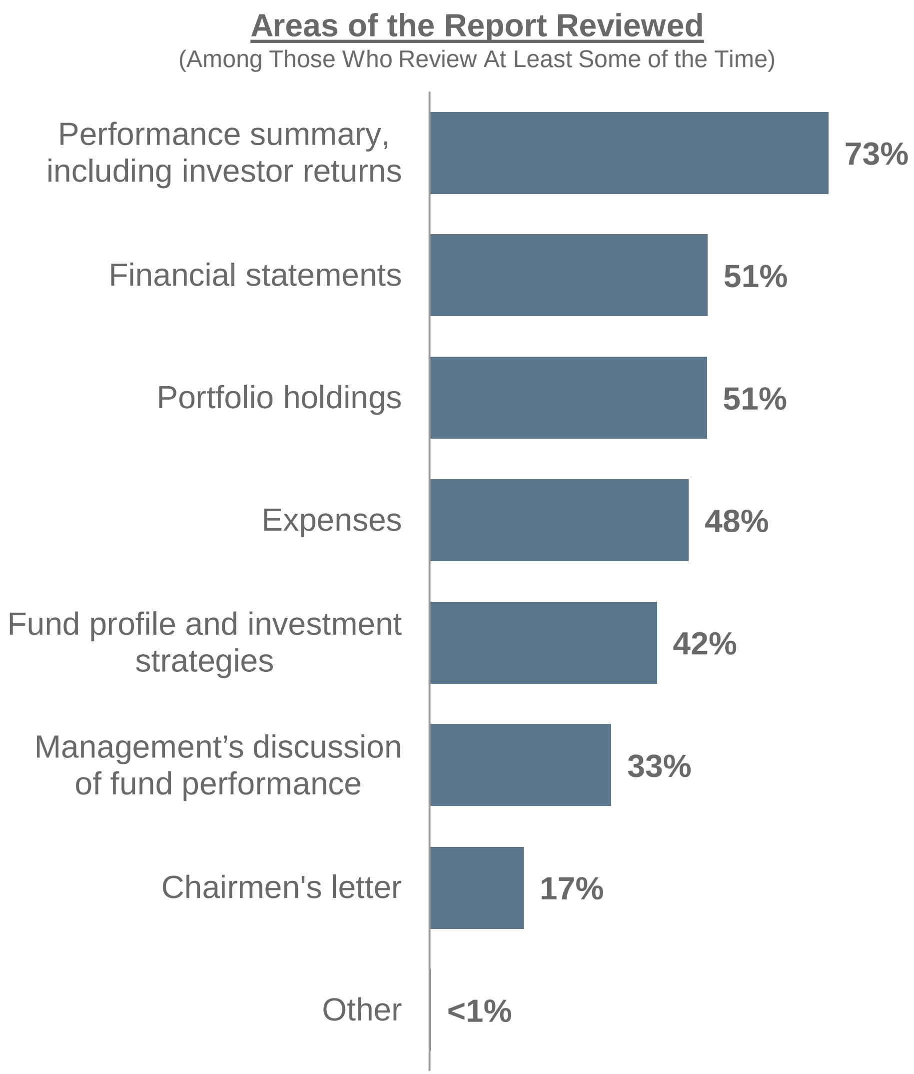
Base: Respondents who receive report via mail (n=407), email (n=229), or both (n=198)
Q5. How often do you look at the annual and semi-annual reports that are mailed to you?
Q5a. How often do you look at the annual and semi-annual reports that are emailed to you?
Q5b. How often do you look at the annual and semi-annual reports that are mailed and emailed to you?

Areas of the Report Reviewed

The most reviewed part of the annual or semi-annual report is the performance summary. About thee-quarters look at this information.

About half also peruse the financial statements, the portfolio holdings, and the expenses.

The Chairman’s letter is the least likely to be read.



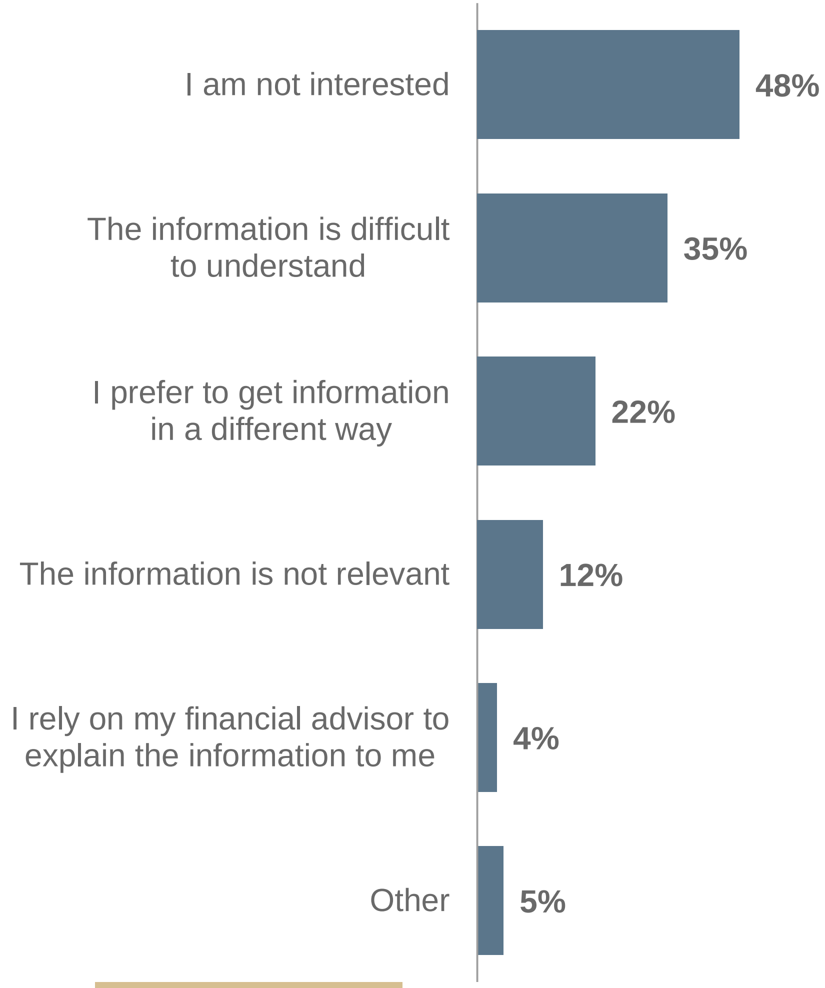
Base: Respondents who look at the report at least some of the time (n=751)
Q6. Which of the following areas of the report do you look at? / Multiple responses accepted.

Reasons Why the Report is Never Reviewed

Those who don't review the annual or semi-annual report are largely just not interested.

A third also indicate that they find the information difficult to understand.

Reasons Why Report Never Reviewed
(Among Those Who Never Review the Report)



***Small base size**

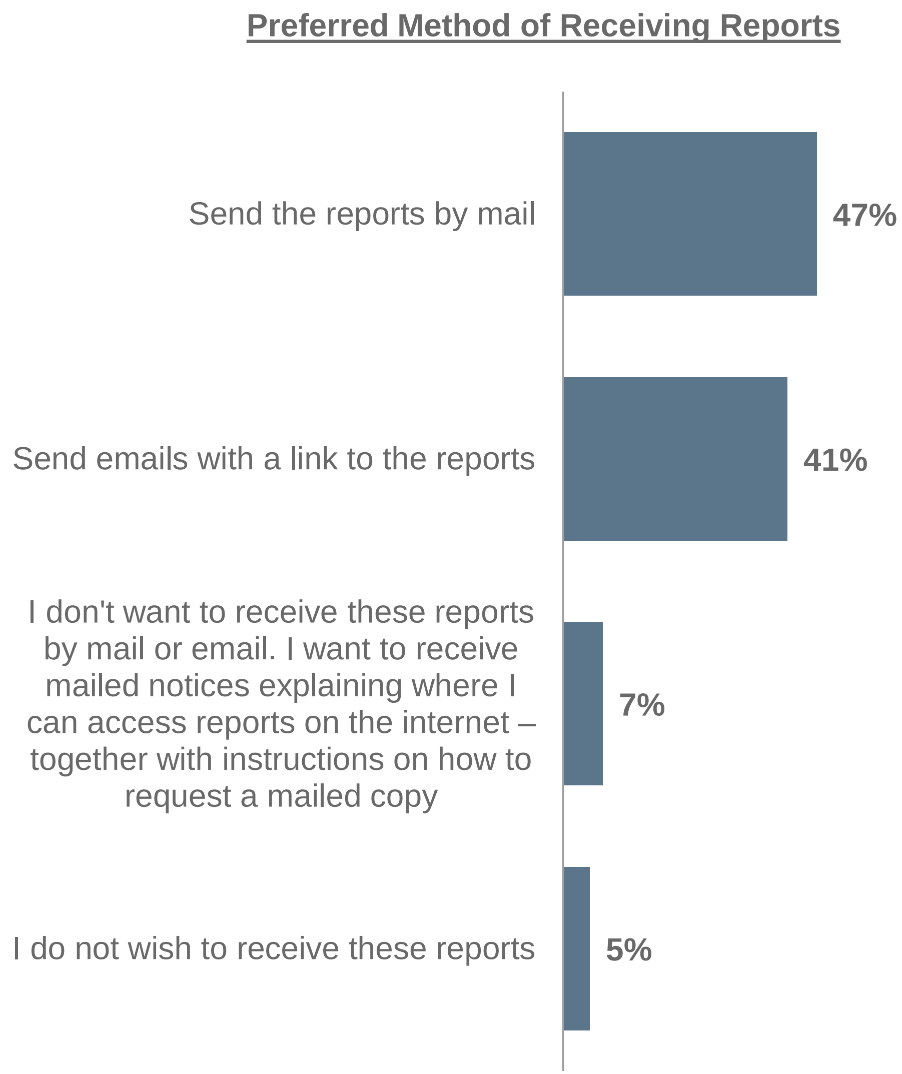
Base: Respondents who never look at the report (n=83*)
Q7. Please indicate the reasons you never look at the annual or semi-annual reports you receive. / Multiple responses accepted.

Preferences in Receiving Reports

Preferred Method of Receiving Reports Before Concept Exposure

If given a choice of how to receive reports, investors are fairly evenly divided between receiving them by mail or receiving an email link to the reports.

Very few want to receive a notice instead of the report.



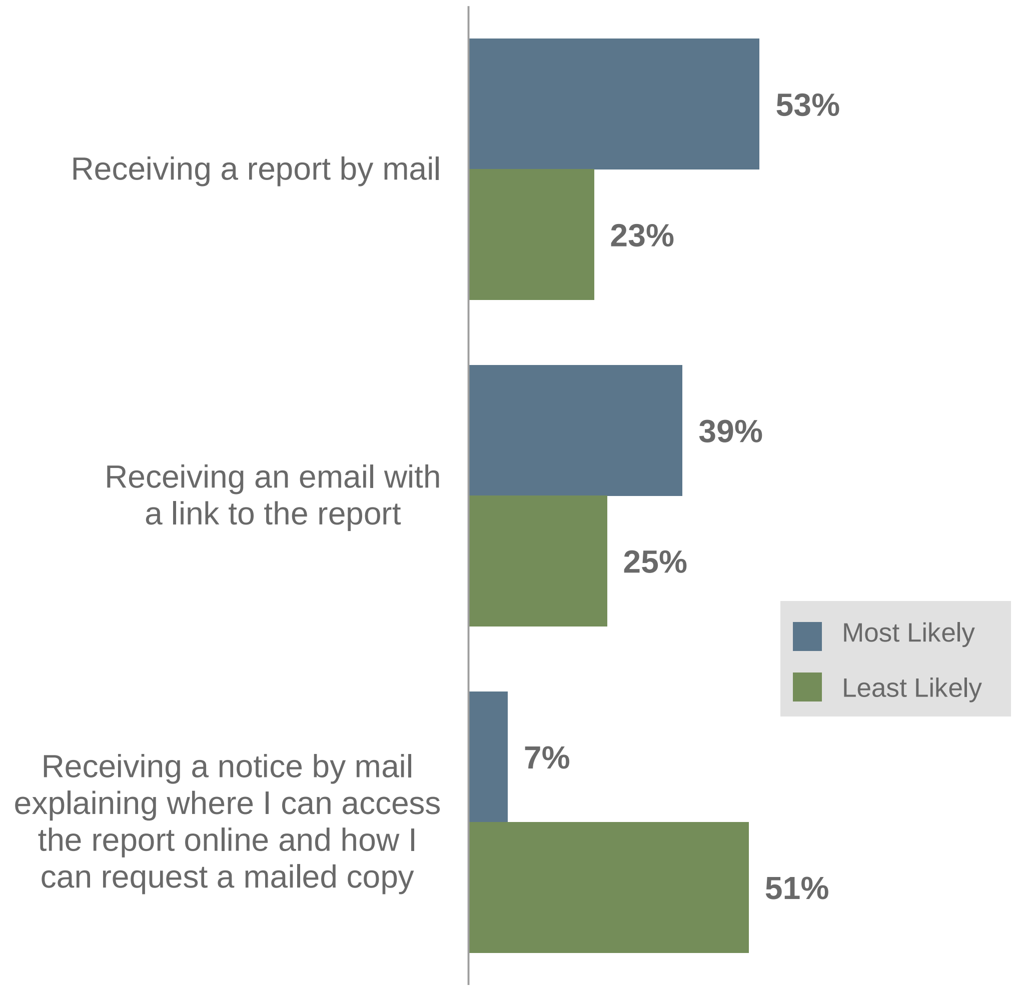
Base: Total Respondents (n=1002)
Q9. How would you most prefer to receive annual and semi-annual reports?

Method Likely to Encourage Review Prior to Concept Exposure

Readership of the annual or semi-annual report is more likely to occur if the report is sent via mail.

Readership is least likely if only a notice is sent.

Method Likely to Encourage Review

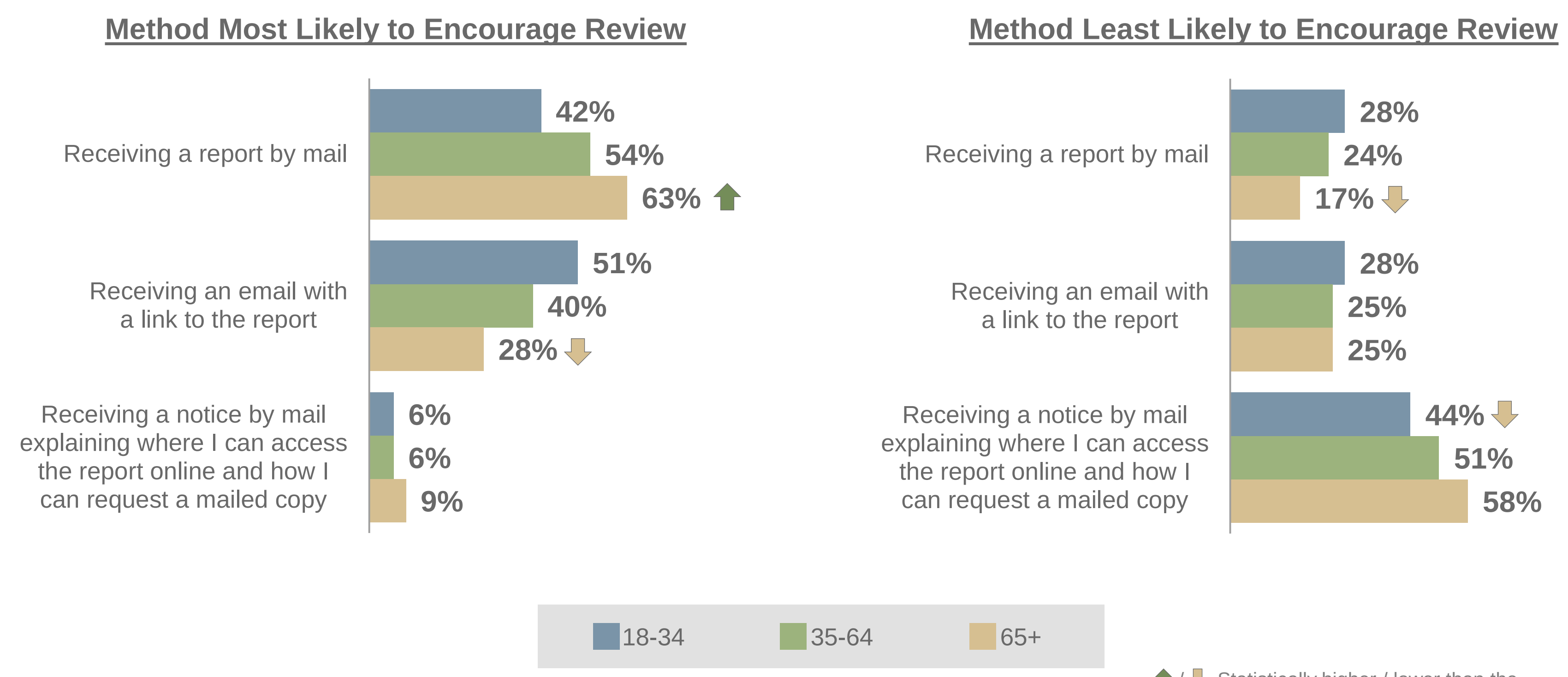


Base: Total Respondents (n=1002)
Q10. Which of the following would make you most likely to look at an annual or semi-annual report?
Q11. Which of the following would make you least likely to look at an annual or semi-annual report?

Method Likely to Encourage Review – By Age

Older investors absolutely prefer to receive the report by mail with their least preferred method being the receipt of the notice.

Younger investors are somewhat split in their preference between receiving the paper version or receiving an email with a link to the report. They are in agreement with the older segment in that their least preferred option is the notice.



/ Statistically higher / lower than the other age groups at the 90% confidence level.

Base: Total Respondents (18-34 n=217; 35-64 n=532; 65+ n=253)
Q10. Which of the following would make you most likely to look at an annual or semi-annual report?
Q11. Which of the following would make you least likely to look at an annual or semi-annual report?

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Frequency of Looking At Mailed Reports

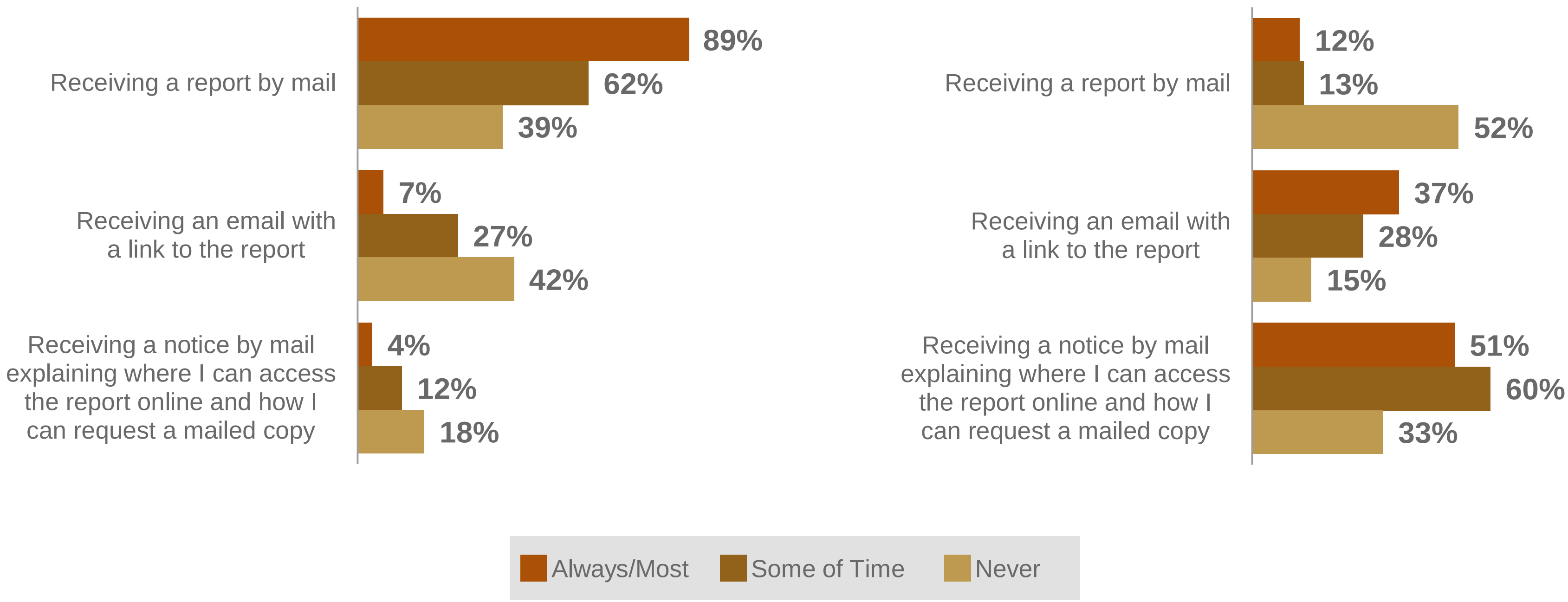
Fewer investors will likely read the reports if they only receive a notice.

Those who currently review more frequently believe receiving the full report in the mail encourages them to review the report; just receiving the notice is least likely to encourage this review.

Receiving an email with a link appears to be the next best option to encourage readership.

Method Most Likely to Encourage Review
(Among Those Receiving Mailed Reports)

Method Least Likely to Encourage Review
(Among Those Receiving Mailed Reports)



*Small base size

Base: Respondents who receive reports in mail (Always/Most n=270; Some of Time n=104; Never n=33*)
Q10. Which of the following would make you most likely to look at an annual or semi-annual report?
Q11. Which of the following would make you least likely to look at an annual or semi-annual report?

Proposed Notification Method of Report Delivery

Annual and semi-annual reports provide information on investment goals and strategies, performance, expenses, financial statements, and portfolio holdings. Mutual funds and ETF companies are required to mail these reports to investors. When you provide consent to electronic delivery, they are emailed to you instead.

A proposed rule could change how these reports are provided to you if you currently receive them by mail. (If you currently receive them by email, the process would not change.)

Instead of automatically mailing these reports to investors, mutual fund companies and ETFs would mail you only a simple notice. The notice would <u>not</u> include the report itself; rather it would explain where you can access the report online and how you can request a mailed copy.

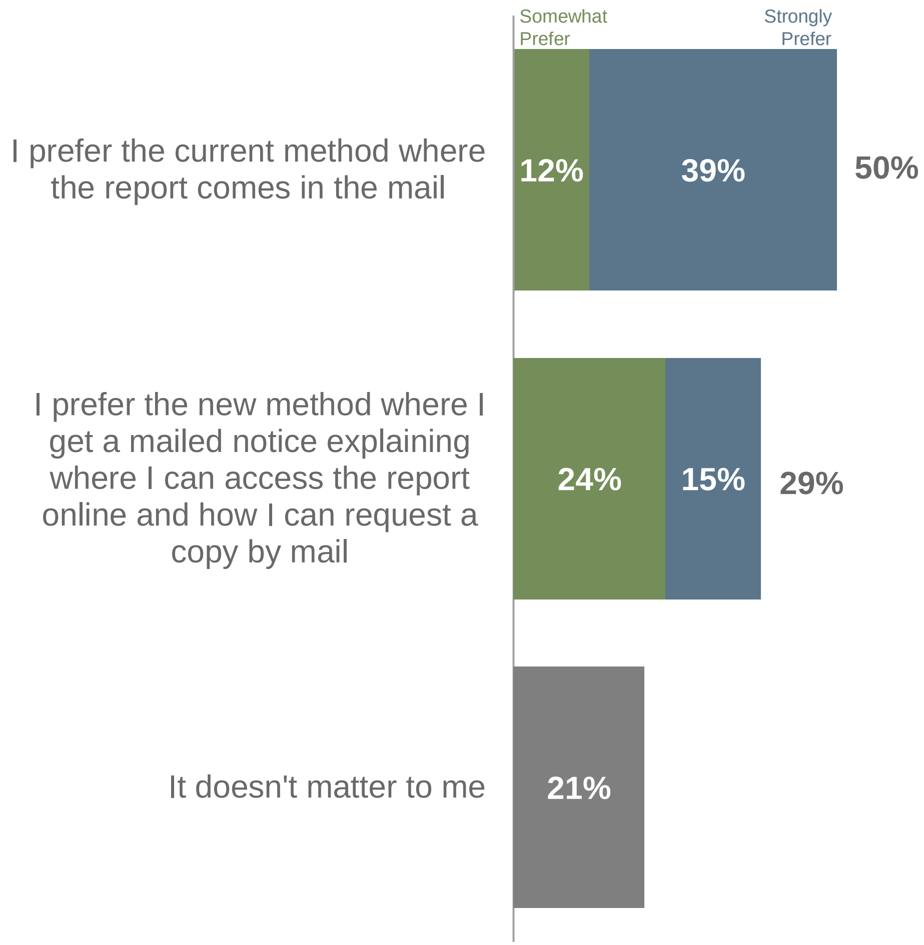
Preferred Method of Delivery after Notification Concept Exposure

Most investors (50%) prefer the current method of report delivery where they receive their report through the mail.

Fewer, three in ten, prefer the new proposed method where they receive a mailed notice explaining how they can access the report online.

Two in ten have no preference.

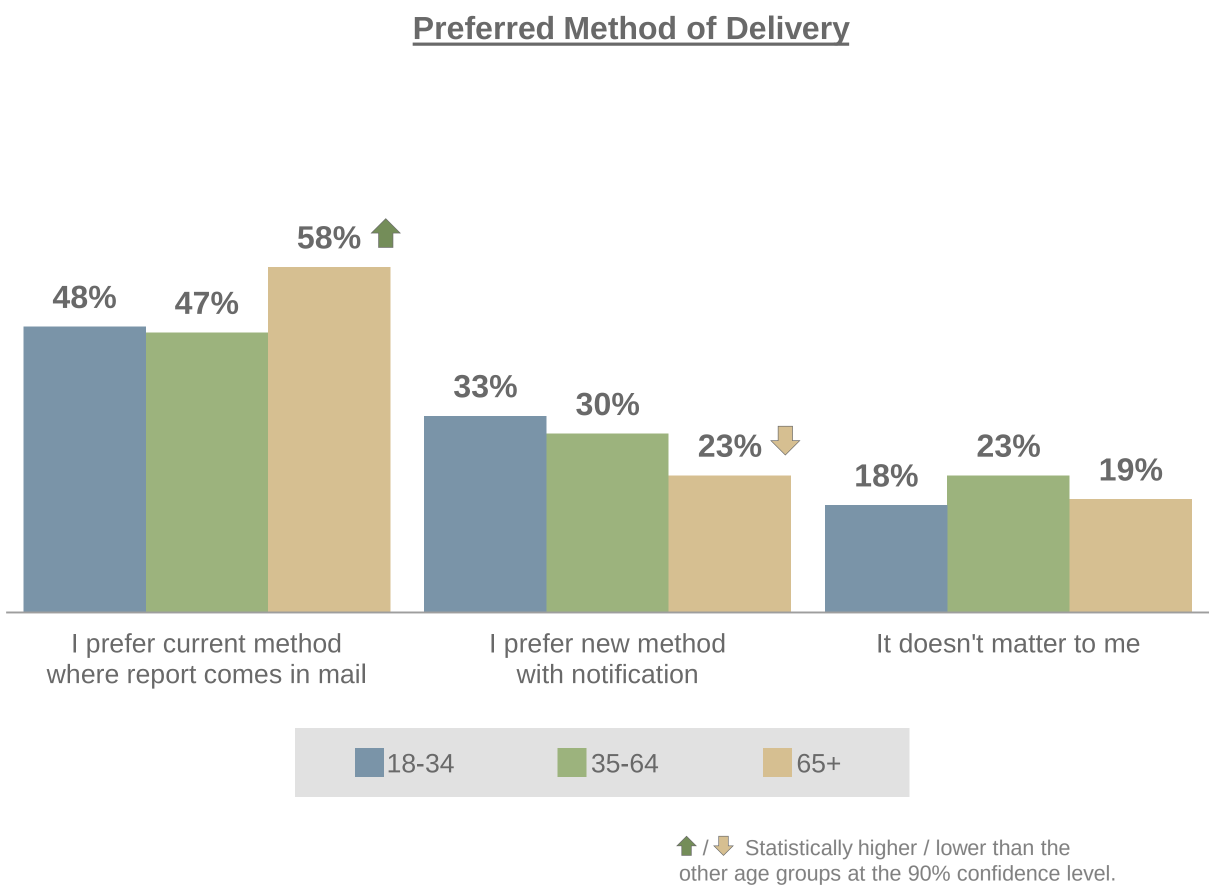
Preferred Method of Delivery



Base: Total Respondents (n=1002)
Q12. Which method do you prefer?
Q13. You say that you prefer the current method. Would you say you strongly prefer that method or somewhat prefer that method?
Q14. You say that you prefer the new method. Would you say you strongly prefer that method or somewhat prefer that method?

Preferred Method of Delivery – By Age

All age groups prefer the current method of report delivery.

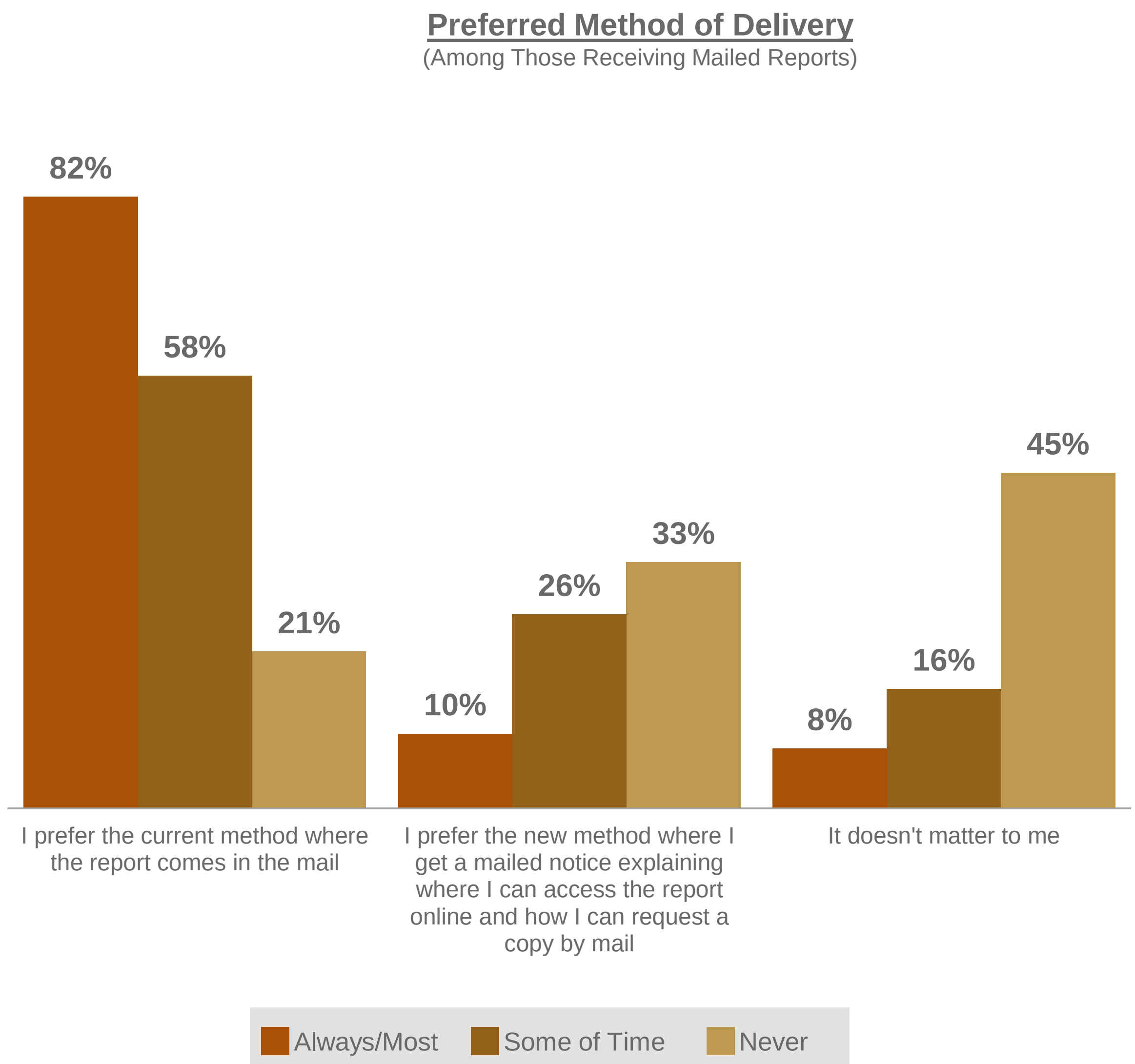


Base: Total Respondents (18-34 n=217; 35-64 n=532; 65+ n=253)
Q12. Which method do you prefer?

Preferred Method of Delivery – By Frequency of Looking at Mailed Reports

Those who currently review their annual or semi-annual reports at least some of the time prefer the current delivery method.

Those who never review their reports really don't have a preference. This seems to indicate that the new method wouldn't necessarily prompt them to change their review behavior.



Base: Respondents who receive reports in mail (Always/Most n=270; Some of Time n=104; Never n=33*)
Q12. Which method do you prefer?

*Small base size

Reasons the Selected Method is Preferred

Prefer Current Mail Method	"Is easy to read, make notes, and refer back and forth within the report."
	"Easier to read on paper. Would get lost among all the other email we get. Easier to flip back & forth to different sections. Also in our 60's, declining eyesight is starting to come into play."
	"If I get it in the mail I know I will sit down and read it. If I have to go to another website to access it or request a paper copy I may not do it."
	"You can read it at your leisure in any location."
	"It is more simple to look at parts of it if it is in paper form."
	"Because I can read it anywhere at any time."
	"Both my husband and I look at them. If (it) came to one of us or the other, we would probably miss some of them. We also discuss what is in them."
	"Don't want to have to take another step to find it online."
	"I want the paper in my hand instead of a small mailing or post card that can easily be lost in the mail."
	"I don't want to have to print the report at my expense to read it properly."
	"If I have the report in hand I will at least scan it. If I have to chase linkages I probably will not bother."
Prefer Proposed Method of Notice in Mail	"I do not have time to look at snail mail. Online format allows me to glance quickly when I have time without creating clutter in my house."
	"Convenient."
	"I rarely look at the reports and would like to conserve paper."
	"Printed reports are a waste of paper."
	"I just do everything online."
	"Less paperwork."
	"It's easier."
	"I can choose if I would like to see them."
	"It is easier to receive and quicker."

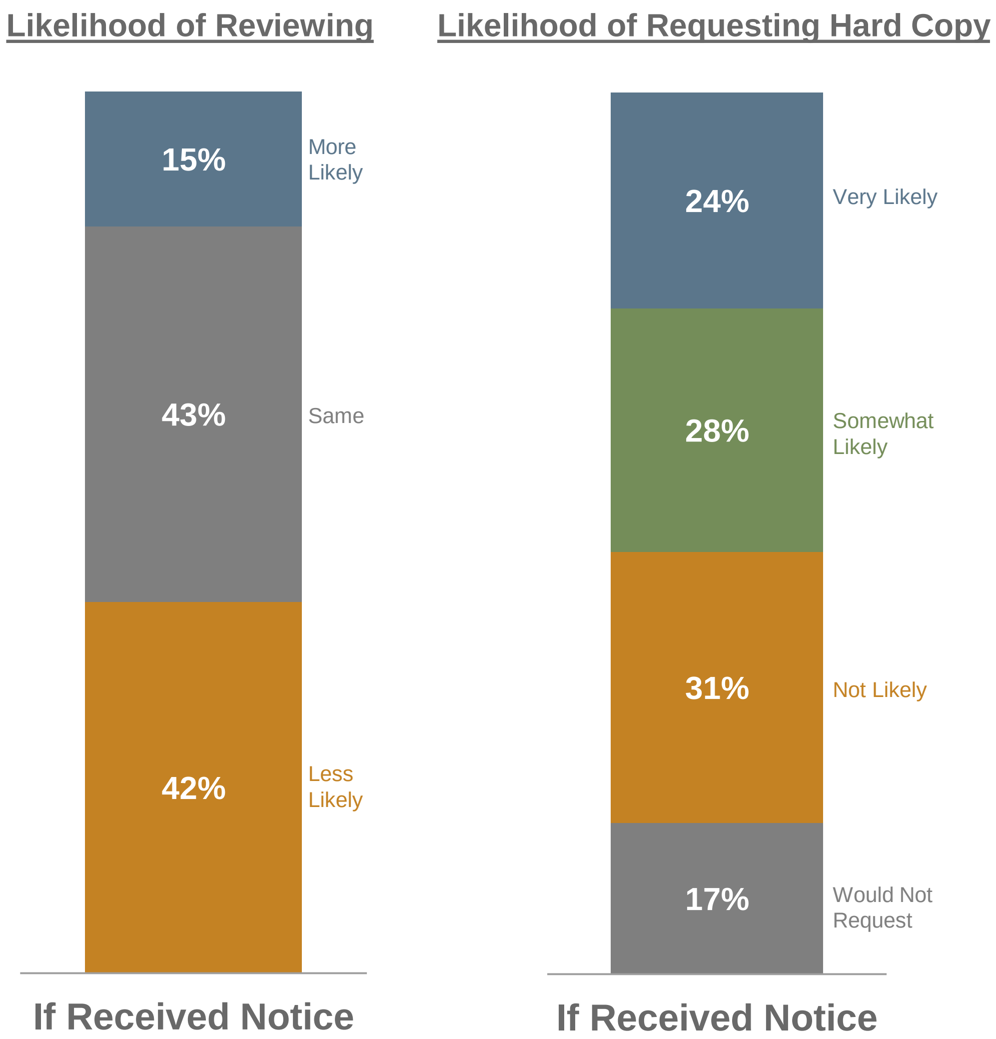
Base: Total Respondents (n=1002)
Q15. Why did you say that?
Select verbatims shown, edited for clarity only.

Impact of Receiving Notice of Report's Availability

It is likely that readership of the annual or semi-annual report will decline if the new method is adopted.

Specifically, four in ten say they will be less likely to look at the report if they receive a notice.

Additionally, half indicate that they probably would not request a hard copy.

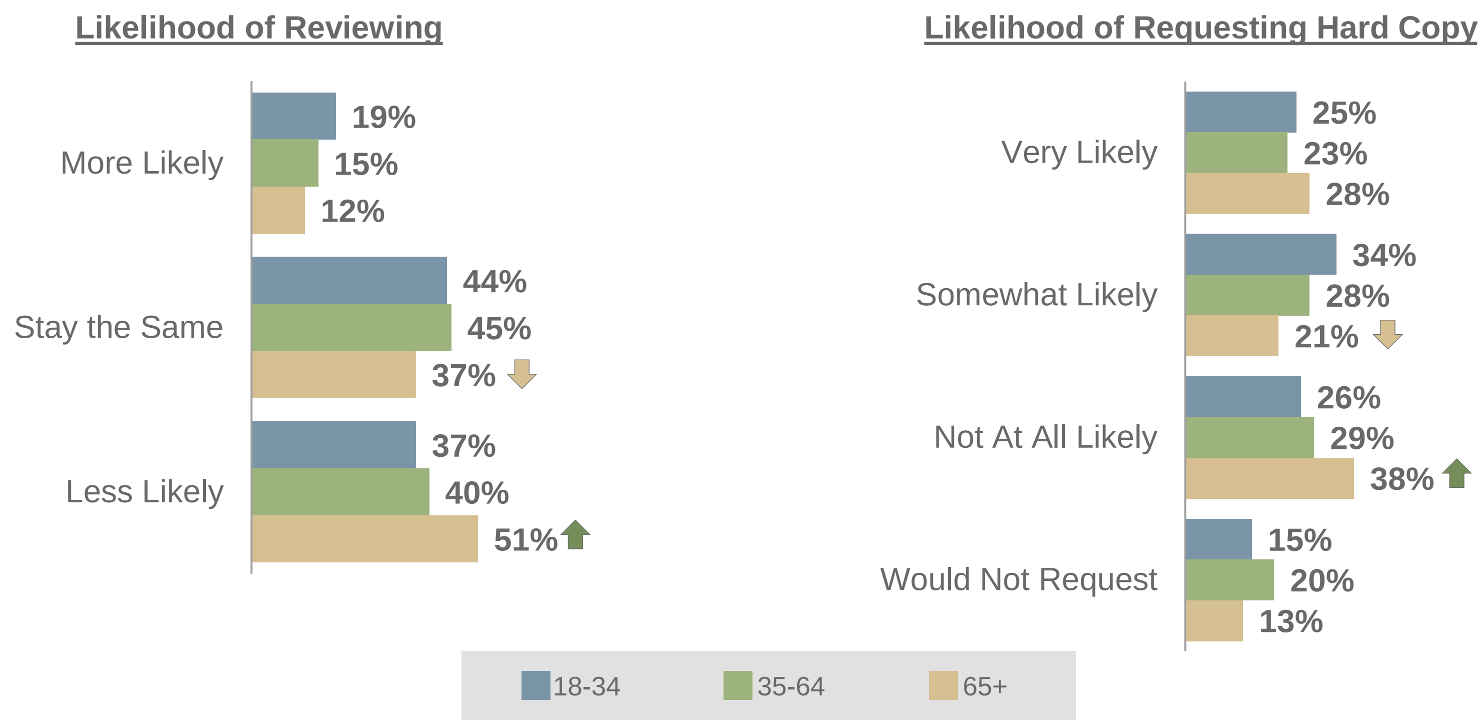


Base: Total Respondents (n=1002)
Q16. Would you be more likely or less likely to look at the annual or semi-annual report if you received a notice of the report's availability on the internet instead of a report in the mail?
Q17. If annual and semi-annual reports were no longer automatically mailed to you, how likely would you be to request hard copies by mail?

Impact of Receiving Notice of Report's Availability – By Age

The mailed notification of the report's availability may result in investors being less likely to review the annual or semi-annual report. This is true regardless of age.

Along these same lines, half or more say they would not be likely or would not request a hard copy of the report.



Base: Total Respondents (18-34 n=217; 35-64 n=532; 65+ n=253)
Q16. Would you be more likely or less likely to look at the annual or semi-annual report if you received a notice of the report's availability on the internet instead of a report in the mail?
Q17. If annual and semi-annual reports were no longer automatically mailed to you, how likely would you be to request hard copies by mail?

/ Statistically higher / lower than the other age groups at the 90% confidence level.

Proposed Summary of Fund Information

Mutual fund companies and brokers would mail investors summaries of the annual or semi-annual report.

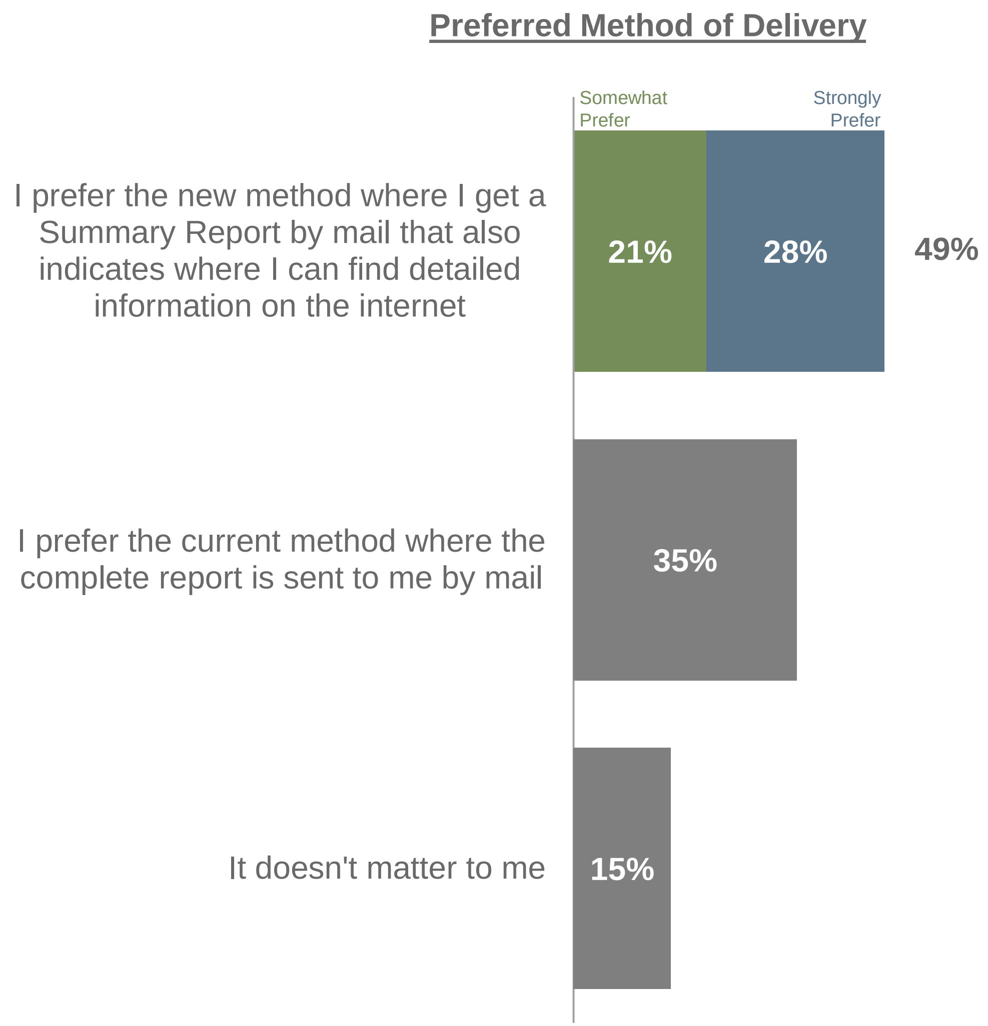
The summary would be 4-6 pages in length and would include key information about the fund. It would indicate where to get detailed information on the internet.

Preferred Method of Delivery

The proposed Summary Report is received positively.

About half (49%) prefer this delivery method.

A third still prefer the current mail method.

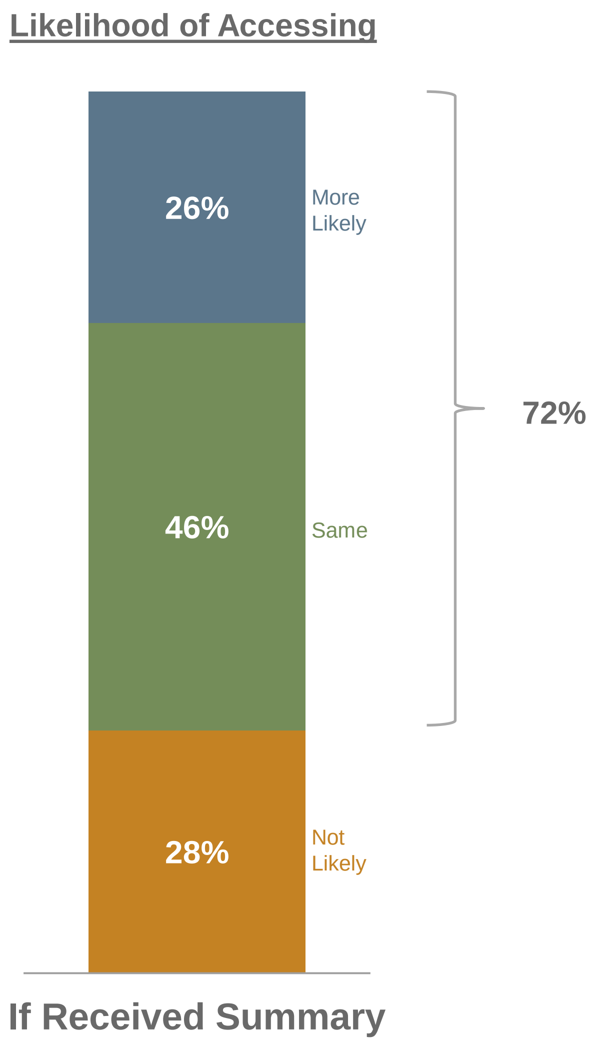


Base: Total Respondents (n=1002)
Q19. Which method do you prefer?
Q20. You say you prefer the new method. Would you say you strongly prefer that method or somewhat prefer that method?

Summary Report Likelihood of Accessing Information

Readership will be the same or higher with a Summary Report.

About three-quarters (72%) of investors indicate that they would be just as likely or more likely to access the detailed report information online if they received a Summary Report.



Base: Total Respondents (n=1002)
Q21. If the annual or semi-annual reports were no longer automatically mailed to you, but you received a Summary Report by mail, how likely would you be to access the detailed information on the internet?

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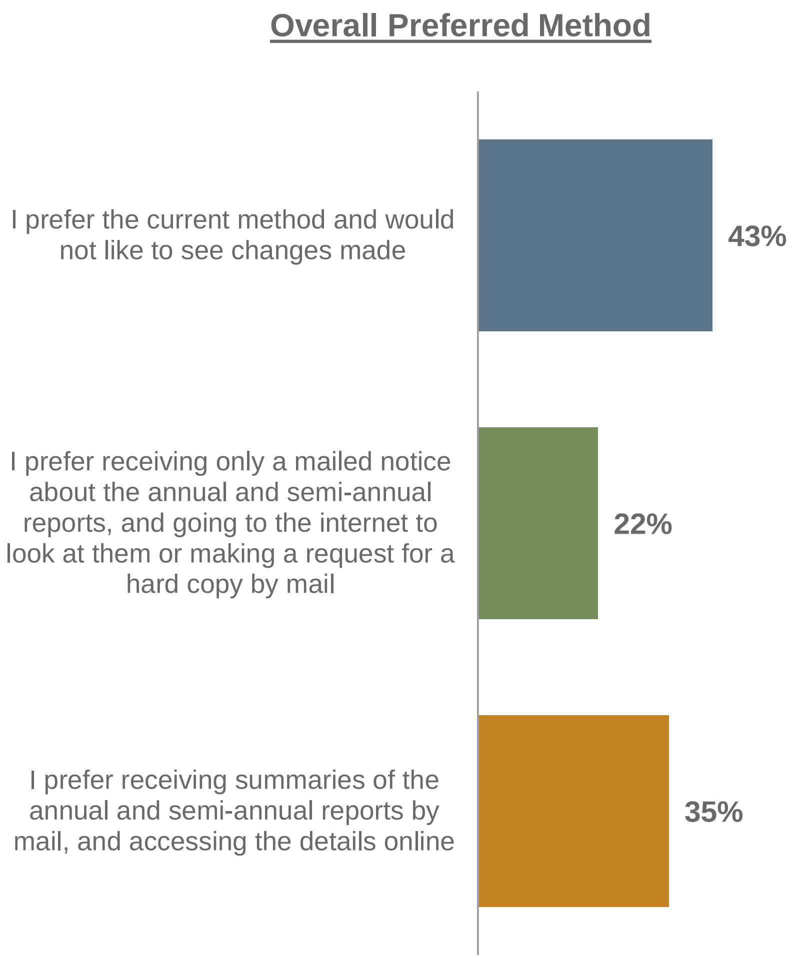
Overall Preferred Method

Investors prefer the current method of annual and semi-annual report delivery.

When given the option of the current method, the Summary Report, or the Mailed Notice, the current method won out, followed by the Summary Report.

The mailed notification was the least popular delivery method.



Base: Total Respondents (n=1002)
Q22. Thinking about all the options presented here, which method of delivering annual and semi-annual reports do you prefer?

Reasons Why Preferred Method Selected

Current Method	"I'd rather get the paper version."
	"I'd prefer to read a hard copy."
	"Much easier to access the information."
	"That way I feel more safe."
	"I like having a paper copy for reference."
	"Don't want to do more work on my part to find out about my mutual funds."
	"It's more convenient."
	"I like to have it where I can easily access several pages at the same time."
	"Without having the full document before me, I am unlikely to read or seek the information."
	"Don't trust financial information on the internet."
	"I'm more likely to look at it."
Notice	"Because I prefer not to get any of this through the mail at all."
	"I would like to save the paper save the trees!"
	"I don't always check my email."
	"Because it is the most economical."
	"Easy to access."
	"Don't need a hard copy."
	"It allows me to get the information in different ways."
Summaries	"I only want to see the summary anyway. It would save paper."
	"As I am more inclined to go online for everything and prefer less paper."
	"I would like just a summary of the report. I rarely look at the detailed report."
	"Summary has all the info I need."
	"Minimizes waste of paper but still gives thorough access to info."
	"More likely to read a summary than a long report."
	"Because it would be easier and more convenient."
	"More time efficient to read the summary information."
	"I could tolerate a 2 3 page summary arriving in the mail. I would look at it then put it in my recycling."
	"I do not need all the details...only the return on investment, additional shares purchased (assuming reinvestment), and total value of each quarterly dividend/reinvestment."

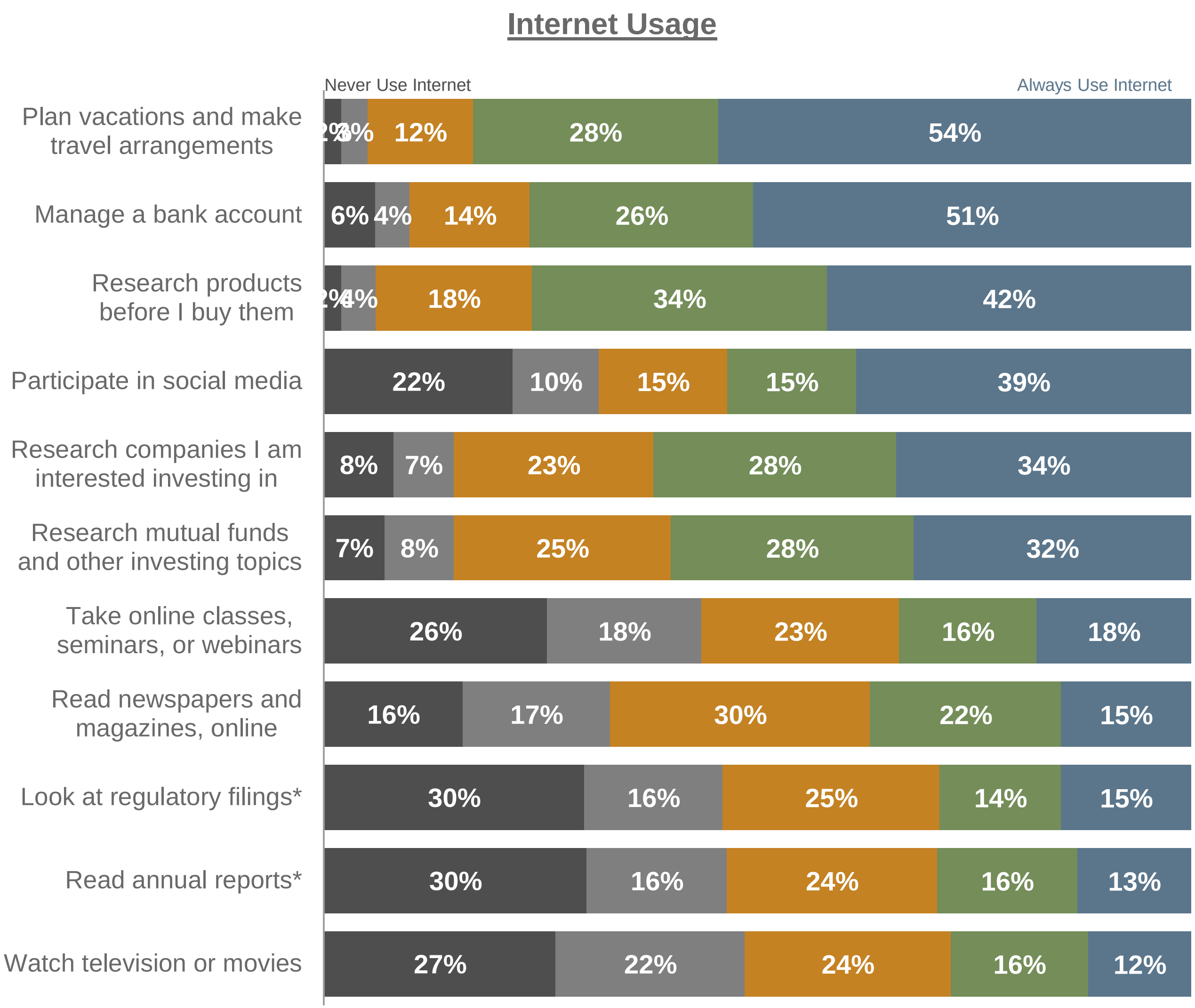
Base: Total Respondents (n=1002)
Q23. Why do you say that?
Select verbatims shown, edited for clarity only.

Internet Usage

The internet is used frequently for activities such as making travel arrangements and managing a bank account.

Many also use the internet to research companies in which they are interested in investing. Similarly, research is done on mutual funds and other investing topics.

Few, however, choose to use the internet to look at regulatory filings or read annual reports.



Base: Total Respondents (n=1002)
Q24. People use the internet for many things. With a 5 being you "Always" use the internet to a 1 being you "Never" use the internet, please rate how frequently you accomplish the following activities using the internet.
*Attribute added after soft launch (n=900)

Respondent Profile

Investor Profile

Investor Profile	Total
	n 1002
Number of Funds Owned	
1	18%
2 to 5	53%
6 to 10	19%
More than 10	10%
Length of Fund Ownership	
Less than a year	6%
Between one year and five years	26%
Between five years and ten years	21%
More than 10 years	47%

Investor Profile	Total
	n 1002
Household Financial Assets	
Under $50,000	14%
$50,000 to less than $100,000	19%
$100,000 to less than $200,000	19%
$200,000 to less than $500,000	18%
$500,000 or more	30%
Type of Investor (Forrester-Defined)	
Soloist	49%
Validator	44%
Delegator	8%
Involvement with Investing	
Engaged	67%
Too busy	22%
Help me	9%
Tell me what to do	1%

Base: Total Respondents
Investor profiling questions.

Respondent Profile

Respondent Profile	Total
	n 1002
Gender	
Male	50%
Female	50%
Age	
18 - 24 years	3%
25 - 34 years	19%
35 - 49 years	19%
50 - 64 years	34%
65 - 74 years	21%
75+ years	4%

Respondent Profile	Total
	n 1002
Annual Household Income	
Under $50,000	15%
$50,000 - $99,999	39%
$100,000 or more	46%
Education Level	
No college	4%
Some college - no degree	18%
4-year college degree	43%
Post-graduate degree	34%

Base: Total Respondents
Demographic questions.

<u>Channel Factors That Block (Psychologically) Effective Access:</u>

Unforeseen Risks of the Proposal on "Internet Availability of Proxy Materials"

Daylian M. Cain
Sendhil Mullainathan
Harvard University

The purpose of this paper is to identify research that is relevant to the proposed rule on "Internet Availability of Proxy Materials," and to discuss its implications for behavior change. We wish to address the risks raised by the proposed "Notice and Access" rule through a psychological and behavioral–economics lens. In doing so, we will argue that subtle changes in the proxy-voting process may lead to significant, possibly adverse, effects. For example, recent experimental research on opt-in and out-out programs shows that subtle changes to default mechanisms can dramatically affect behavior. We believe that any changes, as well as the current status-quo, ought to be more carefully tested to ensure protection of the relationship between investors and their firms.

If enacted by issuers, Notice and Access would require millions of investors to take additional steps to get the annual financial reports and proxy statements which they automatically receive today. These extra steps include: (i) going online and searching a website, (ii) calling a toll-free number, providing personal information, and waiting for requested copies, or, (iii) sending an e-mail message to request the information. When things do go smoothly, the extra required steps seem to be but small, perhaps inconsequential nuisances; the implicit argument being that consumers who "really want" paper copies can easily get that information. Against that view, we will argue that recent research in psychology and economics shows that requiring these "extra steps" likely introduces large psychological barriers to access, ones which even the investors themselves are unlikely to forecast. The paper will proceed by outlining several established bodies of research to make this argument.

Situational Influences and "Channel" Factors

Psychological research suggests that, just as a small rock in the path can channel running water into a different direction, human behavior has a strong tendency to be channeled into paths of least resistance. In fact, seemingly minor situational details or "channel" factors are major determinants of what people do (Ross and Nisbett, 1991). "Open" channels (e.g., situations in which there is a prior commitment, or that require only a small first-step to be taken) may facilitate some behaviors, while "closed" channels (e.g., those that require new actions for established entitlements) can block other behaviors.

In other words, small barriers can have large effects on behavior. We worry that requiring investors to take extra (albeit small) steps in getting the proxy materials they now get automatically may block investors from utilizing important resources. An example of this was demonstrated in the classic study by Leventhal, Singer, and Jones (1965), wherein educational messages were used to persuade college seniors that getting a tetanus shot was worthwhile. Although seemingly convinced, only 3% of these seniors actually went on to get a tetanus shot. However, in a similar group of students who were given the same messages, nearly ten times more students went on to get a tetanus shot when they were both (1) asked to declare a time when they would go to the infirmary and (2) given a campus map with the infirmary circled on it. More recently, Bertrand, et al. (2004), conducted field experiments in the United States to examine savings behavior. In one of their studies, several public workshops were offered on the merits of opening a bank account. In the standard workshop, participants interested in opening an account were given referral letters for them to complete at a nearby bank where they could open an account. In another set of workshops, a bank representative was on hand to allow completion of most of the paperwork at the workshop itself. Since participants still had to go to the bank to present the completed forms and to actually open the account, this variation seems relatively insignificant from an economic perspective. However, the presence of the bank representative dramatically increased take-up. The message is that, if the ultimate goal of the SEC is to ensure that information is disclosed to investors, introducing new extra steps for investors to take before getting that information places closed channel factors in a path that is otherwise open today.[1]

The Status-Quo Bias

In our eyes, another key feature of the Notice and Access proposal is the nature of the default it sets. It would set the default as receiving those materials online so that investors would actively have to "opt-in" to receive paper-based proxy materials. A large body of evidence has shown that defaults such as these can affect behavior, often dramatically. For example, several countries including Austria, Belgium, France, and Sweden, presume consent to organ donation (with family consultation), requiring those who do not want to be organ donors to *opt-out*, rather using a U.S.-style system wherein non-consent is presumed and where would-be donors must *opt-in* to grant consent. Johnson and Goldstein (2003) find that European countries with opt-in organ-donor programs have effective consent rates between 4-28%, while European countries with opt-out programs have effective consent rates ranging from 86-100%.

Defaults have been shown to matter even in large financial decisions, e.g., retirement savings. Madrian and Shea (2001) showed that both 401(k) participation and portfolio composition is dramatically affected by what the company initiates as the default. All else being equal, a full six out of ten employees (61%) maintained their savings behavior at the level of the company default, compared to less than 25% when the default was no such enrollment. The downside is that, in accepting the default, 61% of these employees also did nothing to increase the fairly low 3% default contribution rate. By "suggesting" a 3% contribution rate via their automatic enrollment option, the company caused participants to shift away from the otherwise 6+% contribution levels down to exactly 3%. Also, by "suggesting" a money market fund via their default-allocation, the company caused participants to maintain a substantially more conservative portfolio, one dominated by the money market fund rather than by stocks. Without such a combination of defaults, only 1% of the cohorts participated in the combination of a 401(k) plan at a contribution rate of 3% with 100% of contributions being allocated to the money market fund. This means that nearly all of the 61% represents participant "inertia," not the savings choices that they would have made regardless of the defaults.

[1] This is especially important given that the online process may not always go smoothly. For example, internet connections can be slow or unreliable, passwords can be forgotten and must be retrieved, or websites may be difficult to navigate through or hard to find or be "down." These “small” hassles can serve as further significant blockages to action.

This type of investor inertia has been found in many settings. Benartzi and Thaler (1999) show that when firms offer investment options for retirement accounts, the percentage of stock funds offered is an excellent predictor of the percentage of stock funds chosen; e.g., when 3 stock funds and 1 bond fund are offered, employees put 75% (3:1) of their money into stock funds. The researchers show that even "sophisticated" buyers make such naïve allocations, and that these allocations "stick" throughout the buyers' careers. Likewise, Samuel and Zeckhauser (1988) suggest that people tend to keep inherited investment portfolios as these portfolios come to them, even when trained in the basics of economics and finance, and even when these inheritances have various risk profiles which may not match the unbiased preferences of the benefactors. Interestingly, Choi and colleagues (2005) found that offering a no-default alternative that forced choice increased enrollment in 401(k) plans, albeit not as much as having enrollment as the default. In other words, a poorly set default (e.g. non-participation in a retirement plan) can result in bad outcomes for individuals, even on decisions they care about.

We worry because Notice and Access changes the status quo, and because it does so without the investor's consent and without proper investigation into what the effects of either default (current or proposed) might be. The past research suggests that investor participation may decline sharply

Procrastination

As barriers to action, channel factors are different from "transaction costs" in that, economically speaking, the *costs* of the action can be tiny while the potential *benefits* of the action can be large. For example, on a cost–benefit analysis, it is surely worth the effort to handle the paperwork needed to redeem a large rebate, but (as we discuss below), rebate-redemption is something people frequently fail to do. Reconsidering the tetanus study, it certainly seems worth the hassle of *getting* a map rather than forever being unprotected against tetanus. Likewise, consider Choi and colleagues' (2001) group of self-reported under-savers: out of every 100 respondents, 68 reported that their savings rate was too low; 24 of those 68 planned to increase their 401(k) contribution rate in the next few months; *but only 3 of those 24 actually did so, even after four months*. What might be going wrong in these situations?

Experimental evidence on choices over time has repeatedly shown that people are prone to self-control problems (Frederick et. al. 2002). People tend to choose hedonic options in the present and virtuous options for the future. When people finally do muster the self-control to choose virtuous options in the present, their continued capacity for such self-control gradually diminishes, "like a muscle" (Muraven & Baumeister, 2000). Furthermore, the initial procrastination, in turn, can produce a strong tendency toward further inertia. After all, when one decides against a seemingly beneficial action, it is not as if one is resigning from ever doing it, but one merely leaves it open to do "tomorrow." Indeed, the costs and risks associated with short delays are often minuscule. The problem, of course, is that these costs and risks add up almost imperceptibly over time because the agent makes repeated decisions to delay… tomorrow never comes. Exacerbating the temptation to procrastinate is the tendency for people to under-weigh small costs and benefits, making the costs of further delay seem not only small, but utterly inconsequential (Markowitz, 1952; Cain & Loewenstein, 2006). On the upside, when contemplating the usually small costs and benefits of taking action today vs. taking action tomorrow (no really, <u>tomorrow</u>), a comparatively small psychological nudge may be all that is needed to overcome the perceived barriers to immediate action. In this way, small channel factors can lead to big effects, merely by "getting the ball rolling."

The "tomorrow never comes" phenomenon has significant implications in a proxy-voting environment. Votes get counted, annual meetings occur, business moves on, and well-intentioned investors, who never actually got to their voting activity, missed out because the extra steps it took to vote made action less likely. For those who prefer to receive their proxy materials via mail, by getting annual financial information and proxy statements into their hands, today's system of disclosure arguably provides higher levels of voting than would occur under Notice and Access. The inherent virtue of the current process for disclosing information to investors is that if investors do nothing and remain passive, they will continue to get their proxy materials. By this design feature, procrastination does not inhibit disclosure the way it would under Notice and Access.

Detachment and Moral Wriggle-Room.

The rule changes might have an impact through one other important channel as well: investors' feeling of a "moral" responsibility to vote. Since proxy voting is a public good, a large portion of investors' desire to vote surely comes from a sense of responsibility. Changing the amount of information that is put into investors' hands (as opposed to leaving it as merely "available" online) may alter the extent to which investors feel detached. Dana and colleagues (2004; 2005; forthcoming) show that many people do not feel responsible for their behavior when it is easy to keep themselves "strategically ignorant" of the outcomes of that behavior. In one experiment, when the consequences of a particular choice were common knowledge, the majority of participants chose the pro-social option. However, when the same consequences of the same choice were left as (freely and instantly) "available," a majority of participants acted anti-socially.[2] This happened because participants could plausibly – even if dishonestly – claim that they "did not look at" the consequences of their behavior. We concede that it may be the shareholder's right to remain ignorant of company issues (and that shareholders can also avoid opening their mail). But the point here is that, under the new proposal, investors may be inclined to detach, especially when it is plausible that they did not get around to ordering, seeking out, or even "clicking on" the proxy-materials. Indeed, the mix of information put "in-hand" vs. left as "easily-retrievable" can have subtle but significant impact on what shareholders feel compelled to do.

Rebates and Forecasting

These results so far suggest that many of the changes proposed may deter investors from seeking proxy materials. Do investors realize this? Surveys suggest that the majority – though, interestingly, not a vast majority – feel that it would not affect them. What does past research tell us about how to interpret this data? In this section, we shall argue that surveys of investors' perceptions of their likely behavior under a Notice and Access scenario (e.g., will you take steps to get information? is it likely that you will read the information? are you likely to vote?) should be regarded with caution. People often make incorrect predictions about their future selves, and they

[2] For example, in one experiment, all outcomes were pre-determined and could be known, merely by clicking on a "reveal" button that was on the very computer screen on which the participant was making his or her choice.

err on the side of being overly optimistic, especially when forecasting their ability to get over small situational obstacles. These predictions could potentially represent untested, best-case scenarios.

People are generally overconfident in their ability to perform future actions (Gregory, Cialdini, & Carpenter, 1982; Griffin et al., 1990). This is especially true when the agent has little experience with the type of event being predicted or when feedback on such events has been delayed or is ambiguous (Hogarth, 1987), as is the case with a novel change such as Notice and Access. An interesting example is the case of rebates. When consumers purchase items, they are often affected by the offer of a rebate. This suggests they feel they are going to redeem it. Yet, in fact, this can be a faulty forecast, as many consumers do not redeem the rebates. Research verifies that (i) consumers are overly optimistic about how likely they are to redeem a rebate, and that (ii) this leads consumers into purchasing products for which rebates go unredeemed (Greenman, 1999; Jolsen et al., 1987). As Gourville and Soman (2004) argue, when consumers forecast the likelihood of rebate-redemption, they "anchor" on scenarios where redemption is successful and then try to adjust or offset this scenario by anticipated variations in which redemption is unsuccessful (see also: Tversky & Kahneman, 1974; Quatrrone, 1982). Theoretically, the consumer *could* imagine an exhaustive set of unsuccessful redemption scenarios, in order to sufficiently adjust the initial (successful) scenario "down" to an accurate prediction; but research shows that people typically generate too few such scenarios and therefore insufficiently adjust (Fischhoff, Slovic, & Lichtenstein, 1977). As Schoemaker (1991) argues, people typically and automatically generate scenarios consistent with the optimal target (successful redemption), rather than counter-scenarios (of unsuccessful redemption). Indeed, whenever consumers face ambiguous situations, as is often the case, they tend to use any ambiguity or subjective unknowns in the situation to justify choosing the tempting or appeasing option (Hsee, 1995; Soman & Gourville, 2001).

Self-deception about the likelihood of future rebate redemption overly tempts some consumers into purchasing goods that come with rebates, and self-deception also tempts some of those same consumers to delay rebate redemption until "tomorrow." The problems that consumers have with rebate redemption suggest that even the investors themselves may not have accurate assessments of how likely they are to overcome seemingly small barriers to investor participation.

The Dangers of the SEC's Proposal Summarized

The SEC lists three main desiderata for proxies: (i) timely and adequate notice, (ii) effective access, and (iii) evidence of delivery (Fried Frank, 1998). We worry that Notice and Access may provide lower levels of *psychologically effective* access than those provided to investors today. The evidence cited so far hopefully makes clear that apparently small barriers to access and changes in the status quo can effectively deter access. There are good reasons that the SEC would demand that shareholders be at least mailed "notifications" of the presence of online proxy materials, rather than merely leaving all it up to shareholders to "check online, from time to time." Likewise, there are good reasons to put substantial information into the actual hands of investors. As a default, consumers should receive enough information to make informed decisions, though perhaps not so much as to overwhelm them. The information in-hand should be sufficient to inform investors and provide sufficient momentum towards maintained participation. At the very least, it is our strong belief that any proposed method of shareholder notification (and even the current) ought to be properly tested to assess its true effectiveness.

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Defaults and Deciding to Use Information

A White Paper Reviewing the Role of Defaults in Decision Making: Implications for Investor Participation in the Proposed Notice and Access Scenario

Eric J. Johnson

Columbia Business School

Columbia University

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Defaults and Deciding to Use Information

Summary

To improve consumer protection, the e-proxy regulation must address two related but separate questions:

(1) Are all consumers better off when the internet is used for dissemination of annual statements and participation in voting, and
(2) Will the change in the default from the current delivery by mail to access by internet appreciably change behavior?

In this document, we examine the second question; reviewing a series of studies which have looked at the role of defaults in a large set of public policy and investment decisions. Many studies show that defaults change behavior, even when the decisions involve substantial amounts of money. This paper references some of the major studies on defaults and reviews why they make a difference. We conclude that caution must be exercised in the choice of defaults for providing information about securities.

Introduction

Every decision has a default or a choice that is made when we take no action. For example, by default, an employee saves no money in a 401(k) plan. An employee must make an active decision to allocate money to the account. By default, in the United States, no one is an organ donor; they must actively choose to become one.

The current proposal by the SEC suggests a change in default. Currently shareholders receive by mail an annual report, proxy statement, and ballots for voting. If they desire electronic delivery, they make a request and all subsequent communication will be done electronically. Under the new regulation, electronic availability becomes the default, and a shareholder will need to make a request to receive the same material by mail. In this note, we examine how this change is likely to affect shareholder's access to the material and participation in voting. We do this by first reviewing many studies which examine the influence of defaults, and then discuss the reasons that defaults may have an effect.

Evidence

The first paper to examine defaults by Samuelson and Zeckhauser (1988) identified a *status quo bias*. This suggested that people showed a preference for the current state of affairs or status quo. Because they did this even when it would be in their best interest to make a change, they termed this a bias, or mistake. The paper contained many studies, including faculty choices of health and retirement plans, both consequential decisions.

Sometimes the status quo is changed, for example when a government or company introduces a new policy or changes an existing policy. These changes allow us to measure the influence of defaults. Johnson, Hershey, Meszaros and Kunreuther (1993) examined how people chose auto insurance policies. They noticed that two states, New Jersey and Pennsylvania were about to introduce similar insurance reforms. In response to rising auto insurance rates, both states were introducing a policy, sometimes called ‘no fault’ which covered all hospital bills and lost wages, but did not allow people involved in an accident to sue other parties for pain and suffering. The no-fault policy was significantly less expensive than the ‘full tort’ policy. The plans in New Jersey and Pennsylvania were quite similar, but there was one important difference: In New Jersey, the no-fault policy was adopted if the consumer took no action, in Pennsylvania; the consumer needed to opt-in to the less expensive no-fault policy – if no action was taken, the more expensive full tort policy was adopted. In both states, all policy holders were mailed explanations of the two policies, and could change from the *no-action* default by simply mailing in a form.

To look at the effect of the different defaults, Johnson et al, both did a questionnaire study with a sample of policy holders, and examined what policies were adopted in the two states. The questionnaire simply required people to check a box to change defaults. The study showed that the different defaults mattered: When no-fault was the default, the full tort policy was selected by 23% of the respondents, but when full tort was the default, 53% of the respondents chose it. Of course, this was not a real choice involving actual changes in insurance costs. In Philadelphia, for example, the difference in the cost of the two policies was substantial: The full tort policy cost about $300 more (a 21% increase) than the no-fault policy.

However, the choices in New Jersey and Pennsylvania showed big differences. In New Jersey 20% selected the more expensive policy, in Pennsylvania, 75% chose the more expensive policy. These differences have persisted over the years. Johnson and Goldstein estimate that over $2 billion dollars more coverage has been sold in Pennsylvania because of the choice of defaults. This estimate does not include the costs of additional litigation due to these choices.

In a particularly important study, Madrian and Shea (2001)looked at the effect of defaults on one of the most important economic decision made by most people: Savings decisions in their defined contribution retirement plans, 401(k)s. Normally, the default for these plans is that no money is invested. For most people, this would be a mistake: The funds and interest in a 401(k) are tax sheltered until retirement, and in many companies, contributions from an employee are matched by the company to some degree.
Madrian and Shea conducted a field experiment with one company where they changed the default from the normal contribution of zero, to three percent. As before, employees could easily change the default by filing a form. The effect was dramatic, increasing participation among new employees from 49% to 86%.

In a follow-up study, Choi, Laibson, Madrian and Metrick (Choi, Laibson, Madrian, & Metric, 2001) look at the effectiveness of defaults when compared to other ways of increasing savings, and find the choice of defaults is a very important factor. In fact a savings plan, called Save More Tomorrow, which employs the principle of automatic increases in contributions to the 401(k) plans is the only factor that is as effective.

Another study of defaults by Bellman and Johnson (Bellman, Johnson, & Lohse, 2001; E. J. Johnson, Bellman, & Lohse, 2002) is interesting, because they examined defaults that were very easy to change. People, after filling out a research study on the internet were asked if they wanted to be contacted with more information. Johnson et al. varied both the way the question was phrased, and whether a response box was already checked. All that was required to change the default was a simple mouse click, perhaps the easiest possible way of having a decision-maker record a choice. Despite this, there were significant effects of both question phrasing and whether or not the box was pre-checked.

Several researchers (Gimbel, Strosberg, Lehrman, Gefenas, & Taft, 2003; Eric J. Johnson & Goldstein, 2003) have looked at default's effects on the decision to become an organ donor. This was motivated by the observation that in several European countries the default is that one is an organ donor, but in others, as in the United States, must make an active choice to become an organ donor. The results of questionnaire studies (Eric J. Johnson & Goldstein, 2003), and actual donation rates (Gimbel, Strosberg, Lehrman, Gefenas, & Taft, 2003; Eric J. Johnson & Goldstein, 2003) (Abadie & Gay, 2004) show a sizeable difference. Figure 1 shows the number of people in a number of European countries who, according to the organ donation registry in each country, are willing to be donors.

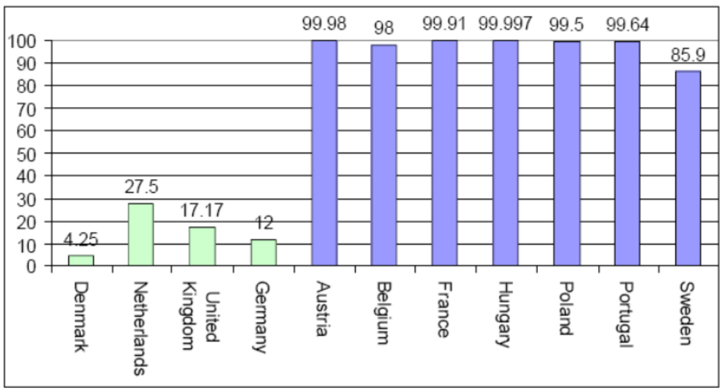

Figure 1:Effective Consent Rates, by Country. The four leftmost bars are the opt-in default, the blue bars the opt-out default.

Because there are differences between the countries, several of these researchers have tried to control statistically for factors such as education, religious beliefs and infrastructure. Even with these controls the differences due to defaults are so large that Abadie and Gay (2004) suggest that the current shortfall in heart donations in the US, (which is substantial, 80,000 people are currently awaiting a donated organ) could be overcome by a change in default. Estimates range from a low of 16% increases in donated organs to slightly above 50%.

While they have not been subjected to randomized controls, such defaults seem to be used by companies in the design of configurations, such as web sites in which consumers make choices to customize their purchase. Research that is in process at Columbia University shows the choice of defaults can increase the average price paid for a moderately priced European sedan by over be increased €1000 simply by presenting certain defaults.

In sum, the evidence is that the choice of a no action default can substantially change the behavior of customers.

What Causes Default Effects?

Researchers have identified three possible reasons why defaults matter: (1) Physical and Cognitive effort, (2) Implied Endorsement, and (3) Loss Aversion.

Physical and cognitive effort refers to the fact that changing defaults requires the expenditure of some time by the consumer: They may have to fill out a form, hunt for a stamp, and read directions that are sometimes opaque. In addition, the actual act of making a choice takes time, and in some cases, like in organ donation, can be aversive. However, these effort explanations cannot explain all default effects. Often such effort would be justified by the substantial amounts of money involved, as in the case of auto insurance or contributions t 401(k) savings plans, and often recording a preference only takes a web click.

Implied endorsement suggests that the consumer, when faced with a decision, infers that the organization offering the choice has selected the best option as the default. Thus, in the case of auto insurance, people may infer that the state, by selecting the default, is suggesting that the default course of action is the right one for most people. There is recent evidence that people, in certain instance make this inference. Applied to securities regulation, this explanation is particularly bothersome, since it implies that investors will infer that regulators do not think receiving information is important.

Loss aversion explanations rely on the common finding in behavioral economics that a loss has greater impact upon decision-making than the equivalent sized gain. According to this explanation, expending money or effort to change the default receives too much weight. In the savings plan example, people who wanted to change from 0% contributions have to give up some immediate income to increase their long term saving. Because of loss aversion, that reduction (loss) gets more weight, and for some people is not worth the increase. However, if the default was 3%, no income reduction is felt, and in fact loss aversion now magnifies the cost of giving up the contribution to savings.

It is probably the case that depending upon the circumstances, all three explanations apply to different degrees. One of the things that make defaults so powerful is that they have multiple causes, and addressing one cause alone is not sufficient.

What is the Right Default?

If defaults make a difference, how do we know what is the right default? Economists and legal scholars have started to ask this question, and developed an interesting answer: Defaults should encourage the behavior that makes the most people better off. This approach (Camerer, Issacharoff, Loewenstein, O'Donoghue, & Rabin, 2003; Thaler & Sunstein, 2003) makes the following argument: If defaults have an effect, they should be used to improve peoples’ average outcomes.

In a case like retirement savings, where Americans are typically described as under-saving toward their retirement, changing the default from zero to some positive number seems to make sense. Choice is not taken away in these cases; people with strong feelings can always change the default. The argument is that it helps people who are unreasonably lazy or suffer from loss aversion, and in fact, makes the correct implied endorsement. If the sole goal of SEC information provision was consumer consumption of information and participation in voting, it would appear that the current system of mailing information unless investors opt-out and select electronic forms, would be the better default. The proposed rule takes something away.

Recommendations

Of course, the current protocol for information provision does have its costs, and a targeted benefit of the proposed regulation is significant cost savings for public companies. However, existing data provides an important cautionary note: Such a system could decrease use of information and participation in voting by investors. Given that danger, the SEC might well want to proceed with caution.

A second recommendation concerns the nature of the opt-in decision. Since the effort of opting-in is likely to impact whether or not an individual looks at information, then the SEC would be wise to provide the easiest means possible to opt-in. The proposed rule's mechanism does the opposite: One must opt-in for each security for each year. This requires significant effort on the part of the consumer, and is likely to amplify default effects. Since consumers information needs are unlikely to change from year to year, making the selection sticky (that is, in force until changed by the consumer) would seem to maximize consumer welfare. In addition, allowing this election to occur for all securities at once would benefit consumers.

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