July 22, 2015

Secretary Brent J. Fields
Securities and Exchange Commission
100F Street, NE
Washington, DC 20549-1090

Re: Investment Company Reporting Modernization Proposed Rule; Release Nos. 33-9776; 34-75002; IC-31610; File No. S7-08-15

Dear Secretary Fields:

We write in opposition to the Securities and Exchange Commission's proposed Rule 30e-3, which would eliminate the current default requirement for mutual funds to transmit information to investors in paper form. Consumer Action, Consumers for Paper Options and the National Consumers League strongly oppose this proposal on the grounds that it shifts the burden to investors by requiring them to "opt-in" to paper delivery of critical fund information rather than having the option to "opt-in" to electronic delivery. Shareholder reports are important tools for investors, and implementing this change will potentially harm millions of investors – the majority of whom have already expressed a preference for paper-based investment reports.

We believe that paper communication should remain the default option for this information because:

- The majority of investors prefer to receive shareholder reports in paper format.
- Significant portions of the population lack access to electronic services. Mail delivery provides the broadest access to all recipients and should be the default option.
- Paper communication has significant benefits over electronic communication for content such as shareholder reports.

In permitting funds to satisfy shareholder report requirements by making this information available on a website, Rule 30e-3 would make it more difficult for many investors to access the reports they need to make informed investment decisions. In enacting this rule, the SEC would also ignore wide-ranging data which indicates that many shareholders are not equipped to access reports electronically, demonstrates that the overwhelming majority of investors prefer to receive investment information in paper form, proves the ineffectiveness of implied consent, and demonstrates widespread opposition to the forced electronic delivery of shareholder reports.

<u>Consumer Action, Consumers for Paper Options and the National Consumers League ask that SEC consider the following points and rescind Rule 30e-3:</u>

I. <u>Paper is still the preferred method of transmission for investors, and implied consent to electronic delivery is opposed by the majority of Americans.</u>

Under Rule 30e-3, funds would issue a one-time letter announcing the shift to electronic delivery, with no response indicating implied consent to electronic transmission. This default to electronic delivery is in direct contrast to investor preferences, as the majority of investors prefer to have such information in paper form. Since the first interpretive release was approved 20 years ago, only a small minority of American investors have consented to e-Delivery. A 2014 study by the largest service provider to the financial services industry shows 7.3 percent of annuitants on average consented to e-Delivery, and industry-wide consent rates range from a low of 2.4 percent to a high of 17.1 percent.[1] In addition, Dalbar's 2011 report shows that 65 percent of fund and annuity firms polled had an average e-Delivery adoption rate of less than 10 percent.[2]

According to SEC's own study conducted by Siegel + Gale in 2012, 71 percent of American investors said they prefer to read annual reports in paper format rather than online versions and a large number of respondents also asserted that printed materials yield higher content comprehension than online materials.[3] Many investors are also reluctant to switch from paper to e-Delivery for security reasons. Currently, 30 percent of all investors today don't use the Internet for investment correspondence due to concerns about security.[4]

Moreover, most Americans view implied consent as proposed in SEC Rule 30e-3 as the government overstepping its boundaries. In a recent national survey, the majority of American adults across all demographic groups opposed government and private sector efforts forcing consumers to shift from print to electronic content. More than 70 percent of respondents said it is wrong to expect anyone to go online to interact with government agencies; 84 percent objected to private sector entities initiating a forced shift to electronic format; and 90 percent of people under 25 believe that options for paper based communications should be preserved.[5]

Not only is paper the preferred form of shareholder reports for most investors, but the majority of Americans oppose the principle of implied consent. Rule 30e-3 would disregard these preferences and make it more difficult for investors to access shareholder reports by forcing them to opt-in to perpetual print document delivery.

Other Federal Agencies have disallowed implied consent, or restrict its use in ways that the Report Modernization rule supports. IRS does not allow financial organizations to use "implied consent" to enroll investors for e-Delivery of tax documents; investors must opt in by taking express consent action themselves.[6] Department of Labor and Department of the Treasury have concerns with e-Delivery citing issues such as lack of consistency and clarity of presentment of Internet content as well as protecting participant's choice to receive paper.[7]

II. <u>Rule 30e-3 would impede access for many investors, especially the elderly, those with disabilities, and minority Americans – all demographics that are less likely to have regular Internet access</u>.

[1] RR Donnelley, consent rate tracking by Global Investments Markets, RR Donnelley.
[2] 2011 E-Delivery Benchmarks, Gauging Trends in Electronic Delivery of Financial Communications; Dalbar Inc. June 2011
[3] "Investor Testing of Selected Mutual Fund Annual Reports (Revised)," Siegel + Gale, February 9, 2012
[4] Closing the E-Delivery Gap, 2013 Pershing LLC, subsidiary of New York Mellon Corporation
[5] Access for All: American Attitudes Regarding Paper & Digital Information; InfoTrends 2013
[6] Closing the E-Delivery Gap, 2013 Pershing LLC, subsidiary of New York Mellon Corporation
[7] Private Pensions; Revised Electronic Disclosure Rules Could Clarify Use and Better Protect Participant Choice, p. 19, United States Government Accountability Office, Sept. 2013

Despite the widely held belief that we are living in the age of universal Internet access and usage 41 percent of Americans over 65 years of age do not use the Internet.[8] In fact, a 2011 Department of Commerce report found that 45 percent of Americans aged 65 and older do not even own a computer and Pew Research Center data shows that 53 percent of seniors lack broadband access.[9, 10] And yet, 34 percent of this population owns mutual funds.[11] Further, 30 percent of American adults do not have broadband access and 15 percent of Americans of all ages do not use the Internet, with an additional 9 percent lacking access at home.[12, 13]

In addition to making access much more difficult for older investors and others without Internet access, Rule 30e-3 could undermine investment information for minority Americans, who are also less likely to be able to access shareholder reports online. African Americans are 18 percent less likely to have Internet access than the national average, with 43 percent of African American households lacking Internet and 38 percent lacking broadband access. [14, 15, 16] And Hispanic Americans, 44 percent of whom lack broadband access, are 16 percent less likely than the national average to have Internet access.[17, 18]

Shareholder reports are important and necessary investment tools, and by transitioning to online delivery, Rule 30e-3 would marginalize many Americans who do not have Internet capability or familiarity.

III. Paper is a superior distribution method for important information, and leads to better comprehension and retention.

Several studies demonstrate that paper is the most reliable and favorable medium for disseminating important information. In a recent national survey, 88 percent of respondents said that they understand and can retain or use information better when they read print on paper, and when given a choice, 81 percent of respondents prefer to read print on paper.[19] The preference for print on paper is seen across all age groups and is strong at over 77 percent.[20] For complicated materials, 80 percent of respondents stated a clear preference for reading print on paper in contrast to only 13 percent preferring to read complicated materials on a computer screen.[21] Finally, while the preference for printing increases with

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8 Pew Research Center, Older Adults and Technology Use, http://www.pewinternet.org/2014/04/03/older-adults-and-technology-use/

9 Exploring the Digital Nation: Computer and Internet Use at Home, US Department of Commerce, 2011

10 Pew Research Center, Broadband Technology Fact Sheet, http://www.pewinternet.org/fact-sheets/broadband-technology-fact-sheet/

11 ICI 2015 Investment Company Fact Book, p.116

12 Pew Research Center, Broadband Technology Fact Sheet, http://www.pewinternet.org/fact-sheets/broadband-technology-fact-sheet/

13 Who's Not Online and Why; Pew research Center, Sept. 2013

14 Access for All: American Attitudes Regarding Paper & Digital Information; InfoTrends 2013.

15 Report: 20 Percent of American Adults Don't Have Internet, DailyTech LLC, August, 2013.

16 Pew Research Center, Broadband Technology Fact Sheet, http://www.pewinternet.org/fact-sheets/broadband-technology-fact-sheet/

17 Ibid.

18 Report: 20 Percent of American Adults Don't Have Internet, DailyTech LLC, August, 2013.

19 "Reading from Paper or Reading from Screens. What do Consumers Prefer?" Two Sides, May 2015.

20 Ibid.

21 Ibid.

increasing age, more than 68 percent of respondents across all age groups indicated that they print because it is easier to read.[22]

Shareholder reports are no exception to these findings. In fact, the unique challenges facing investors suggest that paper-based options are even more critical to ensuring secure and reliable communication. The SEC's Siegel + Gale study found that there is a great need to synthesize information for investors.[23] And since electronic communications are more likely to be lost or overlooked than paper-based information, Rule30e-3 would impede shareholders' awareness and understanding of their investment information. Further, identity theft is a major cause for concern among investors, with the use of smart phones for Internet access posing even greater challenges in receiving important information electronically.

Conclusion:

We urge the SEC to strongly consider the negative impact of this rule on the millions of Americans who rely on paper-based options for critical investment information. Rule 30e-3 would make it more difficult for many investors to access the reports they need to make informed investment decisions. The rule runs counter to the preferences and needs of the investing public. The SEC's own research confirms that an overwhelming majority of American investors prefer to receive shareholder reports in paper format, and only a small minority of investors have thus far opted into e-Delivery.

Simply put, the rule jeopardizes the individual consent of those who depend on paper investment information and disregards the overwhelming sentiment among investors in favor of paper reports.

While we recognize the trend towards a more digital world, it is critical that government efforts to "modernize" information delivery do not disenfranchise Americans who need or want resources in paper format. With paper clearly the preferred and most effective format for shareholder reports, and most Americans in opposition to implied consent for e-Delivery, paper format, not online posting, should continue to be the default method for the delivery of shareholder reports.

Rather than an automatic conversion of the default to electronic distribution, the SEC could provide guidelines for investment fund companies to prominently place information informing investors on electronic delivery options, particularly on generic proxy statements and other material that does not contain investor-specific information.

The 1933 Act charged the SEC with providing investors with disclosure of compliance information, yet 30e-3 degrades disclosure for the reasons outlined above.

We ask that the SEC reconsider and formally withdraw Rule 30e-3.

Thank you for your consideration.

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[22] Ibid.
[23] "Investor Testing of Selected Mutual Fund Annual Reports (Revised)," Siegel + Gale, February 9, 2012.