SECURITIES AND EXCHANGE COMMISSION

17 CFR Parts 200, 230, 232, 239, 249, 270, and 274

[Release Nos. 33–11125; 34–96158; IC–34731; File No. S7–09–20]

RIN 3235–AM52

Tailored Shareholder Reports for Mutual Funds and Exchange-Traded Funds; Fee Information in Investment Company Advertisements

AGENCY: Securities and Exchange Commission.

ACTION: Final rule.

SUMMARY: The Securities and Exchange Commission (''Commission'') is adopting rule and form amendments that require open-end management investment companies to transmit concise and visually engaging annual and semi-annual reports to shareholders that highlight key information that is particularly important for retail investors to assess and monitor their fund investments. Certain information that may be more relevant to financial professionals and investors who desire more in-depth information will no longer appear in funds' shareholder reports but will be available online, delivered free of charge upon request, and filed on a semi-annual basis on Form N–CSR. The amendments exclude open-end management investment companies from the scope of the current rule that generally permits registered investment companies to satisfy shareholder report transmission requirements by making these reports and other materials available online and providing a notice of that availability. The amendments also require that funds tag their reports to shareholders using the Inline eXtensible Business Reporting Language (''Inline XBRL'') structured data language to provide machine-readable data that retail investors and other market participants may use to more efficiently access and evaluate investments. Finally, the Commission is adopting amendments to the advertising rules for registered investment companies and business development companies to promote more transparent and balanced statements about investment costs.

DATES: *Effective Date:* This rule is effective January 24, 2023. *Compliance Date:* The applicable compliance dates are discussion in section II.J.

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SUPPLEMENTARY INFORMATION: The Commission is adopting amendments to the following rules and forms:

Commission reference	CFR citation [17 CFR]
Organization; Conduct and Ethics; And Information and Requests	§§ 200.1 through 200.800.
Section 800	§ 200.800.
Securities Act of 1933 (''Securities Act''): [1]	
Rule 156	§ 230.156.
Rule 433	§ 230.433.
Rule 482	§ 230.482.
Regulation S–T: [2]	
Rule 405	§ 232.405.
Securities Act and Investment Company Act of 1940 (''Investment Company Act,'' or the ''Act''): [3]	
Form N–1A	§§ 239.15A and 274.11A.
Securities Exchange Act of 1934 (''Exchange Act'') [4] and Investment Company Act:	
Form N–CSR	§§ 249.331 and 274.128.
Investment Company Act:	
Rule 30a–2	§ 270.30a–2.
Rule 30e–1	§ 270.30e–1.
Rule 30e–3	§ 270.30e–3.
Rule 31a–2	§ 270.31a–2.
Rule 34b–1	§ 270.34b–1.

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[1] 15 U.S.C. 77a *et seq.*

[2] 17 CFR 232.10 through 232.903.

[3] 15 U.S.C. 80a *et seq.*

[4] 15 U.S.C. 78a *et seq.*

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I. Introduction and Background

The Commission is adopting rule and form amendments that are designed to require mutual funds and exchange-traded funds (''ETFs'') to transmit concise and visually engaging annual and semi-annual reports to shareholders.[5] The updated approach to funds' shareholder reports will highlight key information that is particularly important for retail investors to assess and monitor their fund investments.[6] Other, more detailed information that currently appears in funds' shareholder reports will be made available on a website that the shareholder report specifies, filed with the Commission on EDGAR, and delivered to investors free of charge in paper or electronically upon request. These final rules are designed to modernize funds' shareholder reports so these reports will better serve the needs of fund investors—particularly retail investors.[7] The final rules will require a disclosure approach that emphasizes clearly and concisely the information that is particularly useful to a retail audience, will encourage disclosure techniques that promote effective communication, and will continue to make available information that historically has appeared in shareholder reports but that may be more relevant to financial professional and other investors who desire more in-depth information.

This approach is designed to alleviate concerns that fund retail investors currently may receive, and find difficult to use, shareholder reports that are lengthy, complex, and not well-suited to their needs.[8] Investors' inability to understand or use shareholder report disclosure efficiently may impede their ability to monitor their investments and lead to investors maintaining investments in funds that may not be aligned with their investment goals. The final rules' approach for shareholder reports is a continuation of the Commission's initiatives designed to promote clear and concise disclosure for fund investors.[9] It responds to the preferences investors have expressed, over the years and in response to the proposed rules.[10] This approach also builds on a similar ''layered'' disclosure approach that most funds use to provide prospectus information tailored to investors' informational needs.[11]

In August 2020, the Commission proposed rule and form amendments that would require a layered disclosure framework for funds' shareholder reports that is substantially similar to the framework we are adopting under the final rules.[12] The Commission also proposed to address the means by which shareholder reports are transmitted to fund investors. To ensure that all fund investors would experience the anticipated benefits of the proposed new tailored disclosure framework, the Commission proposed to amend the scope of rule 30e–3—the rule that currently permits investment companies to use a ''notice and access'' approach to transmitting shareholder reports—to exclude open-end funds. Instead, funds would have to provide the reports directly to shareholders. In addition to addressing shareholder report contents and transmission, the Commission also proposed amendments to the Commission's investment company advertising rules that were designed to promote more transparent and balanced statements about investment costs. The proposal also included a proposed new alternative approach to satisfy prospectus delivery requirements for existing fund investors (proposed new rule 498B) and proposed amendments to funds' prospectus fee and risk disclosure requirements.

The Commission received comment letters on the proposal from a variety of

[5] For purposes of this release, the term ''fund'' generally refers to an open-end management investment company registered on Form N–1A or a series thereof, unless otherwise specified. Mutual funds and most ETFs are open-end management investment companies registered on Form N–1A. An open-end management investment company is an investment company, other than a unit investment trust or face-amount certificate company, that offers for sale or has outstanding any redeemable security of which it is the issuer. *See* sections 4 and 5(a)(1) of the Investment Company Act [15 U.S.C. 80a–4 and 80a–5(a)(1)].

[6] This release refers to funds' annual and semi-annual shareholder reports as ''annual reports'' and ''semi-annual reports'' respectively, and collectively as ''shareholder reports.''

[7] ''EDGAR'' is the Commission's Electronic Data, Gathering, Analysis, and Retrieval system.

[8] *See* Tailored Shareholder Reports, Treatment of Annual Prospectus Updates for Existing Investors, and Improved Fee and Risk Disclosure for Mutual Funds and Exchange-Traded Funds; Fee Information in Investment Company Advertisements, Investment Company Act Release No. 33963 (Aug. 5, 2020) [85 FR 70716 (Nov. 5, 2020)] (''Proposing Release'') at nn.30 and 32, and accompanying text.

[9] *See, e.g.,* Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Investment Companies, Investment Company Act Release No. 28584 (Jan. 13, 2009) [74 FR 4545 (Jan. 26, 2009)] (''2009 Summary Prospectus Adopting Release''); Investment Company Reporting Modernization, Investment Company Act Release No. 32314 (Oct. 13, 2016) [81 FR 81870 (Nov. 18, 2016)] (''Investment Company Reporting Modernization Final Rules''); Form CRS Relationship Summary; Amendments to Form ADV, Investment Advisers Act Release No. 5247 (June 5, 2019) [84 FR 33492 (July 12, 2019)]; Updated Disclosure Requirements and Summary Prospectus for Variable Annuity and Variable Life Insurance Contracts, Investment Company Act Release No. 33814 (Mar. 11, 2020) [85 FR 25964 (May 1, 2020)] (''Variable Contract Summary Prospectus Adopting Release'').

[10] *See, e.g.,* 2009 Summary Prospectus Adopting Release, *supra* footnote 9; *see also infra* section I.A.3.

[11] *See infra* section I.A.2.

[12] *See* Proposing Release, *supra* footnote 8.

commenters, including funds and investment advisers, law firms, other fund service providers, investor advocacy groups, professional and trade associations, and interested individuals.[13] Many commenters supported the proposed use of layered disclosure in funds' shareholder reports.[14] Some recommended enhancements and alternatives to certain areas of the proposed shareholder reports, with respect to their content as well as scope.[15] While many commenters expressed concern regarding the proposed amendments to rule 30e–3, others supported the Commission's proposed approach.[16] Comments on proposed rule 498B were mixed, with some commenters expressly supporting the proposal, some supporting it with modifications, and others directly opposing it.[17] Comments on the proposed prospectus fee and risk disclosure amendments were similarly mixed.[18] Finally, while a number of the commenters that addressed the proposed advertising rule amendments supported them, some stated that the proposed amendments were not necessary in light of Financial Industry Regulatory Authority (''FINRA'') rules addressing fee and expense information in retail communications or suggested that the Commission modify the scope of the proposed amendments.[19]

After considering the comments on the proposal and as discussed in more detail below, we are adopting rule and form amendments that would effectuate the proposed layered disclosure approach for funds' shareholder reports, with modifications to the proposed reports' contents and scope in response to comments and to enhance disclosure effectiveness. We are also adopting—with targeted clarifying changes, but otherwise substantially as proposed—the proposed amendments to exclude open-end funds from the scope of rule 30e–3, as well as the proposed amendments to the investment company advertising rules. As discussed more fully below, we are not adopting proposed rule 498B or the proposed amendments to funds' prospectus fee and risk disclosure requirements.

A. Regulatory Context, and Developments and Analysis Informing Final Rules

1. Fund Shareholder Reports—Regulatory Context

Fund shareholders receive shareholder reports on a semi-annual basis.[20] These reports include detailed information about a fund's operations over a given half- or full-year period. The Investment Company Act, as well as Commission rules, prescribe the content requirements for funds' shareholder reports.[21] Shareholder report contents include, among other items: information about fund expenses and performance, portfolio holdings, funds' financial statements and financial highlights (which are audited in annual reports), information about a fund's board of directors and management, results of shareholder votes, and instructions on how to access additional information, including information regarding the fund's proxy voting record, code of ethics, and quarterly portfolio holdings.[22] Certain of this information, including fund performance information, is required to appear only in annual reports. Some funds also supplement this with information that is not required by Commission rules or forms, such as a president's letter and general market commentary.[23]

Many mutual funds and ETFs are organized as single registrants with several series (sometimes referred to as portfolios).[24] From an investor's perspective, investing in a series provides the same general experience as investing in a fund that is not organized in this way—each series has its own investment objectives, policies, and restrictions, and the Federal securities laws and Commission rules often treat each series as a separate fund.[25] Series of a registrant are often marketed separately, without reference to other series or to the registrant's name.

In addition, a single fund or series can have multiple share classes.[26] Share classes typically differ based on fee structure, with each class having a different sales load and distribution and/or service fee. Currently, fund registrants may prepare a single shareholder report that covers multiple series, as well as multiple share classes of each series.

Fund shareholders currently receive shareholder reports in paper or electronically, depending on their preferences.[27] We understand that shareholders electing electronic delivery of fund disclosure materials typically receive an email that contains a link to where the materials are available online.

For those shareholders who have not elected to receive shareholder reports electronically, funds currently may rely on rule 30e–3 to satisfy shareholder report transmission requirements. If a fund chooses to rely on this rule, a shareholder does not receive paper shareholder reports directly, but instead receives paper notices that a shareholder report is available at an identified website address.[28] Nonetheless, funds relying on rule 30e–3 are required to deliver a paper copy of a shareholder report to any person requesting such a copy, and a fund may no longer rely on rule 30e–3 with respect to any shareholder who has notified the fund (or relevant financial

[13] The comment letters on the Proposing Release (File No. S7–09–20) are available at *https://www.sec.gov/comments/s7-09-20/s70920.htm.*

[14] *See, e.g.,* Comment Letter of Mutual Fund Directors Forum (Jan. 4, 2021) (''Mutual Fund Directors Forum Comment Letter''); Comment Letter of SIFMA (Dec. 22, 2020) (''SIFMA Comment Letter'').

[15] Comments on particular aspects of the proposed rules' scope, as well as the proposed shareholder report contents, are discussed in detail in sections II.A–B below.

[16] *See infra* section II.E.1.

[17] *See infra* footnotes 68–72 and accompanying text.

[18] *See infra* footnotes 76–79 and 83–84 and accompanying text.

[19] *See infra* sections II.G.1–2; footnote 534 (providing FINRA rule 2210's definitions of retail communications and correspondence).

[20] *See* section 30(e) of the Investment Company Act [15 U.S.C. 80a–29(e)]; current and amended rule 30e–1 under the Investment Company Act [17 CFR 270.30e–1]. A fund or an intermediary may transmit the shareholder report to an investor. Most fund investors hold their fund investments as beneficial owners through accounts with intermediaries. As a result, intermediaries commonly assume responsibility for distributing fund shareholder reports to beneficial owners. *See* Optional internet Availability of Investment Company Shareholder Reports, Investment Company Act Release No. 33115 (June 5, 2018) [83 FR 29158 (June 22, 2018)] (''Rule 30e–3 Adopting Release''), at paragraph accompanying n.274.

[21] *See* section 30(e) of the Investment Company Act; *see also* current and amended rule 30e–1; Item 27 of current Form N–1A and Item 27A of amended Form N–1A (addressing the contents of open-end fund shareholder reports).

[22] *See* Proposing Release, *supra* footnote 8, at nn.14–17 and accompanying text.

[23] *See, e.g., id.* at n.18 and accompanying text.

[24] *See* sections 18(f)(1) and (2) of the Investment Company Act [15 U.S.C. 80a–18(f)(1) AND (2)]; 17 CFR 270.18f–2 (rule 18f–2 under the Investment Company Act).

[25] *See, e.g.,* 17 CFR 270.22c–2(c)(2); 17 CFR 270.22e–4(a)(5); General Instruction A to Form N–1A (defining ''fund'' to mean a registrant or a separate series of the registrant).

[26] *See* 17 CFR 270.18f–3 (rule 18f–3 under the Investment Company Act).

[27] *See* Proposing Release, *supra* footnote 8, at nn.21–22 and accompanying text; *see also* Use of Electronic Media for Delivery Purposes, Investment Company Act Release No. 21399 (Oct. 6, 1995) [60 FR 53458 (Oct. 13, 1995)] (''Electronic Media 1995 Release'') (providing Commission views on the use of electronic media to deliver information to investors, with a focus on electronic delivery of prospectuses, annual reports, and proxy solicitation materials); Use of Electronic Media by Broker-Dealers, Transfer Agents, and Investment Advisers for Delivery of Information, Investment Company Act Release No. 21945 (May 9, 1996) [61 FR 24644 (May 15, 1996)] (''Electronic Media 1996 Release''); Use of Electronic Media, Investment Company Act Release No. 24426 (Apr. 28, 2000) [65 FR 25843 (May 4, 2000)] (''Electronic Media 2000 Release'').

[28] *See* current rule 30e–3 [17 CFR 270.30e–3]; Rule 30e–3 Adopting Release, *supra* footnote 20.

intermediary) that the shareholder wishes to receive paper copies of shareholder reports.

The costs of delivering prospectuses and shareholder reports, including printing and mailing costs and processing fees, are generally fund expenses borne by shareholders.

2. Developments Supporting Layered Disclosure Approach to Fund Shareholder Reports

The Commission's proposed layered disclosure approach to funds' shareholder reports builds on decades of experience with layered fund disclosure, as well as the confluence of two other disclosure-related developments that we believe support further reliance on the use of layered disclosure—the growing length and complexity of shareholder reports over time, and the internet's increasingly important role in maximizing investor access to information.

The Commission's rules permitting the use of summary prospectuses both recognize investors' preferences for concise and engaging disclosure of key information and ensure that additional information that may be of interest to some investors is available through a layered approach to disclosure.[29] These rules generally permit funds to provide summary prospectuses to investors that include ''streamlined and user-friendly information that is key to an investment decision,'' with more-detailed information that may be of interest to some investors available online.[30] We believe that these initiatives have benefitted investors, and we estimate that approximately 92% of funds use summary prospectuses.[31] The Commission has not previously taken comprehensive steps to create a layered disclosure framework for funds' shareholder reports.[32]

Funds' shareholder reports generally have become longer and more complex over the years. This trend has several sources. The Commission's rules have required funds to include additional information over the past several decades, and funds commonly voluntarily provide additional information beyond that which is required, including information about general economic conditions, fund performance, and services provided to shareholders.[33] The ability to include multiple series, and multiple share classes of each series, in a single report also increases these reports' length and complexity. Based on staff analysis, the average annual report is approximately 134 pages long, and the average semi-annual report is 116 pages long.[34] The length can vary substantially, however. Staff has observed annual reports ranging in length from 16 pages to more than 1,000 pages. Most reports that are between 22 and 45 pages long tend to cover a single series.[35]

These trends have been accompanied by internet technology that has continued to evolve, investors' increased access to the internet, and the Commission continuing to recognize the role of the internet in providing disclosure materials and other information to investors.[36] For example, in 2021, approximately 95% of households owning mutual funds had internet access, while only 68% of these households had internet access in 2000.[37] Further advances in technology, including increasing use of mobile devices to access information, can make it even easier for funds and intermediaries to communicate with investors and to provide interactive or customizable information. We understand that funds continue to explore additional ways to use technology to communicate with investors.[38] Against this backdrop, the Commission has recognized that modernizing the manner in which funds and others make information available to investors allows them to leverage the benefits of technology and reduce fund costs while considering the needs and preferences of investors.[39] Continued improvements in presenting information electronically, as well as investors' continually growing comfort with the internet and electronic media as a means of accessing fund information, have been integral in making the use of layered disclosure in the summary prospectus context a success, and we believe these factors will similarly make layered disclosure an effective tool in the context of funds' shareholder reports.

3. Evidence of Investor Preferences Regarding Fund Disclosure

The Proposing Release discussed evidence that was available to the Commission at the time of the proposal showing that investors generally prefer concise, layered disclosure. The proposal considered feedback that the Commission received in response to a June 2018 request for comment seeking feedback on retail investors' experience with fund disclosure and on ways to improve fund disclosure (the ''Fund Investor Experience RFC'').[40] In the proposal, the Commission stated that the Fund Investor Experience RFC commenters' overall preference for summary disclosure is generally consistent with other information the Commission has received—through investor testing conducted prior to the proposal, surveys, and other information-gathering—that similarly indicates that investors strongly prefer concise, layered disclosure.[41] The Commission also discussed feedback from investors responding to the Fund Investor Experience RFC, as well as investors participating in certain past quantitative and qualitative investor testing initiatives on the Commission's behalf, expressing preferences for the inclusion of more tables, charts, and graphs in fund disclosure and supporting the conclusion that investors

[29] *See supra* footnotes 10–11 and accompanying text; *see also* Variable Contract Summary Prospectus Adopting Release, *supra* footnote 9.

[30] *See* 2009 Summary Prospectus Adopting Release, *supra* footnote 9, at section I. The vast majority of funds provide: (1) a summary prospectus to investors in connection with their initial investment decision; and (2) more-detailed information that may be of interest to some investors, which is available online in the form of the ''statutory prospectus'' and Statement of Additional Information (''SAI'').

[31] *See* Proposing Release, *supra* footnote 8, at n.81 and accompanying text. We estimate that as of December 31, 2021, approximately 92% of mutual funds and ETFs use a summary prospectus. This estimate is based on data on the number of mutual funds and ETFs that filed a summary prospectus in 2021 in EDGAR (10,876) and the staff's estimate of the total number open-end funds, including ETFs, registered on Form N–1A (11,840).

[32] *See* Proposing Release, *supra* footnote 8, at n.83 and accompanying text (noting that the Commission has, however, adopted rules that permit streamlined disclosure of portfolio holdings in funds' shareholder reports).

[33] *See id.* at nn.84–86 and accompanying text.

[34] These figures are based on a 2020 staff review that included a sample of reports from large, mid-sized, and small funds that were available on fund websites.

[35] *See id.*

[36] *See* Proposing Release, *supra* footnote 8, at nn.75–78 and accompanying text.

[37] *See* Investment Company Institute, 2022 Investment Company Fact Book: A Review of Trends and Activities in the Investment Company Industry (2022) (''2022 ICI Fact Book''), *available at https://www.ici.org/system/files/2022-05/2022_factbook.pdf,* at Figure 7.16.

[38] *See, e.g., infra* footnotes 356–358 and accompanying paragraph.

[39] *See* Proposing Release, *supra* footnote 8, at n.79 and accompanying text.

[40] *See* Request for Comment on Fund Retail Investor Experience and Disclosure, Investment Company Act Release No. 33113 (June 5, 2018) [83 FR 26891 (June 11, 2018)] (''Investor Experience RFC''). The comment letters on the Investor Experience RFC (File No. S7–12–18) are available at *https://www.sec.gov/comments/s7-12-18/s71218.htm.* This feedback generally showed that retail investors prefer concise, layered disclosure and feel overwhelmed by the volume of information they currently receive, with some individual investors specifically addressing and supporting a more concise, summary shareholder report. *See* Proposing Release, *supra* footnote 8, at nn.28–30 and accompanying text.

[41] *See id.* at n.31 and accompanying text.

view funds' existing shareholder reports as too lengthy and complicated.[42]

Feedback on investors' preferences that the Commission received in response to the Proposing Release was consistent with the Commission's understanding of investors' preferences that the Proposing Release described, with the vast majority of individuals who commented on the proposal expressing support for the length, format, and content of the proposed streamlined annual report.[43] Industry commenters expressed support for the proposed layered disclosure approach.[44] Industry commenters similarly supported the use of streamlined shareholder documents and reducing the length and complexity of information shareholders receive, ultimately leading to an improved overall investor experience.[45]

Comments from individual investors similarly suggested that the proposed shareholder report approach was in line with their preferences in terms of the length of material and content areas that investors find to be useful to monitor fund investments. To help market participants understand the proposed shareholder report, the Commission published a hypothetical annual report to illustrate what a more concise, tailored shareholder report could look like, as well as a feedback flier that investors could use to provide their views on the hypothetical report.[46] The Commission received feedback flier responses from individual investors as well as academics. Of the respondents who answered the feedback flier question, ''Overall, would the sample shareholder report be useful in monitoring your fund investments?'' the vast majority responded positively.[47] The vast majority of respondents who answered a question in the feedback flier about the length of the hypothetical report responded that the length was ''about right.''

One comment letter also included data that this commenter had compiled about individual investors' preferences as expressed in response to the hypothetical report and feedback flier that the Commission published.[48] This commenter engaged a market research firm to provide the feedback flier to 2,000+ mutual fund and/or ETF investors and to collate responses from these investors. The commenter reported that, based on this analysis, 91% of respondents said that the hypothetical streamlined annual and semi-annual reports would be useful in monitoring their fund investments.[49] This analysis found that 78% of respondents said that the length was ''about right,'' with 16% saying that the length was ''too long'' and 6% saying that the length was ''too short.''

In addition to feedback flier responses, the Commission also received traditional comment letters from individuals, who similarly expressed broad support for the proposed approach to fund shareholder reports. One remarked that the hypothetical report was ''much better than what we have now.'' [50] Several likewise stated that they supported the proposed streamlined shareholder report, with one commenting, ''I think it contains the relevant information and would be more useful to investors than the current annual report.'' [51] One individual, however, expressed that ''more should be done to push transparency, plain English and brevity of disclosure.'' [52]

The Commission also received feedback on individuals' preferences and views through qualitative investor interviews and a study on performance benchmarks that the Commission's Office of the Investor Advocate (''OIAD'') designed (the ''OIAD Benchmark Study'').[53] The qualitative interviews aimed to generate hypotheses about certain content areas in a fund shareholder report that may cause confusion and lead to impediments to investor understanding of key information. These interviews focused in particular on investors' understanding of fund performance disclosure, as displayed in connection with broad-based and narrow performance benchmark indexes. The objective of the qualitative interviews was to provide background for a more extensive quantitative experimental study. In addition, OIAD recommended additional research devoted to certain other issues that arose during the qualitative interviews, including exploring ways of explaining share classes to investors, to the extent that share classes are a necessary component of fund disclosures.[54]

Following the qualitative interviews, OIAD conducted a study on the impact of fund performance benchmarks on investor decision-making. This research examined market data, and the results of a large behavioral experiment sampling a general population, to understand how fund companies employ benchmarks and how individuals respond to the presentation of benchmarks. The OIAD Benchmark Study, which is discussed in more detail below, analyzes individuals' responses to benchmarks, including how individuals respond to benchmarks that outperform and underperform the fund, and examines whether there is a differential impact in performance graphs' use of broad versus narrow benchmarks on a fund's attractiveness.

Each of these avenues offering evidence of investor preferences and behaviors in response to fund disclosure has provided important context and support for the final rules' approach to fund shareholder reports. Staff will evaluate investor preferences and

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[42] *See id.* at n.32–37 and accompanying text.

[43] *See infra* footnotes 47–51 and accompanying text.

[44] *See, e.g.,* Comment Letter of CFA Institute (Dec. 30, 2020) (''CFA Institute Comment Letter''); Comment Letter of Fidelity (Jan. 4, 2021) (''Fidelity Comment Letter''); Mutual Fund Directors Forum Comment Letter.

[45] *See* SIFMA Comment Letter; *see also* Comment Letter of Teachers Insurance and Annuity Association of America (Jan. 4, 2021) (''TIAA Comment Letter''); Comment Letter of FS Investments (Jan. 4, 2021) (''FS Investments Comment Letter'').

[46] *See* Proposing Release, *supra* footnote 8, Appendix A (''Hypothetical Streamlined Shareholder Report'') *available at https://www.sec.gov/files/final_2020_im_annual-shareholder%20report.pdf* and Appendix B (''Shareholder Report Feedback Flier''), *available at https://www.sec.gov/rules/proposed/2020/im-shareholder-report-ff.html.*

[47] Commenters also expressed views about the relative usefulness of the different proposed content areas as illustrated in the hypothetical report, and these comments are described in more detail in section II.A.2 *infra.*

[48] Comment Letter of Broadridge Financial Solutions, Inc. (Jan. 4, 2021) (''Broadridge Comment Letter'').

[49] The Broadridge Comment Letter stated, ''Half of the participants were randomly assigned to view the SEC's hypothetical streamlined annual shareholder report, and the other half viewed a streamlined semi-annual report.'' The Commission only published a hypothetical streamlined annual report and did not also publish a hypothetical semi-annual report. The hypothetical semi-annual report prototype that Broadridge included in its comment letter appears to have been created by Broadridge, based on the hypothetical annual report that the Commission published.

[50] Comment Letter of James J. Angel (Jan. 6, 2021) (''Angel Comment Letter'').

[51] Comment Letter of Lisa Barker (Jan. 3, 2021) (''Barker Comment Letter''); *see also* Comment Letter of Ryan O'Malley (Dec. 29, 2021) (''O'Malley Comment Letter'') (''I generally like the idea of a brief shareholder report.''); Comment Letter of Tom Riker (June 2, 2021) (''Riker Comment Letter'') (''I support the streamlined shareholder report proposal.''); *see also* Comment Letter of Mo Abdullah (Oct. 7, 2022) (''Abdullah Comment Letter'') (''The proposed shareholder report seems like the right mix of information.'').

[52] Comment Letter of David Marlboro (Dec. 20, 2020) (''Marlboro Comment Letter'').

[53] *See* Alycia Chin, Jonathan Cook, Jay Dhar, Steven Nash, and Brian Scholl, *How Do Consumers Understand Investment Quality? The Role of Performance Benchmarks,* Office of the Investor Advocate Working Paper 2022–01 (''Chin, et al.''), *available at https://www.sec.gov/files/performance-benchmarks-2022-01.pdf.*

[54] *See id.* at Appendix B; *see also* discussion on fund share classes as section II.A.1.b *infra.*

behaviors as they evolve in the future, including through mechanisms such as investor testing and investor surveys where appropriate, taking into account relevant developments in connection with fund practices, investors' preferences, the fund industry, and financial markets in connection with any future regulatory initiatives.

4. Investment Company Advertisements, and Developments Affecting Fund Marketing Practices

Many registered investment companies and business development companies (''BDCs'') prepare advertising materials, which can include materials in newspapers, magazines, radio, television, direct mail advertisements, fact sheets, newsletters, and on various web-based platforms. These advertising materials are subject to certain requirements under Commission rules. The primary Commission rules addressing investment company advertising include rules 482 and 433 under the Securities Act, rule 34b–1 under the Investment Company Act, and rule 156 under the Securities Act (the term ''investment company advertising rules'' in this release refers to this set of rules).

Rule 482 establishes certain content, legend, and filing requirements for investment company advertisements.[55] Many of the rule's content requirements focus on advertisements that include performance data of certain types of funds, including mutual funds, ETFs, insurance company separate accounts registered as unit investment trusts (''UITs''), and money market funds.[56]

Rule 34b–1 applies to supplemental sales literature (*i.e.,* sales literature that is preceded or accompanied by a prospectus) by any registered open-end company, UIT, or registered face-amount certificate company. Rule 34b–1 includes many of the same requirements as rule 482, including the same performance-related requirements.[57]

Rule 156 states that whether or not a particular description, representation, illustration, or other statement involving a material fact is misleading depends on evaluation of the context in which it is made. The rule discusses several pertinent factors that should be weighed in considering whether a particular statement involving a material fact is or might be misleading in investment company sales literature, including rule 482 advertisements and supplemental sales literature.[58] Rule 156 applies to sales literature used by any person to offer to sell or induce the sale of securities of any investment company, including registered investment companies and BDCs.

Separately, rules issued by FINRA regulating members' communications with the public provide an important source of advertising requirements and guidance for investment companies, as underwriters and/or distributors of investment company shares are commonly FINRA members.[59] FINRA rule 2210, ''Communications with the Public,'' includes both general and specific standards for communications with the public.[60]

In recent years, investment companies increasingly have been marketing themselves on the basis of cost in an effort to attract investors. For instance, we have observed some funds calling themselves ''no-expense'' or ''zero-expense'' funds, or emphasizing their low expense ratios, despite the fact that investors may incur other investment costs.[61] Comments that the Commission received on the Proposing Release similarly recognized ''the trend for some funds to market their investment products based on claims of low or no fees.''[62] Investors may incur certain costs and fees that, despite providing revenue to the fund's adviser and its affiliates (or other parties), are not direct costs of investing in a fund and so are not reflected in a fund's expense ratio, and therefore may be less transparent or clear to certain investors.[63] Additionally, a fund may appear to be a ''zero expense'' fund because its adviser is waiving fees or reimbursing expenses for a period of time, but the fund will incur fees and expenses once that arrangement expires. In these and other cases, we are concerned that, absent appropriate explanations or limitations, investors may believe incorrectly that there are no expenses associated with investing in the fund.

While investment company advertising rules currently place limits on how a fund may present its performance to promote comparability and prevent potentially misleading advertisements, these rules generally do not prescribe the presentations of fees and expenses in advertisements to address similar concerns about comparability or potentially misleading information.[64] Addressing fee comparability in fund advertisements is critical both in light of current trends in

[55] Investment company advertisements typically are prospectuses for purposes of the Securities Act. Rule 482 provides a framework in which investment company advertisements are deemed to be ''omitting prospectuses'' that may include information the substance of which is not included in a fund's statutory or summary prospectus. *See* Proposing Release, *supra* footnote 8, at n.653–654 and accompanying text. Instead of relying on rule 482, registered closed-end funds and BDCs may use free writing prospectuses in accordance with rule 433 and certain other Commission rules for advertising purposes. *See id.* at nn.656–676 and accompanying text.

[56] *See id.* at nn.655–666.

[57] *See id.* at nn.659–661 and accompanying text. The Commission adopted rule 34b–1 to help prevent performance claims in supplemental sales literature from being misleading and to promote comparability and uniformity among supplemental sales literature and rule 482 advertisements.

[58] *See id.* at n.662–663 and accompanying text.

[59] FINRA is a self-regulatory organization composed of brokers and dealers registered under the Exchange Act.

[60] Non-money market fund open-end funds' retail communications and correspondence (as defined in FINRA rule 2210, *see infra* footnote 515) that include performance information also must include fee and expense information that includes: (1) the fund's maximum sales charge; and (2) the total annual fund operating expense ratio, gross of any fee waivers or expense reimbursements (*i.e.,* ongoing annual fees). These funds' standardized performance information, sales charge, and total annual fund operating expense ratio also must be set forth prominently. FINRA rule 2210(d)(5). In addition, FINRA rule 2210 applies to the retail communications of BDCs. *See* FINRA Rule 2210 Interpretative Guidance at C.1, *available at https://www.finra.org/rules-guidance/guidance/faqs/advertising-regulation#b2* (responding, in part, that firms must file with FINRA retail communications concerning BDCs that are registered under the Securities Act).

[61] A fund's expense ratio is the figure in its prospectus fee table that represents the fund's total annual operating expenses, expressed as a percent of the fund's average net assets. *See also* Proposing Release, *supra* footnote 8, at section II.H.1.c (discussing costs that the expense ratio does not reflect).

[62] *See* CFA Institute Comment Letter; *see also* Comment Letter of the Consumer Federation of America (Jan. 4, 2021) (''Consumer Federation of America II Comment Letter'') (discussing concerns that accompany funds being ''increasingly marketed on the basis of costs'').

[63] For example, an investor may incur intermediary costs, such as wrap fees that an investor pays to the sponsor of a wrap fee program (which may be the fund's adviser or its affiliates) for investment advice, brokerage services, administrative expenses, or other fees and expenses. *See* SEC Division of Examinations, Observations from Examinations of Investment Advisers Managing Client Accounts That Participate in Wrap Fee Programs (July 21, 2021), *available at https://www.sec.gov/files/wrap-fee-programs-risk-alert_0.pdf.* All staff statements represent the views of the staff. They are not a rule, regulation, or statement of the Commission. The Commission has neither approved nor disapproved their content. These staff statements, like all staff statements, have no legal force or effect: they do not alter or amend applicable law, and they create no new or additional obligations for any person. As another example, investment company advertisements that advertise low investment costs, based solely on a fund's prospectus fee table, might not reflect or recognize other categories of costs that may be supplementing a traditional management fee and/or may affect the returns an investor experiences (*e.g.,* intermediary costs). *See* Proposing Release, *supra* footnote 8, at paragraph accompanying n.685.

[64] Commission rules require a fund to disclose maximum sales loads in some advertisements, and FINRA rules also limit how a fund advertisement may describe investment costs in some respects, but these limitations currently apply only to a subset of fund advertisements. *See* Proposing Release, *supra* footnote 8, at section II.H.2.

fund marketing and because of the significant long-term effects that fund fees and expenses can have on investment returns.

B. Overview of the Final Rules

1. Final Rules' Principal Elements

The final rules consist of the following principal elements:

• *Shareholder Reports Tailored to the Needs of Retail Shareholders:* Under the new framework, shareholders will receive concise and visually engaging annual and semi-annual reports designed to highlight information that we believe is particularly important for retail shareholders to assess and monitor their fund investments on an ongoing basis. This information will include—among other things—fund expenses, performance, and portfolio holdings. Funds will have the flexibility to make electronic versions of their shareholder reports more user-friendly and interactive. In addition, funds will be required to tag the information in their shareholder reports using Inline XBRL structured data language.

• *Availability of Additional Information on Form N–CSR and Online:* Information that may be more relevant to financial professionals and other investors who desire more in-depth information will be made available online and delivered free of charge in paper or electronically upon request. This information also will be filed on a semi-annual basis with the Commission on Form N–CSR. This information includes, for example, the schedule of investments and other financial statement elements. Shareholder reports will contain cover page legends directing investors to websites containing this information. Accessibility-related requirements that we are adopting will help ensure that investors can easily reach and navigate the information that appears online.

• *Amendments to Scope of Rule 30e–3 to Exclude Funds Registered on Form N–1A:* To ensure that all fund investors will experience the anticipated benefits of the new tailored shareholder reports, we are amending the scope of rule 30e–3 to exclude open-end funds. This amendment ensures shareholders in open-end funds will directly receive the new tailored annual and semi-annual reports, either in paper or (if the shareholder has so elected) electronically.[65] This change reflects the Commission's continuing efforts to improve the ways investors receive fund disclosure. We believe that this approach represents a more effective means of improving investors' ability to access and use fund information, and of reducing expenses associated with printing and mailing, than continuing to permit open-end funds to rely on rule 30e–3.

• *Fee and Expense Information in Investment Company Advertisements:* Finally, we are adopting amendments that are designed to respond to developments that we have observed in investment company advertising. These amendments require that presentations of investment company fees and expenses in advertisements and sales literature be consistent with relevant prospectus fee table presentations and be reasonably current. These advertising rule amendments affect all registered investment company and BDC advertisements that include fee and expense figures, and where the investment company presents total annual expense figures in their prospectuses. The amendments therefore are not limited to open-end fund advertisements. The amendments also address representations of fees and expenses that could be materially misleading.

2. Other Aspects of Proposal

After considering comments, we are not taking final action on several aspects of the proposal at this time: (1) proposed new rule 498B, which would have provided a new alternative approach to satisfy prospectus delivery requirements for existing fund investors; and (2) proposed amendments to funds' prospectus fee and risk disclosure.

Proposed Rule 498B

In lieu of providing annual prospectus updates to existing fund investors, proposed rule 498B would have provided an alternative approach to keep these investors informed about their fund investments and updates to their funds that occur year over year.[66] Under this proposed rule, new investors would have received a fund prospectus in connection with their initial investment in a fund, as they currently do, but funds could have opted into an alternative approach under which they would not deliver annual prospectus updates to investors thereafter.[67] The proposed layered disclosure framework would instead have relied on the shareholder report and timely notifications to shareholders to keep investors informed about their fund investments.

While some commenters generally supported proposed rule 498B, most commenters, even those who supported the proposed rule, suggested fairly significant modifications.[68] A number of commenters directly opposed the proposed rule.[69] Some of these commenters expressed concern that existing investors would not continue to receive an updated prospectus annually.[70] Many other opposing commenters also expressed concern about the proposed requirement to deliver notices of material fund changes.[71] Other commenters suggested that the proposed new approach to satisfying prospectus delivery obligations could increase the possibility of shareholder litigation (for example, if failing to send a material change notice or not correctly tracking existing investors could result in prospectus delivery obligations not being satisfied).[72]

Improving the fund disclosure framework and investors' experience with fund disclosure continues to be an important priority for the Commission, as does the consideration of how to best help investors make informed investment decisions and monitor their fund investments. In light of the

[65] *See infra* footnote 618 and accompanying text (discussing increase in e-delivery requests since the beginning of the COVID–19 pandemic).

[66] *See* Proposing Release, *supra* footnote 8, at section II.F.

[67] *See* section 5(b)(2) of the Securities Act [15 U.S.C. 77e(b)(2)] (generally requiring that a fund or financial intermediary deliver a prospectus to an investor in connection with a purchase of the fund's securities). Because section 5(b)(2) requires funds to deliver a prospectus to an investor purchasing shares, including existing shareholders who purchase additional shares, funds generally provide annual updates of prospectuses to all shareholders.

[68] *See, e.g.,* Comment Letter of T. Rowe Price Associates, Inc. (Jan. 5, 2021) (''T. Rowe Price Comment Letter''); Comment Letter of Better Markets, Inc. (Jan. 4, 2021) (''Better Markets Comment Letter'') (each commenter expressing support for adopting the rule as proposed); *see also, e.g.,* Comment Letter of the Investment Company Institute (Dec. 21, 2020) (''ICI Comment Letter''); Fidelity Comment Letter; Comment Letter of Tom and Mary (Aug. 12, 2020) (''Tom and Mary Comment Letter'') (each commenter suggesting modifications to the proposed rule).

[69] *See, e.g.,* Comment Letter of Charles Schwab Investment Management, Inc. (Jan. 4, 2021) (''Charles Schwab Comment Letter''); TIAA Comment Letter.

[70] *See, e.g.,* TIAA Comment Letter; Consumer Federation of America II Comment Letter; Broadridge Comment Letter (discussing data this commenter compiled about individual investors' preferences showing that 88% of surveyed investors ''prefer the status quo of annual prospectus delivery'').

[71] *See, e.g.,* Comment Letter of Dechert LLP (Jan. 4, 2021) (''Dechert Comment Letter''); ICI Comment Letter; Comment Letter of Stradley Ronon Stevens & Young, LLP (Jan. 15, 2021) (''Stradley Ronon Comment Letter''); Comment Letter of The Vanguard Group, Inc. (Dec. 22, 2020) (''Vanguard Comment Letter''); SIFMA Comment Letter; Fidelity Comment Letter.

[72] *See, e.g.,* Dechert Comment Letter; Comment Letter of Sidley Austin LLP (Dec. 29, 2020) (''Sidley Austin Comment Letter''); Comment Letter of the Center for Capital Markets Competitiveness (Jan. 4, 2021) (''Center for Capital Markets Competitiveness Comment Letter'').

comments received, which we believe raise issues that merit further consideration, we are not adopting rule 498B at this time.

Proposed Amendments to Funds' Prospectus Fee Disclosure

The Commission proposed amendments to funds' prospectus disclosure requirements to provide greater clarity and more consistent information regarding fund fees and expenses. The proposal would have replaced the existing fee table in the summary section of funds' statutory prospectuses with a simplified fee summary, and the Commission also proposed to simplify the fee example that currently appears in funds' prospectuses.[73] The full, existing fee table would be moved to the statutory prospectus under the proposal, for use by investors seeking additional details about fund fees.[74] Finally, the proposal would have replaced certain terms in the current fee table with terms that were designed to be easier to understand by most investors.[75]

Comments on the proposed fee summary, simplified example, and proposed new fee terminology were mixed. Some agreed that investors could benefit from simplified prospectus fee disclosures and generally supported the proposed approach.[76] Several commenters, however, opposed the inclusion of the fee summary and noted that having multiple different fee presentations could be confusing for investors and would be burdensome for funds.[77] A number of commenters opposed many of the proposed new terms, stating that they would not further investor comprehension and could be more confusing than the current terms.[78] Some commenters also recommended that the Commission should verify the benefits of the proposed approach through additional investor testing.[79]

The proposal also included a new approach to disclosing acquired fund fee and expenses (''AFFE'').[80] Currently, all registered investment companies that invest in other ''acquired funds,'' including BDCs and private funds that would be investment companies but for sections 3(c)(1) or 3(c)(7) of the Investment Company Act, disclose AFFE in their prospectus fee tables.[81] AFFE shows the investing fund's pro rata share of the fees and expenses of any underlying funds. Under the proposal, a fund that invests less than 10% of the value of its total fund assets in other funds could disclose AFFE in a footnote to the fee table, instead of including AFFE as a fee table line item (which is included as a component of the fund's bottom-line ongoing annual operating expenses). The proposed new approach to AFFE disclosure was designed to maintain the benefits of transparent AFFE disclosure and to provide more consistent disclosure of information related to indirect costs.[82]

Commenters expressed varying concerns about the proposed AFFE approach. A number of commenters suggested that the proposed approach to AFFE disclosure would decrease transparency of funds' AFFE.[83] These commenters urged the Commission to retain the current approach to provide investors full and clear information about funds' fees and expenses. Some members of the fund industry generally supported the changes, although some requested that the proposal be significantly broadened, including suggestions to carve BDCs out from the definition of ''acquired fund'' altogether.[84]

Helping investors more readily understand fund fees and expenses is an important priority of the Commission. In light of the comments received, which we believe raise issues that merit further consideration, we are not adopting the proposed changes at this time.

Proposed Amendments to Funds' Prospectus Risk Disclosure

The Commission also proposed amendments to funds' prospectus disclosure requirements that were designed to help investors more readily understand funds' principal risks.[85] These amendments would have added specificity to the existing requirement that funds must disclose principal risks in their prospectuses. The proposed amendments clarified that a ''principal'' risk is one that would place more than 10% of the fund's assets at risk and is reasonably likely to occur in the future. The proposal also would have required that funds' description of risks be brief and organized in order of importance.

While some commenters supported the proposed approach, most generally opposed it.[86] Commenters expressed concern about the perceived difficulty and subjectivity of determining which risks currently or in the future will place more than 10% of the fund's assets at risk, as well as ordering risk disclosure, and the potential of increased liability for funds associated with this.[87]

Helping investors more readily understand funds' principal risks is an important priority of the Commission. In light of the comments received, which we believe raise issues that merit further consideration, we are not adopting the proposed risk disclosure amendments at this time.

II. Discussion

A. Annual Reports

In order to effectuate the new streamlined shareholder reports for open-end funds, we are adopting substantially as proposed new Item 27A to Form N–1A to specify the design and content of funds' annual and semi-annual reports. We also are removing, as proposed, the provisions in Item 27 of

[73] *See* Proposing Release, *supra* footnote 8, at sections II.H.1.b–e.

[74] *See id.* at sections II.H.1.b–c.

[75] *See id.* at section II.H.1.f.

[76] Comment Letter of Morningstar Inc. (Jan. 4, 2020) (''Morningstar Comment Letter''); Comment Letter of Consumer Federation of America (Dec 15, 2020) (''Consumer Federation of America I Comment Letter'').

[77] *See, e.g.,* SIFMA Comment Letter; Dechert Comment Letter; FS Investments Comment Letter.

[78] *See, e.g.,* ICI Comment Letter; SIFMA Comment Letter; CFA Institute Comment Letter; Charles Schwab Comment Letter; Comment Letter of Dimensional Fund Advisors (Jan. 4, 2021) (''Dimensional Comment Letter'').

[79] *See, e.g.,* Consumer Federation of America II Comment Letter; ICI Comment Letter; Dechert Comment Letter.

[80] *See* Proposing Release, *supra* footnote 8, at section II.H.1.g.

[81] *See id.* at nn.604–605 and accompanying text.

[82] *See id.* at nn.608–614, and accompanying and following paragraphs.

[83] *See, e.g.,* Consumer Federation of America II Comment Letter; Barker Comment Letter; Morningstar Comment Letter; Comment Letter of Tom Williams (Aug. 6, 2020) (''Williams Comment Letter'').

[84] *See, e.g.,* Comment Letter of the Small Business Investor Alliance (Dec. 4, 2020); Comment Letter of the Coalition for Business Development (Jan. 4, 2021); ICI Comment Letter; *see also, e.g.,* Final Report on 2018 SEC Government-Business Forum on Small Business Capital Formation (June 2019), *available at https://www.sec.gov/info/smallbus/gbfor37.pdf* (discussing, among other things, forum recommendations on BDCs and AFFE. The SEC conducts the Government-Business Forum on Small Business Capital Formation annually. The recommendations contained in this report are solely the responsibility of Forum participants from outside the SEC, who were responsible for developing them. The recommendations are not endorsed or modified by the SEC and do not necessarily reflect the views of the SEC, its Commissioners or any of the SEC's staff members.).

[85] *See* Proposing Release, *supra* footnote 8, at section II.H.2.

[86] *See, e.g.,* Consumer Federation of America II Comment Letter; Comment Letter of NASAA (Jan. 4, 2021) (''NASAA Comment Letter''); Comment Letter of the Americans for Financial Reform Education Fund (Jan. 4, 2021) (''AFREF Comment Letter'') (each expressing overall support for the changes); *contra* ICI Comment Letter; Sidley Austin Comment Letter; Dechert Comment Letter; Comment Letter of John Hancock (Jan. 4, 2021) (''John Hancock Comment Letter'') (each expressing general opposition).

[87] *See, e.g.,* Sidley Austin Comment Letter; Comment Letter of Federated Hermes (Jan. 4, 2021) (''Federated Hermes Comment Letter'').

current Form N–1A that relate to annual and semi-annual reports.[88]

The table below summarizes the contents that funds will include in their annual reports—or, alternatively, that they will file on Form N–CSR—in comparison to current shareholder report disclosure requirements.[89] While the new content requirements for shareholder reports that are transmitted in paper will generally be the same as the requirements for reports that are transmitted electronically (and that appear online or are accessible through mobile electronic devices), we are adopting, as proposed, instructions that address electronic presentation and are designed to provide flexibility to enhance the usability of reports that appear online or on mobile devices.[90]

TABLE 1—ANNUAL REPORT CONTENTS

Current annual shareholder report disclosure *(current Form provision)*	Description of amendments	New rule and form provisions	Discussed below in
	Add new identifying information to the beginning of the annual report.	Item 27A(b) of Form N–1A	Section II.A.2.II.A.2.a.
Expense example *(Form N–1A Item 27(d)(1))*.	Retain in annual report in a more concise form.	Item 27A(c) of Form N–1A	Section II.A.2.II.A.2.b.
Management's discussion of fund performance (''MDFP'') *(Form N–1A Item 27(b)(7))*.	Retain in annual report in a more concise form.	Item 27A(d) of Form N–1A	Section II.A.2.II.A.2.c.
	Add new fund statistics section to the annual report.	Item 27A(e) of Form N–1A	Section II.A.2.II.A.2.d.
Graphical representation of holdings *(Form N–1A Item 27(d)(2))*.	Retain in annual report	Item 27A(f) of Form N–1A	Section II.A.2.II.A.2.e.
	Add new material fund changes section to the annual report.	Item 27A(g) of Form N–1A	Section II.A.2.II.A.2.f.
Changes in and disagreements with accountants *(Form N–1A Item 27(b)(4))*.	Retain in annual report in summary form ..	Item 27A(h) of Form N–1A	Section II.A.2.II.A.2.g.
	The entirety of the currently-required disclosure would move to Form N–CSR and would need to be available online and delivered (in paper or electronic format) upon request.	Item 8 of Form N–CSR ..... Rule 30e–1(b)(2) and (b)(3).	Section II.C.2.II.C.1.c.
Statement regarding the availability of quarterly portfolio schedule, proxy voting policies and procedures, and proxy voting record *(Form N–1A Item 27(d)(3) through (5))*.	Include a more general reference to the availability of additional fund information in the annual report.	Item 27A(i) of Form N–1A	Section II.A.2.II.A.2.h.
	Add provision allowing funds to optionally disclose in their annual reports how shareholders may revoke their consent to householding[91].	Item 27A(j) of Form N–1A	Section II.A.2.II.A.2.i.
Financial statements, including schedule of investments *(Form N–1A Item 27(b)(1))*.	Move to Form N–CSR ..... Would need to be available online and delivered (in paper or electronic format) upon request.	Item 7(a) of Form N–CSR ..... Rule 30e–1(b)(2) and (b)(3).	Section II.C.1.II.C.1.a.
Financial highlights *(Form N–1A Item 27(b)(2))*.	Retain certain data points, but generally move to Form N–CSR. Would need to be available online and delivered (in paper or electronic format) upon request.	Item 7(b) of Form N–CSR ..... Rule 30e–1(b)(2) and (b)(3).	Section II.C.1.C.1.b.
Results of any shareholder votes during the period *(Rule 30e–1(b))*.	Move to Form N–CSR ..... Would need to be available online and delivered (in paper or electronic format) upon request.	Item 9 of Form N–CSR ..... Rule 30e–1(b)(2) and (b)(3).	Section II.C.1II.C.1.d.
Remuneration paid to directors, officers, and others *(Form N–1A Item 27(b)(3))*.	Move to Form N–CSR ..... Would need to be available online and delivered (in paper or electronic format) upon request.	Item 10 of Form N–CSR ..... Rule 30e–1(b)(2) and (b)(3).	Section II.C.1.II.C.1.e.
Statement regarding the basis for the board's approval of investment advisory contract *(Form N–1A Item 27(d)(6)(i))*.	Move to Form N–CSR ..... Would need to be available online and delivered (in paper or electronic format) upon request.	Item 11 of Form N–CSR ..... Rule 30e–1(b)(2) and (b)(3).	Section II.C.1.II.C.1.f.

[88] The final rules generally require funds to reorganize the presentation of currently-required information. To the extent that any of the amendments require funds to disclose new information other than is required in section 30(e), such changes are appropriate in the public interest for the reasons discussed more fully in sections II.A.2 and II.B.1.

[89] This release separately discusses the content requirements for funds' semi-annual reports. *See infra* section II.B.

[90] *See infra* section II.A.4.

[91] ''Householding'' permits funds to deliver a single copy of a prospectus, proxy materials, and a shareholder report to investors who share the same address and meet certain other requirements in order to avoid duplication of materials to investors who invest in funds through a variety of individual and family accounts.

TABLE 1—ANNUAL REPORT CONTENTS—Continued

Current annual shareholder report disclosure *(current Form provision)*	Description of amendments	New rule and form provisions	Discussed below in
Management information and statement regarding availability of additional information about fund directors *(Form N–1A Item 27(b)(5) and (6))*.	Remove from shareholder reports, but information would remain available in a fund's SAI, which is available online or delivered upon request.	.....	Section II.D.
Statement regarding liquidity risk management program *(Form N–1A Item 27(d)(6)(ii))*.	Remove from shareholder reports	.....	Section II.D.
Rule 30e–3 disclosure, if applicable *(Form N–1A Item 27(d)(7))*.	Remove from shareholder reports	.....	Section II.E.
Funds have discretion to provide other information in their shareholder reports (*e.g.,* president's letter).	Disclosures in the annual report are restricted to that which is required or permitted under Item 27A of Form N–1A (other materials may accompany the transmission of the report, so long they meet the prominence requirements for materials that accompany the report).	Instructions 1 and 12 to Item 27A(a) of Form N–1A.	Section II.A.1.c.

1. Scope of Annual Report Disclosure, and Registrants Subject to Amendments

a. Series Scope

We are adopting, as proposed, the requirement that funds must prepare separate annual reports for each series of a fund. As a result, under the final rules, a fund shareholder will receive an annual report that addresses only the series in which that shareholder is invested. Many mutual funds and ETFs are organized as single registrants with several series (sometimes referred to as portfolios).[92] Currently, fund registrants may prepare a single shareholder report that covers multiple series. As the Commission stated in the Proposing Release, we believe this approach contributes to the length and complexity of shareholder reports.[93] Because the length and complexity associated with multi-series shareholder reports are inconsistent with our goal of creating concise shareholder report disclosure that shareholders can more easily use to assess and monitor their ongoing fund investments, the final rules will require fund registrants to prepare separate annual reports for each series of the fund.[94] We believe a shareholder is more likely to read a shareholder report targeted to that shareholder's fund as opposed to a multi-series report that may also cover a number of other funds.

Most commenters supported this proposed requirement, stating that it would significantly reduce the length of the report and make it easier for shareholders to navigate.[95] Some commenters, however, urged the Commission to continue to allow fund complexes to bundle the shareholder reports of certain types of funds together in one report, in selected circumstances.[96] For example, these commenters urged the Commission to allow funds with similar investment strategies to be bundled in the same report, such as target date funds, target risk funds, state tax exempt funds, and money market funds. These commenters argued that shareholders would benefit from seeing other investment options that are available to them within the complex. Additionally, some of these commenters stated that, because disclosures related to funds with similar strategies and risk profiles likely would be similar, allowing these funds to be bundled together in a single report would allow fund complexes to organize their similarly-managed funds efficiently into a single report.[97] Some commenters likewise argued that fund complexes should have further flexibility to bundle series as they see fit to allow them to organize their reports efficiently and reduce the costs associated with preparing shareholder reports.[98] Finally, some commenters urged the Commission to allow insurance companies providing shareholder reports to holders of variable contracts to provide combined reports for those series available as investment options for a particular variable contract.[99] These commenters stated that this practice would be consistent with rule 498 under the Securities Act and argued that contract holders would benefit from receiving a single document that contains information regarding all of the

[92] *See* Proposing Release, *supra* footnote 8, at nn.108–110 and accompanying text (noting that each series has its own investment objectives, policies and restrictions and that the Federal securities laws and Commission rules often treat each series as a separate fund).

[93] *See* Proposing Release, *supra* footnote 8, at text accompanying n.111 (providing examples of how the current presentation of multiple series within a single shareholder report may confuse shareholders); *see also supra* at text accompanying footnotes 8 and 29.

[94] *See* Instruction 4 to Item 27A(a) of amended Form N–1A. As proposed, fund registrants could continue to include multiple shareholder reports that cover different series in a single Form N–CSR report filed on EDGAR under the final rules.

[95] *See, e.g.,* CFA Institute Comment Letter; Morningstar Comment Letter; NASAA Comment Letter; Comment Letter of Prof. William A. Jacobson, Cornell Law School (Dec. 29, 2020) (''Cornell Law School Comment Letter''); Barker Comment Letter; *see also* Comment Letter of Donnelley Financial Solutions (Dec. 30, 2020) (''DFIN Comment Letter'') (supporting this requirement and stating that, if the Commission were to allow certain series to be bundled into a single shareholder report, the Commission should at a minimum require all information for each series appear together to eliminate the need for a shareholder to navigate the entire report to review all the information on a single series).

[96] *See, e.g.,* ICI Comment Letter; SIFMA Comment Letter; Fidelity Comment Letter; T. Rowe Price Comment Letter; Vanguard Comment Letter; Comment Letter of Capital Research and Management Company (Jan. 4, 2021) (''Capital Group Comment Letter''); John Hancock Comment Letter.

[97] *See, e.g.,* T. Rowe Price Comment Letter; SIFMA Comment Letter; John Hancock Comment Letter.

[98] *See, e.g.,* Vanguard Comment Letter; Capital Group Comment Letter; John Hancock Comment Letter.

[99] *See, e.g.,* ICI Comment Letter; SIFMA Comment Letter; Fidelity Comment Letter; John Hancock Comment Letter.

investment options available under the variable contract.[100]

After considering these comments, we continue to believe a multi-series report is inconsistent with our goal of creating concise shareholder report disclosure that shareholders can more easily use to assess and monitor their ongoing fund investments. For example, if the report were to include information about multiple series, a shareholder that is invested in one series of the registrant would need to spend more time searching through the report to find disclosure related to that shareholder's investment. Additionally, even if there may be some efficiencies gained for fund complexes in bundling the reports of funds with similar investment strategies, we believe those benefits are not justified by the resulting inconsistency in which some funds' shareholder report content would be bundled together in a single report while others would have individual shareholder reports.[101]

Furthermore, we believe that bundling funds with similar strategies could present an increased risk of shareholder confusion. For instance, if two series included in the same shareholder report were to have similar names, such as two tax-exempt funds or two target date funds where only the target date in the name differs (*e.g.,* ''XYZ Target Retirement 2040 Fund'' versus ''XYZ Target Retirement 2045 Fund''), there could be a greater risk that a shareholder would mistakenly review information that does not relate to that person's investment.[102] Because the shareholder report is designed to assist existing shareholders in monitoring their investments on an ongoing basis, rather than serving as a mechanism for funds to provide shareholders information about other products, we disagree with commenters who suggested that bundling funds with similar strategies together in a single report, such as target date funds, would be useful to investors.[103]

Furthermore, we have similar concerns about commenters' suggestions to permit bundling shareholder reports of those funds that are available as investment options underlying variable contracts, although this is permitted for summary prospectuses. In the context of reports to existing shareholders who use these reports to monitor their investments on an ongoing basis (as opposed to prospective investors making an initial investment decision and who are a key audience for summary prospectuses), we see little benefit to such contract holders from allowing insurance companies to bundle together all the underlying series, many of which the shareholders are not invested in.[104] Contract holders seeking to shift their investments to other available investment options may consult the contract's annual prospectus update, or for variable contract registrants that use a summary prospectus, the appendix of investment options/portfolio companies that an updating summary prospectus is required to include.[105]

b. Class Scope

To reduce the complexity of disclosure as well as to provide more tailored information that is specific to a shareholder's investment in the fund, the final rules, in a change from the from the proposal, will require that a fund prepare and transmit to the shareholder a shareholder report that covers the single class of a multiple-class fund in which the shareholder invested.[106] We requested comment on whether a shareholder report should be limited to a single class. After considering the comments received in response to this request, among other factors, we believe that this requirement will make it easier for shareholders to navigate the shareholder report disclosure and understand how it applies to their own interests in the fund, as shareholders only will receive reports applicable to their share class.[107] Although different share classes of a fund represent interests in the same investment portfolio, and certain shareholder report disclosure will be the same for all classes, the final rules recognize that there is significant disclosure that varies among share classes, such as expenses and performance data.

Commenters' support for the proposal to include *all* of a fund's share classes in a single shareholder report was mixed. Certain commenters generally supported the proposed approach and stated that shareholders monitoring their investments may benefit from seeing other cheaper classes that may be available.[108] One of those commenters, nevertheless, suggested that it would be beneficial if a fund were to provide a brief description of share class availability and investor eligibility requirements for each share class.[109] Other commenters, however, suggested that including all share classes in the tailored shareholder report could result in lengthy and complex disclosure, particularly with the class-specific information regarding fees and performance data that would be required under the proposal.[110] One commenter suggested that the Commission require that a fund show class-specific information, such as information regarding expenses and performance data, for only the ''primary'' share class.[111] Another commenter observed that some funds have many classes, many of which that are not available to most investors, and suggested that the Commission limit the number of classes a fund may show in the annual report.[112]

[100] *See* ICI Comment Letter (stating that, while rule 498 prohibits the bundling of summary prospectuses for different funds together, it provides an exception from this prohibition for funds that are all available as investment options for a particular variable contract); *see* also John Hancock Comment Letter (also stating that insurance companies that offer funds as investment options sometimes request that certain reports be combined rather than separated into multiple reports).

[101] *See, e.g.* Morningstar Comment Letter (also stating that the costs associated with creating separate shareholder reports for each fund would not be significant because fund complexes would simply be required to divide what is currently reported in one document into several smaller documents); *see also infra* section IV.C.2.

[102] *See* Morningstar Comment Letter.

[103] *See* DFIN Comment Letter (noting that the cost of requiring only one series to be included in a shareholder report is mitigated by the cost savings derived from the proposal's exclusion of financial statements from the shareholder report); *see also infra* section IV.C.2.

[104] *See* Variable Contract Summary Prospectus Adopting Release, *supra* footnote 9 at n. 16 (noting that investment options offered by variable annuity contracts can be numerous, with some contracts offering more than 250 investment options).

[105] *See* Item 18 of Form N–3 [17 CFR 239.17a and 274.11b]; Item 17 of Form N–4 [17 CFR 239.17b and 274.11c]; Item 18 of Form N–6 [17 CFR 239.17c and 274.11d].

[106] *See* Instruction 4 to Item 27A(a) of amended Form N–1A. To effectuate the requirement to prepare separate shareholder reports for each share class, we are also adopting changes to: proposed Item 27A(b)(1) and (b)(2) (to identify on the cover page the class and exchange ticker symbol of the class to which the shareholder report relates); proposed Item 27A(c), Instruction 1.(e) (to delete the requirement that a fund provide a separate line in the expense table for each class); proposed Item 27A(d), Instruction 13 (to clarify the requirements for management's discussion of fund performance in the context of multiple class funds); and proposed Item 27A(e) (to add an instruction providing that if a fund includes a statistic that is calculated based on the fund's performance or fees, the fund must show the statistic for the class of the fund to which the report relates, and to clarify that a fund may include performance-based statistics only if the relevant class has at least one year of performance). *See infra* section II.A.2.

[107] *See* Proposing Release, *supra* footnote 7, at section II.B.1.

[108] *See, e.g.,* CFA Institute Comment Letter; ICI Comment Letter; Morningstar Comment Letter.

[109] *See* Morningstar Comment Letter.

[110] *See* Capital Group Comment Letter; *see also* Tom and Mary Comment Letter.

[111] *See* Capital Group Comment Letter.

[112] *See* Tom and Mary Comment Letter.

After considering the statements of support as well as the concerns raised by commenters, we have determined to require that a shareholder report cover a single class of a multiple-class fund. We agree with commenters that including all share classes of a multiple class fund could result in lengthy and complex disclosure, particularly when a fund has a large number of share classes.[113] The length and complexity that would result by including all classes of multiple class fund would make it more difficult for a shareholder to identify information, such as fees and performance, that may differ based on the share class in which the shareholder invested. Further, such lengthy and complex shareholder reports would be inconsistent with our goal of creating concise shareholder report disclosure so shareholders can more easily use the reports to assess and monitor their ongoing fund investments.

Instead of this approach, we considered adopting the approach a commenter suggested, in which all share classes could be included in a shareholder report if the fund were to provide additional disclosure about share class availability and eligibility to assist with a shareholder's understanding of share classes.[114] However, this approach would not address the concern that the inclusion of information about multiple share classes could result in lengthy and complex shareholder report disclosure that would run counter to our goal of creating concise shareholder report disclosure.[115] Further, we believe that investors may benefit from having class-specific shareholder reports, as it may be difficult for some investors to identify or recall the share class in which they had invested. Including additional information about share class eligibility would not necessarily help to address these concerns. In addition, providing concise, plain-English disclosure about share class eligibility could be particularly challenging. Based on staff experience, including multiple share classes in a shareholder report may make it more difficult for some retail shareholders to efficiently review information relevant to their share classes, even those with specialized knowledge about investing in funds.[116]

We recognize, however, that shareholders and other market participants could benefit from information about the other share classes offered by a multiple class fund. To assist with shareholders' and other market participants' analysis of those share classes, our final rules will require website posting of fund documents that will enable these parties to obtain information about those other share classes easily.[117] Further, in a change from the proposal, we are adopting requirements for funds to tag the shareholder report contents in a structured, machine-readable data language, which will make shareholder report disclosure, including class-specific disclosure, more readily available and easily accessible for aggregation, comparison, filtering, and other analysis.[118] Accordingly, we believe it is appropriate to limit a shareholder report to one class of a multiple class fund so shareholders can more easily use the reports to assess and monitor their ongoing fund investments.

c. Scope of Content

As proposed, the final rules will generally allow a fund to include in its annual report only the information that Item 27A of Form N–1A specifically permits or requires.[119] We also are adopting, as proposed, three additional provisions related to the content of a fund's annual report. First, if a fund's particular circumstances may cause the required disclosures to be misleading, the final rules will allow a fund to add information to the report that is necessary to make the required disclosure items not misleading.[120] Disclosure in response to this provision generally should be brief. Second, as proposed, if a required disclosure is inapplicable, the final rules will permit the fund to omit the disclosure, and a fund similarly may modify a required legend or narrative information if the modified language contains comparable information to what is otherwise required.[121] Finally, as proposed, the final rules will not permit a fund to incorporate by reference any information into its annual report.[122] That is, a fund could not refer to information that is located in other disclosure documents in order to satisfy the content requirements for an annual report.

Commenters generally supported the proposed requirement to limit the information included in the shareholder report, and they agreed that this limitation would help focus shareholder reports on the most salient issues to shareholders.[123] One commenter expressly supported the proposal to allow funds to omit information from the required items that is inapplicable to the fund, and to modify required legends or narratives so long as the modification contains comparable information to what is required.[124] To provide funds with additional flexibility, one commenter suggested allowing funds to include supplemental information reasonably related to the required content or including an ''unrestricted'' section of the report

[113] According to staff review of filings received by the Commission on Form N–CEN [17 CFR 274.101] through March 14, 2022, the largest number of share classes reported by multiple class fund was 23 share classes.

[114] *See* Morningstar Comment Letter.

[115] *See* Proposing Release, *supra* footnote 8, at 19; *see also* Comment Letter of Frank Dalton (Jan. 3, 2021) (''Frank Dalton Comment Letter'') (suggesting that there be one report per fund).

[116] *See, e.g., Updated Investor Bulletin: Mutual Fund Classes,* SEC Office of Investor Education and Advocacy (updated Feb. 24, 2021) *available at https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins-61* (addressing common questions about fund share classes). *See also supra* footnote 54 and accompanying text (describing recommendations for future research exploring ways of explaining share classes to investors).

[117] *See* amended rule 30e–1; *see also infra* section II.C.2 regarding the posting of information that funds will file as Items 7–11 of amended Form N–CSR, such as fund financial statements and information about changes in and disagreements with accountants.

[118] *See infra* section II.H.

[119] *See* Instruction 3 to Item 27A(a) of amended Form N–1A; *see also* Proposing Release, *supra* footnote 8, at n.115 (noting that funds would have flexibility with respect to the use of online tools to assist shareholders in understanding the contents of an annual report that appears online or otherwise is provided electronically).

[120] *See* Instruction 2 to Item 27A of amended Form N–1A (permitting a fund to include disclosure that is required under 17 CFR 270.8b–20 (rule 8b–20 under the Investment Company Act)); rule 8b–20 under the Investment Company Act (providing, ''[i]n addition to the information expressly required to be included in a registration statement or report, there shall be added such further information, if any, as may be necessary to make the required statements, in the light of the circumstances under which they are made, not misleading''); *see also* Proposing Release, *supra* footnote 8, at paragraph accompanying n.117 (discussing, for example, that if a fund changed its investment policies or structure during or since the period shown, the expense, performance, or holdings information that a fund must include in its annual report may require additional disclosure to render those presentations not misleading).

[121] *See* Instruction 7 to Item 27A(a) of amended Form N–1A; *see also* Proposing Release, *supra* footnote 8, at n.119 (discussing that a goal of this instruction was to promote better-tailored disclosure).

[122] *See* Instruction 5 to Item 27A(a) of amended Form N–1A; *see also* Proposing Release, *supra* footnote 8, at n.120.

[123] *See, e.g.,* ICI Comment Letter; Consumer Federation of America II Comment Letter; Morningstar Comment Letter; NASAA Comment Letter.

[124] *See* ICI Comment Letter. *But see* Morningstar Comment Letter and Consumer Federation of America II Comment Letter (expressing concern that allowing funds to modify legends may lead to obscuring important information and stressing the importance of maintaining consistency where possible in section headers so that investors can more readily consume reports since they may receive multiple reports).

where funds can provide discretionary content.[125]

Comments on the proposed prohibition on incorporation by reference in the shareholder report were mixed. Some commenters supported the proposed prohibition, for example noting it would make it easier for shareholders to understand the report without consulting additional sources.[126] By contrast, others opposed this prohibition based on concerns that it may lead in increased litigation risk.[127] Commenters sought reassurance that information that will now be submitted online on Form N–CSR will still be considered part of the ''total mix of information'' assessed by courts in instances of shareholder litigation.[128] The final rules are not intended to change courts' assessment of the total mix of information.

We continue to believe that allowing only the required or permitted information to appear in a fund's annual report will promote consistency of information presented to shareholders and allow retail shareholders to focus on information particularly helpful in monitoring their investment in a fund.[129] As discussed above, the final rules provide funds with some flexibility to tailor the required information to their unique characteristics.[130] Additionally, in the limited circumstances in which it may be appropriate for a fund to provide less or more information than what Item 27A requires or permits, the final rules allow the fund to omit information that is inapplicable to the fund and/or add additional information to make the required disclosure items not misleading. We believe that expanding the shareholder report to include supplemental information, for example in an ''unrestricted'' section of the report, could lead to significant increases in the length of the document and would be inconsistent with our goal of focusing the report on the most salient information for shareholders.

Although the final rules will only permit the inclusion of certain information in the annual report and prohibit incorporation by reference, funds will be required to refer shareholders to the availability of certain additional website information near the end of the report.[131] The final rules, however, will—as proposed—permit funds to provide additional information to shareholders in the same transmission as the shareholder report, so long as the shareholder report is given greater prominence than any other materials included in the same transmission, except for certain specified disclosure materials.[132] The disclosure materials that are exceptions to this ''greater prominence'' requirement include summary prospectuses, statutory prospectuses, notices of the online availability of proxy materials, and other shareholder reports. Therefore, we believe that the final rules appropriately balance providing funds with the flexibility to provide shareholders with information relevant to the fund's unique characteristics, while maintaining a concise shareholder report that highlights the most relevant information for shareholders and promotes comparability across funds.

Some commenters suggested adding content areas to the shareholder report, which they suggested would be useful for investors in monitoring their investments.[133] First, two commenters requested that funds be allowed to continue to include information related to the tax character of distributions in the shareholder report to comply with certain IRS requirements.[134] These commenters asserted that, absent relief from the IRS, funds would have to make a separate mailing to shareholders disclosing this tax-related information.[135] Several commenters also suggested that funds should be required to provide additional risk-related information.[136] Finally, one commenter suggested that funds should be required to disclose how much the fund manager invests in the fund.[137]

After considering commenter suggestions, we do not believe it is necessary to permit or require any additional content areas in the shareholder report under the final rules. First, we believe that this disclosure, unlike the other required content areas of the streamlined shareholder report, would not as directly contribute to retail investors' understanding of the fund's operations and performance over the relevant performance period, and would add length and complexity to the shareholder report. Additionally, we do not believe it is necessary to permit funds to describe the tax character of distributions in the shareholder report, because a fund could distill such tax-related disclosure in a manner that would meet the final rules' requirements for a fund statistic, or if a fund determines that such information is relevant to the MDFP, the fund could consider including the relevant disclosure in the fund statistics or MDFP sections of the shareholder report under the final rules.[138] Also, as the final rules do not alter the requirements for delivering annual prospectus updates, which include information about the fund's principal risks, we do not believe it is also necessary to require funds to include additional risk-related information in their shareholder reports.[139] Similarly, we do not believe it is necessary to require funds to include information regarding how much the fund manager invests in the

[125] *See* Sidley Austin Comment Letter.

[126] *See, e.g.,* ICI Comment Letter; Morningstar Comment Letter; Consumer Federation of America II Comment Letter; NASAA Comment Letter.

[127] *See, e.g.,* Capital Group Comment Letter; Stradley Ronon Comment Letter; Vanguard Comment Letter; Dechert Comment Letter.

[128] *See, e.g.,* ICI Comment Letter; Dechert Comment Letter,

[129] *See* Proposing Release, *supra* footnote 8, at text following n.116 (noting that this approach would also encourage more impartial information by preventing funds from adding information commonly used in marketing materials).

[130] *See id.* at n.116 (noting that many of the instructions to each requirement in the shareholder report provide some flexibility so that a fund can tailor its presentation of information to match how the fund invests. For instance, a fund has the ability to select the categories that are reasonably designed to depict clearly the types of a fund's investments when preparing its graphical representation of holdings).

[131] *See* Item 27A(i) of amended Form N–1A.

[132] *See* Instruction 12 to Item 27A(a) of amended Form N–1A; s*ee also* Proposing Release, *supra* footnote 8, at text accompanying n.125 (explaining that the Commission would consider a fund to satisfy the ''greater prominence'' requirement if, for example, the shareholder report is on top of a group of paper documents that are provided together or, in the case of an electronic transmission, the email or other message includes a direct link to the report or provides the report in full in the body of the message).

[133] *See, e.g.,* ICI Comment Letter; Federated Hermes Comment Letter; Comment Letter of the Independent Trustees of the Morningstar Funds Trust (Oct. 20, 2020) (''Morningstar Trustees Comment Letter''); CFA Institute Comment Letter; Morningstar Comment Letter.

[134] ICI Comment Letter; Federated Hermes Comment Letter.

[135] ICI Comment Letter (explaining that the Internal Revenue Code requires regulated investment companies, including funds, to report the tax character of certain distributions paid in written statements delivered to shareholders. Although this requirement is satisfied through delivery of the Form 1099–DIV, certain shareholders do not receive this form. Therefore, funds frequently choose to include this disclosure in the shareholder report as a means of ensuring compliance with the reporting requirement).

[136] Morningstar Comment Letter; Morningstar Trustees Comment Letter (urging the Commission to shorten liquidity risk discussion and require additional discussion of other risks if relevant, such as derivatives risks and concentration risk); Angel Comment Letter (suggesting that a fund be required to disclose its historical standard deviation of returns compared to its benchmark's standard deviation of returns as a uniform quantitative risk measure).

[137] Morningstar Comment Letter.

[138] *See infra* section II.A.2.c.i (discussing the narrative MDFP disclosure requirements) and text accompanying *infra* footnote 263 (discussing the requirements for the disclosing additional fund statistics).

[139] *See supra* footnote 67.

fund in the shareholder report because such information is already disclosed in the fund's SAI and may be available on fund websites, and we believe that this disclosure would not be particularly salient to retail investors monitoring their investments.[140]

d. Scope With Respect to Other Registrants

As proposed, the final annual report disclosure rules will apply only to shareholder reports for investment companies registered on Form N–1A.[141] The amendments do not extend to other investment companies such as closed-end funds, UITs, or open-end managed investment companies not registered on Form N–1A (*i.e.,* issuers of variable annuity contracts registered on Form N–3).

Several commenters suggested that the Commission should reevaluate consistency of disclosure across all different fund types (*e.g.,* closed-end funds and UITs, as well as open-end funds) because the shareholders across fund types have similar informational needs and would likely all benefit from a similar layered approach to disclosure.[142]

We agree that disclosure consistency, and continuing to consider consistency in informational needs among shareholders in different types of investment companies, are important policy matters, and topics that the Commission and staff will continue to evaluate. In the past several years, the Commission adopted changes to the disclosure framework for closed-end funds and variable contracts tailored to these investment companies' characteristics.[143] Before considering any additional or different disclosure amendments for closed-end funds and variable contracts, we believe it is necessary to understand funds' and investors' experience with these new disclosure frameworks for closed-end funds and variable contracts and assess their impact.

Some commenters also suggested that funds offered exclusively to other funds or offered only to institutional investors be exempt from the obligation to prepare shareholder reports.[144] These commenters argued that, because the shareholder report is oriented towards retail shareholders, there is little benefit in requiring funds that are sold exclusively to these investors to prepare, transmit, and file these reports. These commenters suggested that such funds instead could rely on the financial statements and other Form N–CSR requirements filed with the Commission to keep institutional investors informed about their fund investments.

We do not believe that such an exemption is necessary or appropriate. Currently registered funds offered exclusively to other funds, or only to institutional investors, transmit complete annual and semi-annual reports to their shareholders. Under the final rules, these funds will now be required to provide shareholders with a significantly shorter document. While shareholder reports under the final rules include content that is designed to be particularly salient to retail investors, these reports include core fund information that all investors can use to monitor fund investments, and that supplements information that investors could glean from a fund's financial statements. Additionally, to the extent a fund limits its investor base to institutional investors and is able to qualify for the exclusions from the investment company definition in sections 3(c)(1) or 3(c)(7) of the Investment Company Act, the fund can operate as a private fund under those exclusions and will not be subject to the shareholder report requirements of section 30 of the Act.

2. Contents of the Annual Report

The following table outlines the information the final rule will generally require funds to include in their annual reports.

TABLE 2—OUTLINE OF ANNUAL REPORT

	Description	Item of amended form N–1A	Item of current form N–1A containing similar requirements
Cover Page or Beginning of Report	Fund/Class Name	Item 27A(b).	
	Ticker Symbol	Item 27A(b).	
	Principal U.S. Market(s) for ETFs	Item 27A(b).	
	Statement Identifying as "Annual Shareholder Report".	Item 27A(b).	
	Legend	Item 27A(b).	
	Statement on Material Fund Changes in the Report.	Item 27A(b).	
Content	Expense Example	Item 27A(c)	Item 27(d)(1).
	Management's Discussion of Fund Performance.	Item 27A(d)	Item 27(b)(7).
	Fund Statistics	Item 27A(e).	
	Graphical Representation of Holdings	Item 27A(f)	Item 27(d)(2)
	Material Fund Changes	Item 27A(g).	
	Changes in and Disagreements with Accountants.	Item 27A(h)	Item 27(b)(4).
	Availability of Additional Information	Item 27A(i)	Item 27(d)(3) through (5).
	Householding Disclosure (optional)	Item 27A(j)	(*)

* Rule 30e–1(f)(3) currently requires a fund to explain, at least once a year, how shareholders may revoke their consent to householding. This explanation is not currently required in funds' shareholder reports. As proposed, we are not requiring it in the annual report.

[140] *See* Item 20(c) of current and amended Form N–1A; *see also* rule 498(e) (requirements to make certain materials—including a fund's SAI—available on a website, for funds that use summary prospectuses in reliance on rule 498).

[141] These funds represent the vast majority of investment company assets under management. *See infra* section IV.B.1.

[142] Tom and Mary Comment Letter; Dechert Comment Letter; CFA Institute Comment Letter; Comment Letter from Donald (Attorney) (Oct. 12, 2020) ("Donald Comment Letter").

[143] *See* Variable Contract Summary Prospectus Adopting Release, *supra* footnote 9; Securities Offering Reform for Closed-End Investment Companies, Investment Company Act Release No. 33836 (Apr. 8, 2020) [85 FR 33290 (June 1, 2020)] ("Closed-End Fund Offering Reform Adopting Release").

[144] ICI Comment Letter; Fidelity Comment Letter; T. Rowe Price Comment Letter.

As proposed, the annual report will not be subject to page or word limits under the final rules. Commenters agreed with this approach and one commenter stated that adopting a page limit may have the unintended effect of producing dense, visually unappealing disclosures when funds try to squeeze necessary information into a limited space.[145] Another commenter said that the Commission's proposed approach would provide funds with the flexibility to provide explanatory or qualifying information to the extent they believe it is necessary or appropriate.[146] We believe that the proposed restrictions on the contents of these reports would naturally limit their length, which would support our goal of concise, readable disclosure without the need for further restrictions on page length or word count.[147]

a. Cover Page or Beginning of the Report

The final amendments to Form N–1A will require a fund to provide the following information on the cover page or at the beginning of the annual report:[148]

- As proposed, the name of the fund and the class to which the annual report relates; [149]
- As proposed, the exchange ticker symbol of the fund's shares, or the ticker symbol of the class adjacent to the class name;
- As proposed, if the fund is an ETF, the principal U.S. market(s) on which the fund's shares are traded;
- As proposed, a statement identifying the document as an ''annual shareholder report;''
- Substantially as proposed, the following legend: ''This annual shareholder report contains important information about [the Fund] for the period of [beginning date] to [end date]. You can find additional information about the Fund at [Fund website address]. You can also request this information by contacting us at [toll-free telephone number and, as applicable, email address].'' [150]; and
- In addition to the proposed cover page elements, we are also adopting a requirement that if the shareholder report describes material fund changes, a fund will have to include the following prominent statement, or a similar clear and understandable statement, in bold-face type: ''This report describes changes to the Fund that occurred during the reporting period.'' [151]

Commenters generally supported the proposed cover page information, and some recommended certain enhancements.[152] One commenter suggested that the Commission require funds to include a brief description of investor eligibility requirements for each share class so that shareholders understand if there is an opportunity to move to a more appropriate class.[153] Another commenter requested that funds disclose their investment objectives on the cover page.[154] One commenter also requested that material fund changes should be disclosed on the cover page.[155] Finally, one commenter suggested that the Commission should adopt an instruction to the required legend, similar to a current instruction in Form N–1A related to prospectuses, to provide flexibility for underlying funds used as investment options for variable contracts to modify the legend in a manner that is consistent with their structure.[156]

As discussed above, the final rules will require that a shareholder report cover a single class of a multiple-class fund.[157] Therefore, we do not believe it is necessary to include additional information regarding share class eligibility. Similarly, because shareholders will continue to receive annual prospectus updates under the final rules, we do not believe it is necessary to require or permit funds to include a fund's investment objective (which also appears in the prospectus) in the shareholder report. We believe that adding the fund's investment objective would be duplicative and, in light of this, unnecessarily increase the length of the shareholder report.

The final rules also will not require a fund to describe material changes on the cover page of the shareholder report. Because the shareholder report will be a relatively short document, we anticipate investors would see this information within a few pages following the cover page or beginning of the report. However, we agree with commenters that it may be useful for shareholders to be alerted to material changes that occurred during the reporting period. Therefore, in a change from the proposal, if a shareholder report includes a discussion of material fund changes, the final rules will require the cover page of the report to include a prominent statement, in bold-face type, explaining that the report describes certain changes to the fund that occurred during the reporting period.[158]

Finally, we do not believe it is necessary to adopt an instruction to the required legend specifically allowing funds that serve as the underlying investment options for variable contracts to modify the legend in a manner that is consistent their structure. As discussed above, Instruction 7 to Item 27A already allows funds to modify a required legend or narrative information so long as the modified language contains comparable information.[159] A more specific instruction for funds that serve as the underlying investment options for variable contracts is unnecessary.

b. Fund Expenses

The final rules will require a simplified expense presentation in the annual report, modified from the proposed presentation to take into account concerns raised by commenters. Under the final rules, a fund will be required to provide a table showing the expenses associated with a hypothetical $10,000 investment in the fund during the preceding reporting period in two formats: (1) as a percent of a shareholder's investment in the fund

[145] Consumer Federation of America II Comment Letter.

[146] NASAA Comment Letter.

[147] *See, e.g., infra* at text following footnote 271 (stating that, in the fund statistics section of the shareholder report, funds have the flexibility to include additional statistics that the fund believes would help shareholders better understand the fund's activities and operation during the reporting period, but cautioning that funds should carefully consider the inclusion of any statistic that requires extensive narrative explanation).

[148] *See* Item 27A(b) of amended Form N–1A.

[149] In a change from the proposal, the final rules will require that a shareholder report cover a single class of a multiple-class fund. *See* Instruction 4 to Item 27A(a) of amended Form N–1A; *see also supra* footnote 106 and accompanying text.

[150] In a change from the proposal, the legend under the final rules does not contain the phrase ''[as well as certain changes to the Fund].'' This phrase is duplicative of the requirement under the final rules to include a separate legend highlighting that a shareholder report describes material fund changes, if applicable. *See* Item 27A(b)(4) of amended Form N–1A.

[151] *See* Item 27A(b) of amended Form N–1A. The reference to the ''beginning'' of an annual report is designed to address circumstances in which there is not a physical page that would precede the report, for example, when the report appears online or on a mobile device. *See infra* section II.A.4.

[152] *See, e.g.,* ICI Comment Letter; Capital Group Comment Letter.

[153] Morningstar Comment Letter.

[154] Capital Group Comment Letter.

[155] Comment Letter of Dominic Rosa (Sept. 16, 2020) (''Dominic Rosa Comment Letter'').

[156] *See* ICI Comment Letter (noting that the term ''us,'' as used in the phrase ''contacting us'' in the required legend, could be read to refer to the fund. However, for funds that serve as investment options for variable contracts, shareholder reports are delivered to contract holders. The record holders of underlying funds are the insurance company separate accounts, and underlying funds have no visibility or access to contract holders); *see also* General Instruction C.3.(d) of current Form N–1A.

[157] *See* Instruction 4 of Item 27A(b) of amended Form N–1A.

[158] Item 27A(b) of amended Form N–1A.

[159] *See supra* text accompanying footnote 121.

(*i.e.,* expense ratio), and (2) as a dollar amount. In a change from the proposal, the expense presentation under the final rules will not require the table also to include information about the fund's total return during the period.[160] Additionally, the final rules do not include the proposed requirement for a fund to include an explanation, in a footnote to the expense example, that expense information does not reflect shareholder transaction costs associated with purchasing or selling fund shares.

Simplified Expense Table

The final rules include a simplified expense table that will replace the current expense example in the shareholder report, which consists of two different tables, along with the currently-required narrative preamble.[161] Commenters generally supported simplifying the expense presentation in the shareholder report and eliminating the narrative preamble to the table.[162] In addition, the expense table under the final rules is more simplified than the proposed presentation and is designed to provide shareholders with a basis for comparing the level of current period expenses of different funds (as percentages are comparable), as well as to permit shareholders to estimate the costs, in dollars, that they incurred over the reporting period. The expense presentation will appear as follows, and the individual aspects of the example are described in more detail below.

WHAT WERE THE FUND COSTS FOR THE LAST [YEAR/SIX MONTHS]?

[Based on a hypothetical $10,000 investment]

[Fund or class name]	Costs of a $10,000 investment	Costs paid as a percentage of a $10,000 investment
	$	%

As proposed, the final rules require a fund to provide the expenses associated with a hypothetical $10,000 investment in the fund during the preceding reporting period. Currently, funds are required to show expenses associated with a $1,000 investment. The Commission proposed an increased dollar value in order to present a more realistic investment amount for an individual shareholder today.[163] Commenters supported the higher $10,000 assumed investment amount.[164] One commenter, however, stated that funds with a higher minimum investment should be required to show that higher investment amount in the expense presentation.[165] As this would undermine comparing different funds, we are not requiring funds with higher minimum investment amounts to show that higher amount.

In addition to the cost in dollars of a $10,000 investment and the expense ratio, the proposed expense table also would have required a fund to show returns information, which was designed to facilitate shareholders' understanding of how costs and performance affect their ending account values. Some commenters, including retail investors, requested that the expense example exclude returns information, and provide only costs.[166] These commenters stated that presenting returns information in the expense table might be confusing for shareholders and repetitive of the performance information that appears later in the document. Additionally, one commenter supported an approach that includes returns information in the expense table, but stressed the importance of highlighting the costs paid in dollars and expense ratio tables through text features, such as bold-face type, to emphasize the importance of those two data points.[167] After considering commenters' concerns, the presentation of fund expenses under the final rules will not include fund returns information because we agree that presenting returns information in the expense example is duplicative of the returns information that is presented in the MDFP section of the report and could add unnecessary complexity and confusion to the expense presentation. For example, because a fund's reported return would relate to the fund's fiscal year, including return information could result in different funds presenting substantially different returns based primarily on whether a given fund's fiscal year included a time period with aberrant market performance. We also believe that the simplified presentation—presenting just the costs in dollars and the expense ratio—would help to focus investors on this key information.[168]

Additional Aspects of the Shareholder Report's Presentation of Expenses

Some commenters suggested additional modifications to the proposed expense presentation. First, we proposed an expense table title: ''What were your Fund costs for the period? (based on a hypothetical $10,000 investment).'' Additionally, under the proposal, the column in the table that would include the fund's expense ratio was entitled ''costs paid as a percentage of your investment.'' One commenter requested we modify these two headers to remove the references to ''your'' because an investor might reasonably interpret these uses of the possessive pronoun as actually reflecting that investor's own personal experience.[169] We agree, that the use of the term ''your'' in the header to the table and the title of the expense ratio column could confuse investors, and we have changed these two headers to clarify that the expenses presented in

[160] *See* Proposing Release, *supra* footnote 8, at n.142. The proposed expense presentation would have required a fund to show a beginning account value of $10,000, costs paid during the period, the fund's total return during the period before costs were paid, and the ending account value based on the fund's net asset value return. *See id.* at nn.154–155 and accompanying text. Under the proposal, ETFs were required to include the ending value of the account based on market value return. *See id.* at n.159 and accompanying text.

[161] *See* Proposing Release, *supra* footnote 8, at text accompanying nn.145–146 (explaining that the current expense presentation requires funds present two tables: the first showing the actual cost in dollars for a $1,000 investment in the fund over the prior six-month period based on the actual return of the fund, and the second showing the cost in dollars for a $1,000 investment in the fund over the prior six-month period based on a hypothetical 5% annual return); *see id.* at n.162 and accompanying text (discussing the currently-required narrative preamble).

[162] *See, e.g.,* ICI Comment Letter; AFREF Comment Letter; NASAA Comment Letter; CFA Institute Comment Letter; Abdullah Comment Letter. *But see* Consumer Federation of America II Comment Letter (suggesting that the Commission conduct investor testing to determine if investors would prefer the current presentation).

[163] *See* Proposing Release, *supra* footnote 8, at n.151 and accompanying text.

[164] *See, e.g.,* Consumer Federation of America II Comment Letter; Morningstar Comment Letter.

[165] ICI Comment Letter.

[166] *See, e.g.,* Comment Letter of Sandra Degan (Aug. 25, 2020) (''Sandra Degan Comment Letter''); Comment Letter of Ubiquity (Sept. 14, 2020) (''Ubiquity Comment Letter''); Williams Comment Letter; Tom and Mary Comment Letter; Barker Comment Letter. Additionally, two commenters objected to the ETF-specific requirement to show the ending account value based on both NAV and market value return, and stated that ETFs should only be required to show NAV. *See* Ubiquity Comment Letter, Tom and Mary Comment Letter.

[167] CFA Institute Comment Letter.

[168] Because the final rules will not include fund return information in the expense example, the expense table will not include the proposed ''ending value of the account'' column and related instructions, including the proposed instructions requiring the presentation of expense information as a mathematical expression and the requirement to give more prominence to the ''cost paid'' and ''cost paid as a percentage of your investment' columns than the other columns in the table. Similarly, commenter concerns regarding the disclosure related to ETF-specific requirement to show the ending account value based on both NAV and market value return are moot.

[169] NASAA Comment Letter.

the table are a reflection of a hypothetical $10,000 investment.

Additionally, the final rules will replace the proposed header reference to ''the period'' with a more specific reference to either ''the past year'' or ''the past six months,'' depending on whether the report is an annual or semi-annual report. We believe this more specific heading reference to the relevant period will help shareholders better appreciate that the figures in the semi-annual report expense table reflect a shorter period than the annual report (and thus these figures will likely be smaller than the parallel figures in the annual report).

The proposal also would have included a new footnote to the expense presentation that would have required a fund to include a footnote briefly explaining, in plain English, that the expense information does not reflect shareholder transaction costs associated with purchasing or selling fund shares.[170] This was designed to inform investors that there may be additional costs not reflected in the expense example, if applicable. Some retail investors stated that the proposed footnote is of limited value and recommended streamlining it.[171] After considering commenter concerns, we agree this footnote would provide limited information to investors, particularly since it would not have included quantitative information regarding these costs, and these costs may vary based on distribution channel, making it difficult to present this information concisely in the footnote or otherwise. By merely alerting investors to the possibility of additional costs, the proposed footnote could make the table less readable without providing investors information they could use effectively in evaluating the expense presentation. We therefore are not adopting that proposed footnote.

We are adopting, as proposed, an instruction that will direct funds to calculate ''Costs of a $10,000 investment'' by multiplying the figure in the ''Cost paid as a percentage of a $10,000 investment'' column by the average account value over the period based on an investment of $10,000 at the beginning of the period.[172] The figure in the ''Cost paid as a percentage of your investment'' column, in turn, will be the fund's expense ratio as it appears in the fund's most recent audited financial statements or financial highlights.[173]

Additionally, as proposed, we are retaining three current instructions that we believe continue to provide important information to shareholders.[174] First, if a fund incurred any ''extraordinary expenses'' during the reporting period, the fund may briefly describe, in a footnote to the expense table, what the actual expenses would have been if these extraordinary expenses were not incurred.[175] The Commission received no comments on this instruction. Second, if a fund is a feeder fund, the fund must reflect the aggregate expenses of the feeder fund and the master fund in the expense table and include a footnote stating that the expense table reflects the expenses of both the feeder and master funds.[176] One commenter supported continuing to permit funds to report aggregated fees with the related footnote, and noted that allowing reporting in this manner allows investors to more easily understand the total expenses they are paying.[177] No commenters opposed the instruction. Finally, if a fund's shareholder report covers a period of time that is less than a full reporting period, the fund must include a footnote to the table noting this and explaining that expenses for a full reporting period would be higher than the figures shown.[178] We received no comments on this instruction.[179]

Feedback on Including Additional or Different Information About Fund Costs

Some commenters also responded to the Commission's request for comment on differences in the expense presentations in the annual report and prospectus.[180] These presentations currently differ in that the shareholder report expense example is derived from a fund's audited financial statements and therefore reflects actual historical expenses that a shareholder incurred over the past year (*i.e.,* backwards-looking expenses). The prospectus fee table and expense example, on the other hand, reflect hypothetical future expenses (*i.e.,* forward-looking expenses).[181] Some commenters argued that the expense presentations of the prospectus and annual report should be aligned.[182] Similarly, one commenter suggested that the shareholder report expense example should disclose the prospectus expense ratio and explain any differences in a footnote.[183] Furthermore, some commenters suggested that the expense presentation in the shareholder report should include additional transaction costs, beyond commissions, including costs paid from fund assets for investment research and payments made to affiliated securities lending agents.[184] Conversely, one commenter urged the Commission to exclude interest expenses and dividends paid on short sales from the current expense ratio, on the basis that these

[170] The proposal would have also required a fund to include a footnote to the proposed returns information that would be included in the expense presentation, describing other costs that are included in the fund's total return if material to the fund. Because the final rules' expense presentation does not include returns-related information, we are not adopting this footnote requirement. *See* Proposing Release, *supra* footnote 7, at n.164.

[171] Williams Comment Letter; Tom and Mary Comment Letter.

[172] *See* Instruction 2(a) to Item 27A(c) of amended Form N–1A. As proposed, the computation instructions will also require funds to assume reinvestment of all dividends and distributions. *See* Instruction 2(b) to Item 27A(c) of amended Form N–1A.

[173] *See* Instruction 2(c) to Item 27A(c) of amended Form N–1A. In the semi-annual report, the fund's expense ratio will be calculated in the manner required by Instruction 4(b) to Item 13(a) of current and amended Form N–1A, using the expenses for the fund's most recent fiscal half-year. *Id.*

[174] *See* Proposing Release, *supra* footnote 7, at paragraph following n.171.

[175] *See* Instruction 1(d) to Item 27A(c) of amended Form N–1A (defining ''extraordinary expenses'' as ''expenses that are distinguished by their unusual nature and by the infrequency of their occurrence. Unusual nature means the expense has a high degree of abnormality and is clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the Fund, taking into account the environment in which the Fund operates. Infrequency of occurrence means the expense is not reasonably expected to recur in the foreseeable future, taking into consideration the environment in which the Fund operates. The environment of a Fund includes such factors as the characteristics of the industry or industries in which it operates, the geographical location of its operations, and the nature and extent of government regulation'').

[176] *See* Instruction 1(b) to Item 27A(c) of amended Form N–1A.

[177] Morningstar Comment Letter.

[178] *See* Instruction 1(c) to Item 27A(c) of amended Form N–1A. This would generally apply to newly-formed funds that are required to file an annual or semi-annual report for a period shorter than the reporting period.

[179] While the proposal included an instruction that would have required a separate expense table, or a separate line item in the expense table, for each class of as multiple-class fund, this instruction is moot in light of the final rules' requirement that a shareholder report cover only a single class of a multiple-class fund. *See* Instruction 4 to Item 27A(a) of amended Form N–1A; *see also* footnote 106 and accompanying text; *see also* Proposing Release, *supra* footnote 7, at n.174 and accompanying text.

[180] *See* Proposing Release, *supra* footnote 8, at text following n.600; *see also, e.g.,* Dominic Rosa Comment Letter; Barker Comment Letter; Tom and Mary Comment Letter; Capital Group Comment Letter; Morningstar Comment Letter.

[181] Currently, the prospectus fee table also reflects sales loads that an investor would pay and AFFE, whereas the shareholder report expense presentation does not, because these elements are not reflected in the fund's financial statements. *See* Proposing Release, *supra* footnote 8, at n.148 and accompanying text.

[182] Dominic Rosa Comment Letter; Barker Comment Letter; Tom and Mary Comment Letter; Capital Group Comment Letter.

[183] Morningstar Comment Letter.

[184] Dimensional Comment Letter; AFREF Comment Letter.

adjustments would make expense information more comparable across funds.[185] Finally, other commenters also argued that the Commission should require funds to disclose—on fund websites or in the prospectus, as a complement to shareholder report disclosure—best execution policies reflecting ''efforts to ensure that fund transaction costs, including commission dollars generated by the fund,'' directly benefit shareholders.[186]

Because the prospectus and shareholder report differ in the time periods that they reflect (*i.e.,* the prospectus is ''forward looking'' while the shareholder report is ''backward looking''), aligning the expense presentations in these documents presents significant challenges. Additionally, we believe that it would be confusing to investors to be given two expense ratios in the shareholder report (one backwards-looking, derived from the audited financial statements, and the other from the forward-looking prospectus). Furthermore, because the shareholder report is designed to provide shareholders with a summary of the key information provided in the fund's audited financial statements, we continue to believe that the types of costs reflected in the shareholder report expense example should be derived from those that are included in the fund's audited financial statements. As discussed above, however, helping investors more readily understand fund fees and expenses is an important priority of the Commission and we believe that the general topic of fund fee disclosure effectiveness, in light of comments received, merits further consideration.[187]

c. Management's Discussion of Fund Performance

Substantially as proposed, the final rules will largely maintain the current requirements for the MDFP section of the annual report, with several targeted changes.[188] In particular, we are adopting amendments to the current MDFP requirements to make the disclosure more concise. Additionally, the final rules include additional performance-related information that is available in fund prospectuses, including certain performance information and comparative information showing the average annual total returns of one or more relevant benchmarks, modified from the proposal to take into account the final rule's requirement for the shareholder report to cover a single class of a multiple-class fund. We also are amending, as proposed, the definition of an appropriate broad-based securities market index to require that all funds compare their performance to the overall applicable securities market, for purposes of both fund annual reports and prospectuses.

i. Narrative MDFP Disclosure

As proposed, the final rules retain the current requirement for funds' annual reports to include a narrative discussion of factors that materially affected a fund's performance during the most recent fiscal year, with minor modifications from the current requirements to encourage concise disclosure.[189] In particular, the final rules amend the current requirement to specify the disclosure must ''briefly summarize'' the ''key'' factors that materially affected the fund's performance during the last fiscal year, including the relevant market conditions and the investment strategies and techniques used by the fund's investment adviser. As proposed, the final rules instruct funds not to include lengthy, generic, or overly broad discussions of these factors.[190] The instruction, as proposed, also directs funds to use graphics or text features—such as bullet lists or tables—to present the key factors, as appropriate. Finally, as proposed, the final rules will not allow funds to include any additional information—such as a fund president's letter to shareholders, interviews with portfolio managers, general market commentary, and other similar information—in the shareholder report.[191]

Commenters supported the proposed amendments to the narrative MDFP section and stated that the proposed approach appropriately maintains a fund's flexibility in presenting information that is most salient to investors, while requiring such information to be presented in a visually engaging and accessible format.[192] In addition, survey data submitted by a commenter indicated that retail investors, and older investors in particular, expressed that the new presentation would help them better understand fund performance.[193]

We are adopting the narrative MDFP section as proposed because we continue to believe providing shareholders with a more streamlined and visually engaging presentation of the key factors affecting fund performance will allow shareholders to focus on the most salient fund information.[194] Our approach balances the need for funds to have flexibility in determining what information is salient given a fund's unique strategy and risk profile, while encouraging funds to present that information in a manner that is most effective for shareholders. Therefore, we do not believe it is necessary to further limit the narrative MDFP disclosure.

ii. Performance Line Graph and Guidance on Use of Market Indexes in Performance Disclosure

Substantially as proposed, the final rules will retain the requirements for the performance line graph currently included in annual reports, with certain amendments designed to improve the current presentation and to reflect that a shareholder report will cover a single class of a multiple-class fund.[195] The shareholder report must include a performance line graph that shows the performance of a $10,000 investment in the fund and in an appropriate broad-based securities market index over a 10-year period.[196] In addition, a fund has

[185] *See* Morningstar Comment Letter (arguing that removing interest and dividend expenses from the expense ratio gives investors a better sense for what a fund company is charging them for the cost of running the fund and allows funds with different types of investments to present their expenses in a comparable way. Morningstar has adjusted its methodology for calculating fund expense ratios in their data to exclude interest and dividend expenses).

[186] Comment Letter of Healthy Markets Association (Nov. 6, 2020) (''Healthy Markets Association Comment Letter''); *see also* CFA Institute Comment Letter.

[187] *See supra* text following footnote 84.

[188] *See* Proposing Release, *supra* footnote 7, at text following n.176 (explaining that the current MDFP disclosure generally includes: a narrative discussion of the factors that materially affected the fund's performance; a performance line graph; a table showing the fund's average annual total returns; a discussion of the effect of any policy or practice of maintaining a specified level of distributions to shareholders on the fund's investment strategies and per share net asset value, as well as the extent to which the fund's distribution policy resulted in distributions of capital; and for ETFs that do not provide certain premium or discount information on their websites, a table showing the number of days the fund shares traded at a premium or discount to net asset value).

[189] *See* Item 27A(d)(1) of amended Form N–1A.

[190] *See* Instruction 1 to Item 27A(d)(1) of amended Form N–1A.

[191] *See supra* text accompanying footnote 131. Additional information could, however, accompany the shareholder report provided that it meets the prominence requirements for materials that accompany the report. *See* Instruction 12 to Item 27A(a) of amended Form N–1A.

[192] *See, e.g.,* Consumer Federation of America II Comment Letter; ICI Comment Letter; Fidelity Comment Letter.

[193] Broadridge Comment Letter.

[194] *See* Proposing Release, *supra* footnote 7, at text following n.180.

[195] *See* Item 27A(d)(2) of amended Form N–1A and related instructions.

[196] An ''appropriate broad-based securities market index'' is administered by an organization that is not an affiliated person of the fund, its investment

Continued

the option to compare its performance to other indexes, including more narrowly based indexes that reflect the market sectors in which the fund invests. We continue to believe the line graph presentation helps shareholders understand how the fund has performed over a 10-year time horizon compared to an appropriate broad-based securities market index and other relevant indexes, as applicable.[197]

We are adopting the instructions related to the line graph largely as proposed, with some conforming changes to reflect other aspects of the final rules. First, in a change from the proposal, the final rules include an instruction that requires a fund to present performance information for the class covered in the shareholder report. Second, as proposed, the final rules remove the current instruction that allows the line graph to cover periods longer than the past 10 fiscal years. Third, as proposed, the final rules include an instruction that defines a ''broad-based'' index as one that represents the overall applicable domestic or international equity or debt markets, as appropriate.[198] And as proposed, the instructions under the final rules will continue to permit a fund to include narrower indexes that reflect the market segments in which the fund invests in its performance presentation, along with the required appropriate broad-based securities market index.[199]

Commenters generally supported the retention of the performance line graph as well as the prohibition on showing more than 10 years of performance.[200] Some commenters requested enhancements to the line graph. For example, one commenter suggested the line graph should include percentage values along with dollar amounts to facilitate comparisons.[201] Additionally, one commenter suggested allowing funds to add labels at each significant point in the line graph to enhance comprehension of risk and improve the user experience.[202] Two commenters suggested funds should be required to include a bar chart of returns, similar to what is currently included in the prospectus, along with the line graph.[203]

We continue to believe, as discussed more fully in the Proposing Release, that limiting the performance line graph to 10 years is important to avoid unrealistic investor performance-related expectations and allow investors to easily identify volatility.[204] We also believe adding labels at significant points on the line graph may clutter the presentation and hinder an investor's ability to understand the information provided.

Further, we continue to believe the line graph is more useful for investors in the shareholder report than a bar chart. Like a bar chart, a line graph helps illustrate the variability of a fund's returns (*e.g.,* whether the fund's returns have been volatile or relatively consistent from year to year). But given the other benefits of the line graph—particularly that it presents performance in dollar terms that may be easier for some shareholders to assess—the final rules we are adopting maintain the line graph presentation.[205] Moreover, the line graph presentation may help investors understand the general benefits of long-term investments (*e.g.,* compound interest).

Comments on Broad-Based Securities Market Index

Commenter reactions to the proposed definition of an appropriate broad-based securities market index were mixed. Some commenters supported the retention of the requirement to present performance relative to a broad-based index, as well as the proposed definition.[206] One commenter stated that the requirement to compare performance to the overall applicable securities markets would be useful to investors, as it makes the information more comparable across funds, and should ''also help prevent funds from selecting for comparison a narrow index designed to make their own performance look artificially strong.'' [207] Another, supporting the proposed requirement, stated that the requirement would ''ensure that investors have a simple, readily-accessible window into the performance of a specific investment fund against the broader performance of the securities markets.'' [208] Some commenters asked for additional guidance. For example, one commenter suggested that the definition incorporate more specific criteria regarding index methodology.[209] Another commenter requested the Commission to provide additional clarity on indexes that would satisfy the proposed definition, such as country-specific indexes, ESG indexes, and indexes of particular capitalizations.[210] Further, another commenter suggested that the Commission publish a list of permissible indexes.[211]

In contrast, many industry commenters objected to the proposed definition.[212] These commenters argued that, for some fund strategies like multi-asset funds and alternative strategy funds, a comparison to an index representing the entire market would be less useful and could be misleading to investors because these fund strategies are not designed to invest in, nor provide the performance associated with, any particular overall market. Commenters also questioned the default requirement to include a broad-based index in a fund's performance line graph. Although the proposal allows funds to show a secondary index that is more tailored to the fund's strategy, commenters argued including any broad-based market index would be confusing to investors in certain

adviser, or principal underwriter, unless the index is widely recognized and used. *See* Instruction 6 to Item 27A(d)(2) of amended Form N–1A.

[197] *See* Proposing Release, *supra* footnote 7, at nn.191–193 and accompanying text.

[198] The amendments to the definition of an appropriate broad-based securities market index would affect performance presentations in fund prospectuses, as well as fund annual reports.

[199] *See* Instruction 7 to Item 27A(d)(2) of amended Form N–1A. This release sometimes refers to the appropriate broad-based securities market index as the ''primary index'', and any narrower index(es) as ''secondary index(es).''

[200] *See, e.g.,* Consumer Federation of America II Comment Letter; Cornell Law School Comment Letter; Morningstar Comment Letter; Morningstar Trustees Comment Letter; CFA Institute Comment Letter. *But see* ICI Comment Letter (objecting to the prohibition showing performance beyond 10 years).

[201] Cornell Law School Comment Letter.

[202] Morningstar Comment Letter.

[203] Morningstar Trustees Comment Letter; CFA Institute Comment Letter.

[204] *See* Proposing Release, *supra* footnote 7, at text following n.196 (discussing, for example, that for funds that have been in existence for a long period of time (*e.g.,* 40 years), a line graph that shows the performance of a $10,000 investment at the outset of the fund may not be particularly relevant for the average shareholder, who likely has not been invested in the fund for such an extended period of time).

[205] This complements the percentage-based presentation in the average annual total returns table. *See* Proposing Release, *supra* footnote 8, at n.193.

[206] *See, e.g.,* Comment Letter of Index Industry Association (Jan. 4, 2021) (''Index Industry Association Comment Letter''); Consumer Federation of America II Comment Letter; NASAA Comment Letter; Tom and Mary Comment Letter; Ubiquity Comment Letter.

[207] *See* Consumer Federation of America II Comment Letter; *see also* Index Industry Association Comment Letter (comparing fund performance against a broad-based market index in fund reporting materials ''promotes transparency and helps shareholders evaluate their goals''); *see also* Abdullah Comment Letter (stating that it is problematic that funds include narrow indexes as their broad-based index).

[208] *See* NASAA Comment Letter.

[209] *Id.*

[210] Tom and Mary Comment Letter.

[211] Ubiquity Comment Letter.

[212] *See, e.g.,* ICI Comment Letter (suggests changing index definition to ''appropriate index''); SIFMA Comment Letter; Morningstar Comment Letter; Fidelity Comment Letter; Capital Group Comment Letter; John Hancock Comment Letter; TIAA Comment Letter; Comment Letter of IHS Markit (Jan. 4, 2021) (''IHS Markit Comment Letter'').

circumstances.[213] For example, one commenter argued that investor confusion could result if the Commission were to require an index fund that seeks to track a narrow index as a principal investment strategy to compare itself to a different, broad-based index.[214] Furthermore, some commenters argued the proposed broad-based index requirement would impose additional licensing fees on funds.[215] Similarly, one commenter argued retaining the current ''widely recognized and used'' standard for using an affiliated index as a fund's primary index disadvantages smaller funds, whose affiliated indexes would be less likely to meet this standard and for which the expense of licensing a ''widely recognized and used'' index may be more significant.[216]

Some commenters suggested alternatives designed to alleviate investor confusion concerns and to enhance benchmark indexes' informational value. For example, some commenters urged the Commission to consider requiring labeling the primary index as a ''general market index'' (or similar) to clarify how an investor should use the information it presents.[217] Other commenters suggested the primary index should be one that is specifically tailored to the fund's strategy and the secondary index should be one that represents the overall market.[218] Some of these commenters also suggested that funds be permitted to provide additional information about more narrowly tailored indexes, such as the index's underlying components and their weights,[219] and an explanation of why the fund believes that the chosen index is an appropriate indicator of the fund's performance.[220]

After considering comments and the findings of the OIAD Benchmark Study, we are adopting the proposed definition of ''appropriate broad-based securities market index'' and retaining the current requirement that a fund must include such an index in its performance line graph. We continue to believe all funds should compare their performance to the overall market and that including a broad-based index in performance disclosure gives investors readily-accessible contextual information about market performance.[221] While performance disclosure that includes an index based on a narrow segment of the market may be useful for comparison purposes, this does not substitute for the inclusion of an index that provides information about the performance of the fund against the broader market. For example, if the Commission were to permit an index fund that seeks to track a narrow index as a principal investment strategy to show only the performance of the narrow index it seeks to track, and the performance of the fund and the index were very similar (as they would be to the extent that the fund tracks the index closely), such a performance presentation would show the extent to which the fund tracks the index but would be less helpful to investors to provide broader performance context.[222] As another example, the inclusion of a broad-based index helps an investor in a sector-specific fund determine not only how the fund's performance relates to that of its peers, but how the fund's performance relates to the performance relative to the market as a whole. Therefore, investors in such funds would benefit from additional contextual information regarding the performance of the overall market.[223]

The final rules' approach is supported in part by the findings of the OIAD Benchmark Study, which observed that benchmarks can help contextualize a fund's performance information for investors, and that some investors use this information to make investment decisions.[224] The study also found that investors of varying levels of sophistication report preferring performance disclosure that includes both broad and narrow benchmarks.[225] Furthermore, while commenters suggested that narrower benchmarks could provide more useful comparative information, the OIAD Benchmark Study concluded that investors' decision-making was generally driven by the positioning of the fund's performance relative to the benchmark presented (*i.e.,* whether the fund underperformed or outperformed the benchmark), irrespective of whether the benchmark presented is narrow or broad.[226] Therefore, as we continue to believe a comparison to the overall market is important contextual information for investors, the evidence that the study provided does not, in our view, support changing the proposed approach or adopting an alternative requirement (for example, requiring the

[213] *Id.*

[214] Supplemental Comment Letter of the Investment Company Institute (Oct. 10, 2022) (''ICI Comment Letter on the OIAD Benchmark Study''). *But see* Abdullah Comment Letter (''Since 40% of fund assets are index funds, it would be interesting to see whether the performance [of] an index that lines up quite closely with an index fund is useful to investors. I hypothesize that such a presentation provides no benefit to an investor and so should not be permitted as the sole benchmark.'').

[215] ICI Comment Letter; SIFMA Comment Letter; Vanguard Comment Letter; Dimensional Comment Letter; Fidelity Comment Letter; T. Rowe Price Comment Letter; *see also infra* paragraph accompanying footnotes 751–752 (discussing potential effects of the final rules' changes to the term ''appropriate broad-based securities market index'' on the costs that funds bear, including additional costs to funds in the form of index-licensing fees, and stating that the amount of these costs will depend, among other things, on market competition among index providers). *But see* Index Industry Association Comment Letter (stating fees charged by broad-based index providers are small and costs to funds would be minimal).

[216] ICI Comment Letter.

[217] Fidelity Comment Letter; CFA Institute Comment Letter.

[218] Morningstar Comment Letter; Federated Hermes Comment Letter; John Hancock Comment Letter; IHS Markit Comment Letter; T. Rowe Price Comment Letter.

[219] T. Rowe Price Comment Letter.

[220] IHS Markit Comment Letter.

[221] *See supra* footnotes 206–208 and accompanying text.

[222] *See supra* footnote 214.

[223] *See, e.g.,* CFA Institute Comment Letter (''Even if a fund outperforms its benchmark, that may be slight consolation if the strategy itself performs poorly against the market. Therefore, the investor should also compare a fund's returns against the market as a whole.'').

[224] *See* OIAD Benchmark Study, *supra* footnote 53; *see also* ICI Comment Letter on the OIAD Benchmark Study (noting the importance of performance benchmarks to investors).

[225] OIAD Benchmark Study, *supra* footnote 53 at ''Figure 9. Preferences for benchmarks.'' In the sections of the OIAD Benchmark Study that analyze benchmarks that currently exist in the mutual fund industry, the study identified funds' broad-based benchmarks first by identifying data from the Morningstar Direct open-end fund database that capture ''primary'' and ''secondary'' indexes, and then by reclassifying these indexes as broad and narrow benchmarks based on the correlation of each index with the S&P 500 Index. Commenters objected to the use of the S&P 500 Index in the study's methodology, arguing that the Commission should not ''define or insinuate that a broad-based index must or should have certain correlation to the S&P 500 Index.'' *See* Abdullah Comment Letter; *see also* ICI Comment Letter on the OIAD Benchmark Study (stating that ''*de facto* SEC endorsement of certain indexes would create market distortions and likely increase fund licensing costs''). The OIAD Benchmark Study, including its methodology and findings, does not reflect findings or conclusions by the Commission as to what constitutes a broad-based index under the final rules. *See infra* text accompanying footnotes 230–233 (providing general guidance and examples of the indexes that would qualify as broad-based indexes under the rule).

[226] *See* OIAD Benchmark Study, *supra* footnote 53; *see also* ICI Comment Letter on the OIAD Benchmark Study (stating that ''the underlying results do not find evidence that survey participants believed that the broad benchmark is a better reference point than the narrow benchmark''). A different academic study also examines fund performance benchmarks, but with a focus on funds' behavior with respect to the performance benchmarks that they select, how benchmark changes affect the appearance of funds' benchmark-adjusted performance, as well as fund flows that result from changes in performance benchmarks. *See* Kevin Mullally and Andrea Rossi, *Moving the Goalposts? Mutual Fund Benchmark Changes and Performance Manipulation* (June 24, 2022), *available at* Mullally, Kevin and Rossi, Andrea, Moving the Goalposts? *Mutual Fund Benchmark Changes and Performance Manipulation* (June 24, 2022) *available at https://ssrn.com/abstract=4145883.*

inclusion of an ''appropriate'' benchmark as opposed to an ''appropriate broad-based'' benchmark). In addition, the study showed that investors find a fund significantly less attractive when a performance graph shows the fund's performance accompanied by a single benchmark that outperforms the fund. Therefore, to the extent that it could be easier for a fund to find a narrow benchmark that underperforms the fund than a broad benchmark, we do not see a reason to discontinue the current requirement to include a broad benchmark, as the requirement to include only a narrower benchmark could lead to gaming behavior. Two commenters specifically addressed the OIAD Benchmark Study and raised concerns regarding the methodology used by the study and the impact such methodology had on the study's conclusions.[227] However, the elements of the OIAD Benchmark Study that support the approach under the final rules are not impacted by the methodology concerns that commenters raised.[228]

We recognize that there is a broad diversity of investment strategies that funds employ, and that certain funds, such as multi-asset and alternative strategy funds, do not invest within a single overall market or attempt to provide returns that are related to the returns of any single overall market. However, comparing the performance of these types of funds against an overall market index will provide shareholders with valuable information regarding how their investments might have performed had their money been invested directly in the holdings included in the index. Further, as discussed above we continue to believe that such a presentation may be useful to investors. And investors may continue to prefer such a presentation, as the OIAD Benchmark Study did not find evidence supporting the notion that study participants believe that a narrow benchmark is a better reference point than a broad benchmark.[229] Additionally, the final rules will allow funds to include narrower indexes, reflecting the market segments in which the fund invests, in the performance presentation. This flexibility will allow funds with unique investment strategies to show the performance of an index that is more closely aligned with the fund's investments.

A ''broad-based'' index that ''represents the overall applicable'' market will of course not necessarily include every security in a given market.[230] The revised definition is designed to ensure that a fund's broad-based index is one that reasonably represents the applicable market. To assist funds in their selection of indexes, we are providing some general guidance and examples of the types of indexes that would satisfy the final rules. For example, for a fund that invests primarily in the equity securities of a non-U.S. country, an index representing the overall equity market of the non-U.S. country would satisfy the final rule's requirements.[231] In contrast, an appropriate benchmark for a fund that invests primarily in the equity securities of a subset of the U.S. market, such as healthcare companies, should show its performance against the overall U.S. equities market, rather than a benchmark consisting of only healthcare companies. Such a fund could also show its performance against an additional, more narrowly tailored healthcare index.[232] We similarly do not believe that indexes that include characteristics such as ''growth,'' ''value,'' ''ESG,'' or ''small- or mid-cap'' represent the overall market, and therefore these indexes would not be appropriate broad-based securities market indexes under the final rules.

An ''appropriate'' broad-based securities market index that a fund selects may include components that do not directly overlap with the fund's investments, if the index's components share similar economic characteristics to the fund's investments such that they provide an appropriate point of comparison. For example, funds such as multi-asset and alternative strategy funds that do not invest within a single overall debt or equity market could select an index that shares other economic characteristics with the fund, such as an index that has similar volatility to the fund. Additionally, as the Commission stated in the Proposing Release, a fund that invests in both equity and debt securities could include more than one appropriate broad-based securities market index.[233] Such a fund could also include a blended index—one that combines the performance of more than one index, such as equity and debt indexes—as an additional index to supplement the appropriate broad-based securities market index(es) that the fund includes.

Furthermore, because the indexes that are available for funds to select change over time, we are not publishing a list of permissible indexes. We also are not further restricting permissible indexes by incorporating more specific criteria regarding index methodology, as maintaining more specific criteria that are evergreen would be challenging in light of developments in funds' investment strategies and changes in the availability of indexes over time. We also are not adopting commenter suggestions to label indexes or to allow funds to provide additional contextual information regarding indexes because we think the name of the index itself is sufficient for investor understanding and will give investors the opportunity to seek further information on the indexes chosen by the fund.[234]

While we appreciate commenters' concerns regarding index licensing fees, we continue to believe comparative performance disclosure provides contextual information investors need in order to make informed investment decisions. After considering suggestions that smaller funds could more readily use affiliated indexes if the Commission were to amend the current requirement for such indexes to be ''widely recognized and used,'' we are retaining the current requirement. This is an important protection against potential conflicts of interest, including the potential ability of an affiliated index

[227] *See* Abdullah Comment Letter; *see also* ICI Comment Letter on the OIAD Benchmark Study.

[228] Those concerns chiefly focused on the sections of the OIAD Benchmark Study that analyze benchmarks that currently exist in the mutual fund industry (Section 2, ''Institutional Background on Benchmark Requirements,'' Section 7, ''Analysis of Benchmark Performance Data,'' and Section 8, ''General Discussion''). These concerns focused on the methodology for determining which benchmark in a fund's disclosure is the broad-based benchmark that is required to appear in its performance disclosure. The discussion of the OIAD Benchmark Study included in this section of the release, on the other hand, relates to the results of the large behavioral experiment that the study describes, as well as the qualitative pilot study.

[229] *See supra* paragraph accompanying footnote 212; *see also id.*

[230] ICI Comment Letter (stating that, when selecting an index, funds will have to make judgements on how broad an index should be).

[231] *See* Disclosure of Mutual Fund Performance and Portfolio Managers, Investment Company Act Release No. 19382 (Apr. 6, 1993) [58 FR 19050 (Apr. 12, 1993)], at n.21 and accompanying paragraph.

[232] *See* Instruction 7 to Item 27A(d)(2) of amended Form N–1A.

[233] Proposing Release, *supra* footnote 8, at text accompanying n.202.

[234] *See* OIAD Benchmark Study, *supra* footnote 53 (finding no evidence to support the claim that textual clarifications of benchmark's improved investor comprehension or otherwise altered investment decisions). *But see* Abdullah Comment Letter (stating that the final rules should require funds to provide textual clarifications of indexes where the index components are not obvious from the index's name or is not otherwise well known to investors). Funds that wish to provide further information regarding the fund's performance as it compares to the indexes provided may do so in the narrative MDFP section of the release to the extent that such disclosure meets the requirements of that section.

provider to manipulate an underlying index to the benefit of the fund.

iii. Performance Table

Substantially as proposed, the final rules will retain the current requirement that funds' annual reports include a table presenting average annual total returns for the past 1-, 5-, and 10-year periods, with certain amendments designed to reflect that a shareholder report will cover a single class of a multiple-class fund.[235] Specifically, as proposed, the final rules will require the table to include several additional pieces of information: (1) the average annual total returns of an appropriate broad-based securities market index; [236] and (2) the fund's average annual total returns without sales charges (in addition to current disclosure showing returns reflecting applicable sales charges). While the proposal would have required average annual total return information for all available share classes, the final rules require this information only for the share class to which the report relates, and therefore the final rules will not include this proposed requirement.

Additionally, as proposed, the final rules simplify the statement that currently accompanies the line graph and table.[237] Also as proposed, funds will be required to use text features to make this statement noticeable and prominent through, for example, graphics, larger font size, or different colors or font styles. Furthermore, substantially as proposed, the final rules include a new instruction allowing funds to add brief additional disclosure that would contextualize the line graph and average annual returns table. Specifically, if a material change occurred to the fund during the relevant performance period, such as a change in investment adviser or a change to the fund's investment strategies, the fund may include a brief legend or footnote to describe the change and when it occurred.[238] Finally, as proposed, the final rules require funds that provide updated performance information through widely accessible mechanisms, such as fund websites, to include a statement in the shareholder report directing shareholders to where they can find this information.[239]

Commenters generally supported the proposed changes to the average annual total returns table, noting that the changes will better align this table in the shareholder report with the returns reported in the prospectus.[240] One commenter suggested that funds should be required to show the 3-year period of returns, in addition to the proposed 1-, 5- and 10-year periods.[241] This commenter stated that an additional intermediate time horizon is especially important for funds with less than 10 years of performance. Because funds with less than 10 years of performance will be required to show performance for the life of the fund, we do not believe that an additional intermediate period of returns would benefit investors, particularly since the performance table already shows two other intermediate periods that are relatively close in time (*i.e.,* 1- and 5-year periods).[242]

iv. Other MDFP Amendments

As proposed, the final rules simplify the current annual report requirement for a fund to discuss the effect of any policy or practice of maintaining a specified level of distribution to shareholders (a ''stable distribution policy'') on the fund's investment strategies and per share net asset value during the last fiscal year, as well as the extent to which the fund's distribution policy resulted in distributions of capital. Specifically, under the final rules, a fund that has a stable distribution policy and was unable to maintain the specified level during the past fiscal year would need to disclose this.[243] As proposed, the final rules also maintain disclosure concerning distributions that resulted in returns of capital.[244] The final rules' requirements, which—as proposed—modify current requirements by focusing on circumstances when a fund was unable to meet the specified level of distribution in its stable distribution policy or had distributions that resulted in returns of capital, are designed to provide more meaningful disclosure to shareholders.[245] No commenters discussed these requirements.

The final rules, like current annual report requirements, do not require money market funds to include MDFP. Two commenters supported maintaining the current approach for money market funds.[246] One requested that the Commission clarify that money market funds are permitted, but not required, to provide MDFP in their shareholder reports, *and* are allowed to include some, but not all the required MDFP disclosures.[247] The final rules permit money market funds to retain the current option of including MDFP discussion in their shareholder reports and clarify that they are permitted but not required to disclose some or all of the information required in the MDFP so long as the information they choose to include meets the requirements of the relevant item, and related instructions on the form, and is not incomplete, inaccurate, or misleading.[248]

d. Fund Statistics

Substantially as proposed, the final rules require a fund to disclose certain fund statistics in its annual report, including the fund's: (1) net assets, (2) total number of portfolio holdings, (3) for funds other than money market funds, portfolio turnover rate, and (4) the total advisory fees paid by the fund

[235] *See* Item 27A(d)(2) of amended Form N–1A and related instructions.

[236] As proposed, the final rules also will permit funds to include returns information for one or more other relevant indexes, such as a more narrowly based index that reflects the market sectors in which the fund invests. *See* Proposing Release, *supra* footnote 7, at n.215 and accompanying text.

[237] Under the final rules, funds will be required to include a statement to the effect that the fund's past performance is not a good predictor of how the fund will perform in the future. The final rules also make a conforming change to similar language that must appear in the prospectus. *See* Item 4(b)(2) of amended Form N–1A.

[238] Funds will have discretion to determine when to disclose information about a prior material change to a fund in connection with its performance presentation. However, a fund will need to disclose information about such a change if, absent that disclosure, the fund's performance presentation would otherwise be misleading. *See* Proposing Release, *supra* footnote 7, at nn.227–229 and accompanying text.

[239] If a fund were to include such a statement, it also would be required to provide a means of facilitating access to the updated performance information, including, for example, a hyperlink to where the information may be found if the shareholder report is provided electronically or a URL address or QR code if the shareholder report is delivered in paper format.

[240] *See, e.g.,* ICI Comment Letter; Morningstar Comment Letter; Consumer Federation of America II Comment Letter; Capital Group Comment Letter (also suggested changing the order of items in report to show the average annual total returns table before fund expenses). We are maintaining the ordering of the items in the shareholder report as proposed because we believe that expense information should be highlighted first for shareholders.

[241] Morningstar Comment Letter.

[242] Additionally, shareholders interested in reviewing performance during periods not shown in the performance table can find this information in the performance line graph. *See supra* text accompanying footnote 196.

[243] *See* Item 27A(d)(3) of amended Form N–1A.

[244] *See id.*

[245] The Commission recently adopted amendments to limit the requirement that ETFs provide premium and discount information in their annual reports to only those ETFs that do not provide premium and discount disclosure on their websites in accordance with 17 CFR 270.6c–11 [Investment Company Act rule 6c–11]. *See* Exchange-Traded Funds, Investment Company Act Release No. 33646 (Sept. 25, 2019) [84 FR 57162 (Oct. 24, 2019)]. As proposed, the final rules do not amend this annual report requirement beyond a technical amendment to clarify that it only applies to ETFs.

[246] ICI Comment Letter; Fidelity Comment Letter.

[247] ICI Comment Letter.

[248] *See* Item 27A(d) of amended Form N–1A.

during the reporting period.[249] As proposed, the final rules also permit a fund to disclose any additional statistics that the fund believes would help shareholders better understand the fund's activities and operations during the reporting period. These provisions are designed to provide succinct fund information, in a user-friendly format, that encourage investors to focus on certain significant factors in evaluating the fund's operations and performance.

The final rules include several related instructions.[250] First, in a change from the proposal (which did not include such an instruction), under the final rules the required fund statistics must precede any additional permitted statistics the fund chooses to include. We believe that disclosing the required statistics first will enhance comparability of the required fund statistics across funds. Next, as proposed, if a fund provides a statistic also required under Form N–1A, the fund must follow Form N–1A instructions describing the calculation method for the relevant statistic. Additionally, as proposed, the final rules include an instruction that encourages a fund to use tables, bullet lists, or other graphics or text features to present the fund statistics.

As proposed, if a statistic is included in, or could be derived from, a fund's financial statements or financial highlights, the final rules require a fund to use or derive such statistic from the fund's most recent financial statements or financial highlights. Substantially as proposed, the final rules permit a fund to describe briefly the significance or limitations of any disclosed statistics in a parenthetical or similar presentation. The proposed instruction also would have permitted a footnote explaining the significance or limitation of any disclosed statistic. In a change from the proposal and consistent with commenters' suggestions, the final rules do not permit a footnote presentation because we believe that footnotes in this context would detract from the concise nature of the statistic disclosure, therefore diminishing the effectiveness of disclosed information that may be important to shareholders, and that such a presentation is inconsistent with the Commission's goal of streamlined, plain English disclosure in funds' shareholder reports.[251] Additionally, in a change from the proposal, the instructions to the final rules include multiple-class funds' requirements for calculating statistics based on the fund's performance or fees, in light of the final rules' requirement that a shareholder report cover a single class of a multiple-class fund.[252] Finally, as proposed, the final rules state that any additional statistics that a fund chooses to include are to be reasonably related to the fund's investment strategy. Collectively, these instructions are designed to enhance comparability of shareholder reports across funds and prevent disclosure ''creep.'' [253]

Commenters generally supported the proposed requirements to include certain fund statistics in the shareholder report.[254] Some commenters requested that certain additional statistics be required or expressly permitted. For example, one commenter suggested funds ''with a stated ESG-oriented investment strategy'' be allowed to incorporate relevant ESG statistics if they wish, and ''make reference to supplementary ESG focused content as appropriate.'' [255] Another commenter urged the Commission to require a fund to disclose its unrealized capital gains per share as well the fund's historical standard deviation of returns compared to its benchmark's standard deviation of returns.[256] Additionally, one commenter requested we expressly permit other optional statistics related to the fund's portfolio or the portfolio relative to the fund's benchmark index, such as average market capitalization, average price/earnings ratio, and average earnings growth rate, among others.[257] Finally, one commenter suggested that money market funds be exempt from the requirement to disclose portfolio turnover rate.[258]

The final rules do not require any of the additional statistics that commenters suggested. We continue to believe that required statistics should be limited to those that are generally applicable to all funds and provide useful context for other required information elsewhere in the shareholder report. Because funds will be required to provide a graphical presentation of holdings, knowing the fund's net assets will allow a shareholder to appreciate better the impact of each holding on the overall performance of the fund.[259] Similarly, we continue to believe that, together with the graphical holdings information and net assets, knowing the number of a fund's holdings could help investors to understand better the fund's diversification, which could in turn provide insight into the fund's susceptibility to market fluctuations.

Additionally, because a higher portfolio turnover rate generally indicates higher transaction costs and may result in higher taxes, we continue to believe that disclosing the fund's portfolio turnover rate provides shareholders with a more complete view of the costs associated with investing in the fund. However, we agree with the commenter's suggestion to exclude money market funds from the requirement to disclose portfolio turnover, as most money market funds' securities mature in one year or less and have reflected this change in the final rules.[260]

We are not requiring a fund to disclose its unrealized capital gains per share as suggested by one commenter, although a fund could include this information at its option in addition to the required statistics. We recognize that capital gains distributions can have significant tax consequences for investors holding fund shares in taxable accounts, particularly if these distributions are unexpected. However, we do not believe that most retail shareholders would appreciate the tax implications of unrealized capital gains without additional explanatory disclosure, which would add length and

[249] *See* Item 27A(e) of amended Form N–1A. In a change from the proposal, the final rules include a new statistic related to the disclosure of the total advisory fees the fund paid. Additionally, in a change from the proposal, which would have required all funds to disclose their portfolio turnover rate, the final rules exclude money market funds from the requirement to disclose portfolio turnover rate. *See infra* footnote 260 and accompanying text.

[250] *See* Instructions to Item 27A(e) of amended Form N–1A.

[251] *See, e.g.,* Tom and Mary Comment Letter; Williams Comment Letter.

[252] This instruction specifies that, if a fund is a multiple-class fund, and the fund provides a statistic that is calculated based on the fund's performance or fees (*e.g.,* yield or tracking error), the fund must show the statistic for the class of the fund to which the report relates.

[253] *See supra* text accompanying footnote 33 (noting that funds' shareholder reports generally have become longer and more complex over the years).

[254] *See, e.g.,* Morningstar Comment Letter; ICI Comment Letter; Comment Letter of Purcell Communications (Nov. 11, 2020) (''Purcell Communications Comment Letter''); Angel Comment Letter.

[255] Purcell Communications Comment Letter (addressing funds with environmental, social, and governance (''ESG'') investment practices).

[256] Angel Comment Letter.

[257] ICI Comment Letter.

[258] *Id.* This commenter noted that money market funds are not required to calculate and disclose portfolio turnover as part of the financial highlights table, and excluding them from this fund statistic requirement would be consistent with this approach. *See* Instruction 4(c) to Item 13 of amended Form N–1A (mis-numbered as Instruction 4(b) to Item 13 of current Form N–1A).

[259] Because the measure of a fund's net assets is included in the fund's audited financial statements, the fund will be required to use or derive such statistic from the fund's audited financial statements.

[260] *See* Item 27A(e) of amended Form N–1A.

complexity to the shareholder report.[261] Additionally, because disclosure of unrealized capital gains per share would not be relevant to all fund types, such as ETFs, we do not believe it is necessary to require the disclosure of a statistic that is not relevant across a large percentage of funds.

Similarly, we are not adopting another commenter's suggestion to mandate disclosure of historical standard deviation of returns compared to a fund's benchmark's standard deviation of returns because we do not believe it would be useful to most retail investors without additional disclosure explaining how they should consider such information in their investment decision process.[262] The Commission has considered whether funds should be required to disclose uniform risk metrics in the past, and as fund strategies continue to diversify and increase in complexity, we will continue to consider whether additional risk-related disclosure or reporting is appropriate and can be disclosed in a manner that is salient to retail investors.[263]

Finally, we do not believe it is necessary to prescribe specific statistics that a fund is permitted, but not required, to include. Such an approach could lead funds to include all of these additional statistics due to the perception that the Commission is encouraging these specific statistics, regardless of whether they would be salient to the fund's shareholder base. It also may lead to disclosure ''creep'' and result in a significantly longer and more complex shareholder report, contrary to our stated objectives.

We are, however, in a change from the proposal adopting the requirement for funds to disclose an additional statistic regarding the total amount of advisory fees paid. To calculate the total advisory fees paid, the fund will be required to disclose the amount of investment advisory fees that are payable to the investment adviser and disclosed in the fund's statement of operations.[264] This statistic provides investors the aggregate amount of actual advisory fees, in dollars paid.[265] This aggregated fund expense information complements the information in the expense table and provides fund shareholders with a more complete view of the fund's expenses in a concise manner.

In the Proposing Release, the Commission sought feedback on whether other data elements from the financial statements should be included in the shareholder reports and whether there are ways to enhance transparency of fund expenses.[266] In particular, the Commission sought feedback regarding whether, and if so how, funds could provide investors with additional information regarding how a fund's adviser and its affiliates receive compensation from the fund in order to better understand fund costs and potential conflicts of interest.[267] Commenters suggested a variety of ways to amend the shareholder report expense table to provide shareholders with a more complete view of the fees charged by the fund.[268] After considering these comments, we believe requiring funds to disclose, in dollars, the total amount of advisory fees paid as a single statistic in the shareholder report will give an additional tool to investors to understand the aggregate fees that investors pay for fund management and will complement the fund expense table, which provides the amount of fees paid on a hypothetical $10,000 investment. The fees paid on a hypothetical $10,000 investment will help investors approximate their own expenses, while the aggregate fees paid to the adviser will help contextualize that information by allowing investors to consider their own expenses relative to the total amount of advisory fees paid. We also believe that this simplified presentation of the more complex and detailed expense disclosure included in the fund's financial statements will further the Commission's goal of providing concise disclosure that will help shareholders better understand information provided in the fund's financial statements.

Some commenters suggested certain enhancements and additional guidance on the proposed statistics requirements. For example, one commenter suggested that, if a fund statistic changed significantly during the most recent fiscal year, the fund should be permitted to briefly describe the factors that contributed to the change.[269] Another commenter suggested funds that choose to change a statistic be required to maintain the prior statistic for an additional year, to avoid cherry-picking.[270] Additionally, one commenter suggested that, if a fund uses a statistic not otherwise included in the fund's other regulatory documents, the fund should be required to direct shareholders to where they can find information on the methodology the fund used to calculate the statistic.[271]

Aside from the changes discussed above, we are not adopting any other changes to the proposed instructions. We do not believe it is necessary to allow funds to describe the factors that contributed to any significant changes to disclosed statistics that occurred during the most recent fiscal year. Such an explanation could require potentially technical, narrative disclosure that would make the statistics disclosure less concise and less salient. If a fund believes that such contextual information would be useful to investors in understanding the fund's performance over the relevant period, the fund can provide such narrative explanation in the MDFP section of the report. We believe it is important to limit any narrative disclosure in the fund statistics section in order to maintain the usefulness of such disclosures to investors. Relatedly, while the final rules will allow funds to

[261] *See, e.g.,* Angel Comment Letter. While this commenter urged the Commission to require unrealized capital gains as a fund statistic, the commenter stated that the value of such disclosure to retail investors is limited to alerting investors that ''this is an important item, giving them the desire to learn more about it.''

[262] *See, e.g., id.* (stating that, in addition to the historical deviation of the fund over the last 1, 5, and 10 year periods, funds should be required to include the historical deviation of the fund's benchmark for investors to be able to appreciate how much risk their fund has taken over the last 1, 5, and 10 year periods as compared to the benchmark's standard deviation).

[263] *See* Improving Descriptions of Risk by Mutual Funds and Other Investment Companies, Investment Company Act Release No. 20974 (Mar. 29, 1995) [60 FR 17172 (Apr. 4, 1995)]. Funds currently report certain portfolio- and position-level risk metrics on Form N–PORT. *See* Items B.3, C.9.f.v, C.11.c.vii, and C.11.g.iv of Form N–PORT.

[264] *See* paragraph 2(a) of rule 6–07 of Regulation S–X [17 CFR 210.6–07]. The total amount of advisory fees should be disclosed on a net basis, which will require the calculation of this amount to include any reductions or reimbursements of such fees that were in effect during the reporting period.

[265] The rules generally provide that, when a multiple class fund shows statistics that are calculated based on the fund's performance or fees, such a fund must show the statistic only for the share class that the report covers. *See* Instruction 7 to Item 27A(e) of amended Form N–1A. However, the total amount of advisory fees paid, as disclosed in the fund statistics section of the shareholder report, should not be disclosed on a class-specific basis, and must instead be disclosed for the fund as a whole, consistent with rule 6–07 of Regulation S–X. We believe that it is important for investors to have a complete view of the total amount of income an adviser receives from the fund in order to appreciate fully the amounts paid to the adviser and to ensure that this number is comparable across shareholder reports of other funds, irrespective of the class that report covers.

[266] Proposing Release, *supra* footnote 8, at text accompanying n.411.

[267] *Id.* at text accompanying n.593 (also requesting feedback on, among other things, whether funds should disclose any revenue paid to the fund's adviser or its affiliates that the fee table does not reflect (*e.g.,* outside of the management fee), as a percent of fund assets or a percent of the fund's total expenses).

[268] *See supra* footnotes 180–186 and accompanying text.

[269] ICI Comment Letter.

[270] Ubiquity Comment Letter.

[271] Morningstar Comment Letter.

describe any significance or limitations of any disclosed statistics in a parenthetical or similar presentation, funds should carefully consider the inclusion of any statistic that requires extensive narrative explanation. As proposed, any statistic that the fund opts to include in the shareholder report must be one that is reasonably related to the fund's investment strategy and one that the fund believes would help shareholders better understand the fund's activities and operations during the reporting period. A statistic that requires extensive explanation may be confusing to retail investors and therefore may not help them to better understand the fund's activities and operations.

For similar reasons we are not adopting a commenter's suggestion that funds be required to continue to disclose a permitted statistic for an additional year before removing it because we believe that such a requirement would unnecessarily increase the length and complexity of the shareholder report. In addition, if a change in the fund's investment strategy during the reporting period caused a statistic to be less relevant, requiring a fund to disclose such a statistic for an additional year would be confusing to investors. Furthermore, we are not adopting the suggested requirement for funds to direct shareholders to where they can find information on the methodology the fund used to calculate a permitted statistic, because we believe that such a requirement could significantly increase the length of the shareholder report.

e. Graphical Representation of Holdings

Substantially as proposed but with certain changes designed to address commenters' feedback, the final rules retain the current requirements related to the graphical representation of holdings that funds include in their shareholder reports, including certain revisions designed to improve the current disclosure. Funds will be required to disclose one or more tables, charts, or graphs depicting the fund's portfolio holdings by category, as of the end of the reporting period, as they do today.[272] As proposed, the final rules specify that a fund must disclose its graphical representation of holdings using categories, and with a basis of presentation, that are reasonably designed to depict clearly the types of investments made by the fund, given its investment objectives.[273] The purpose of the graphical representation of holdings disclosure requirement is to illustrate, in a concise and user-friendly format, the allocation of a fund's investments across particular categories of investments (such as asset classes). Commenters indicated that investors view this data as important to understanding their fund investments.[274] We continue to believe that a layered approach to the disclosure of portfolio holdings, where a graphical representation of holdings continues to appear in the annual report, and more detailed and current portfolio holdings information—which currently appears in the shareholder report as the fund's schedule of investments—is available online and upon request, helps shareholders understand how the fund invested its assets.[275]

We are adopting several changes to the current graphical representation of holdings requirements. First, substantially as proposed, we are newly permitting a fund to show its holdings based on total exposure to particular categories of investments. Funds will be permitted to use this presentation method in addition to ones currently available to them, namely, showing holdings based on the percentage of net asset value or total investments attributable to each category.[276] We also, as proposed, are adopting minor revisions to the current instructions with respect to funds that depict portfolio holdings according to credit quality. These revisions are designed to keep related disclosures brief and concise. Finally, in a change from the proposal and in consideration of comments received, the final rules explicitly permit a fund to include, along with the graphical representation of holdings, a list of its largest 10 portfolio holdings and the percentage of the fund's net asset value, total investments, or total exposure attributable to each such holding.

Presentation Based on Total Exposure

The final rules include flexibility, as proposed, for funds to base the tabular or graphic representation of holdings on the fund's total exposure to particular categories of investments.[277] However, in a change from the proposal, the final rules will not allow funds to base this presentation only on the fund's *net* exposure to particular categories of investments. The final rules allow funds to show net exposure in addition to the required total exposure presentation.[278] One commenter specifically supported the proposal to allow such a net presentation as useful for funds that have significant derivatives investments.[279] Conversely, another commenter advised that providing total, rather than net, exposure provides investors a true sense of the fund's exposures.[280]

We continue to believe that expanding the permissible presentations to allow a fund to show its holdings based on their investment exposure will provide a more meaningful presentation for funds that use derivatives to obtain investment exposure as part of their investment strategies. Upon further consideration of comments received, we are persuaded that showing only a net exposure presentation of holdings may not be representative of a fund's exposures, particularly for certain funds that hold both long and short positions. For example, allowing these funds to show only a net exposure presentation could lead investors to believe that the fund's exposure to a particular sector or industry is lower than that provided by the fund's investments.[281]

[272] The categories that funds may depict in the graphical representation of holdings may include, for example, type of security, industry sector, geographic region, credit quality, or maturity.

[273] Funds' graphical representation of holdings disclosure currently must adhere to these requirements under Item 27(d)(2) of current Form N–1A. No commenter addressed these requirements.

[274] Responses to the Investor Feedback Flier generally indicated that the respondents found the graphical representation of holdings information useful in monitoring their investments. *See supra* footnote 47 and accompanying text. Additionally, survey data that one commenter provided similarly found a majority of investors said that this presentation is useful to them. *See supra* footnote 48 and accompanying text.

[275] Proposing Release, *supra* footnote 8, at text accompanying nn.261–262 (discussing the Commission's understanding of investors' preferences with respect to disclosure of funds' portfolio holdings). The full schedule of portfolio holdings will be available online and upon request on at least a quarterly basis. *See* rule 30e–1(b)(2). We discuss the availability of the schedule of investments in *infra* sections II.C.1.a and II.C.2.a. *See also* rule 6c–11 under the Investment Company Act, which requires daily portfolio holdings for ETFs relying on the rule.

[276] *See* Item 27(d)(2) of current Form N–1A.

[277] *See* Item 27A(f) of amended Form N–1A.

[278] *Id.*

[279] ICI Comment Letter (also stating that this presentation is particularly beneficial to funds that hold both long and short positions because, under the proposal, they would be allowed present the long and short positions separately (*i.e.,* total exposure) or show the combined effect of both positions (*i.e.,* net exposure)).

[280] Morningstar Comment Letter (arguing that funds should be required to show long and short exposures by asset class, rather than only the net allocation to better represent the exposures of the portfolio).

[281] As an example, if a fund had a 5% long position in XYZ Automotive Co. and a 4% short position in QRS Automotive Inc., a total exposure presentation would require the fund to show the 5% long position in the automotive industry and separately show a 4% short position. A net exposure presentation would only show a position of 1% in the automotive industry, however, based on the assumption that the two investments would

For these reasons, under the final rules, a fund that holds both long and short positions and chooses to use total exposure as a basis for presenting the fund's graphical representation of holdings must depict the long and short exposures to each category of investments separately. This approach is consistent with the definition of ''derivatives exposure'' that the Commission adopted in rule 18f–4.[282] We also believe that this approach is consistent with the final rule requirement that funds disclose holdings categories and a basis of presentation in a manner that is ''reasonably designed to depict clearly the types of investments made by the Fund, given its investment objectives.'' As proposed, a fund that uses total exposure as a basis for representing its holdings will also be permitted to include a brief explanation of this presentation.[283] Such a fund also will be permitted, but not required, to show a net exposure presentation.

Funds Depicting Portfolio Holdings According to Credit Quality

For funds that choose to depict portfolio holdings according to credit quality, we are adopting as proposed an amendment instructing these funds to keep the required disclosures related to this presentation brief and concise.[284] A fund that depicts its portfolio holdings according to credit quality is currently required to describe how the credit quality of its holdings was determined and, if credit ratings are used, the fund must explain why it selected a particular credit rating.[285] The length of this disclosure currently varies among funds, and this amendment is designed to keep narrative disclosures in the annual report brief. The Commission received no comments on the proposed amendment.

Permitted Disclosure of Top 10 Portfolio Holdings

In a change from the proposal, the final rules will allow a fund to disclose, in a table or chart that appears near the fund's graphical representation of holdings, the fund's largest 10 portfolio holdings.[286] A fund that chooses to include this presentation also may show the percentage of the fund's net asset value, total investments, or total exposure attributable to each such holding.

Two commenters suggested that the Commission should require or permit funds to include a list of top 10 or 25 holdings and the percentage of these holdings.[287] One of these commenters stated that it is ''quite common'' for equity funds to include such information, and that such lists are informative to shareholders and do not add significantly to the length of the report.[288] The other commenter stated that this additional information would highlight fund concentration risk.[289]

We agree that allowing a fund to include a list of its largest 10 holdings and the percentage of the fund's net asset value, total investments, or total exposure that each such holding represents would complement the other information provided in the graphical representation of holdings and be informative to shareholders. When combined with required disclosure on the number of portfolio holdings, this disclosure will provide shareholders with additional information about a fund's potential concentration risk. However, we believe that allowing funds to show a larger number of individual holdings, such as the largest 25 fund holdings, would unnecessarily increase the length of the report with little added benefit to shareholders. We are permitting disclosure of a fund's top 10 portfolio holdings, rather than requiring it, because this disclosure may not be as useful for certain types of funds (for example, a fund with hundreds of holdings, each representing a very small fraction of the fund's net asset value) as it is for others.

Other Comments on Graphical Representation of Holdings

Additionally, one commenter suggested requiring a fund of funds to show its asset allocation based on the underlying holdings of the acquired funds.[290] We are not adopting such a requirement. Because the fiscal year end of a top-level fund may differ from that of its underlying funds, the top-level fund may not have access to current underlying fund holdings information as of the date of the top-level fund's shareholder report. A top-level fund would be permitted to show its asset allocation based on the underlying holdings of the acquired funds, however, provided that the presentation otherwise meets the requirements for the graphical representation of holdings disclosure we are adopting.

The same commenter suggested that the Commission should require funds to standardize the format for showing exposures such that all funds use the same terminology and asset classes to enhance comparability. While we appreciate the comparative value such an approach would provide, we continue to believe that funds should have flexibility to tailor disclosure to their specific holdings and investment strategies in a manner that best communicates this information to shareholders. Maintaining an evergreen, rule-based compendium of the terminology that funds could include would be challenging, given the diversity of fund strategies and portfolio investments. The presentation requirements in the final rules for funds' graphical representation of holdings disclosure balances these considerations with our interest in clear and salient portfolio holdings disclosure.

f. Material Fund Changes

The final rules will require a fund to describe material changes to the fund in the annual report.[291] We are adopting this requirement substantially as proposed, with certain modifications to address commenter concerns.

Specifically, a fund will be required to describe a material change since the beginning of the reporting period briefly with respect to any of the following items:

- A change in the fund's name (as described in Item 1(a)(1) of Form N–1A);
- A change in the fund's investment objectives or goals (as described in Item 2 of Form N–1A);
- A change in the fund's annual operating expenses, shareholder fees, or maximum account fee (as described in Item 3 of Form N–1A), including the termination or introduction of an expense reimbursement or fee waiver arrangements;
- A change in the fund's principal investment strategies (as described in Item 4(a) of Form N–1A);[292]

be inversely correlated. But any assumed correlation may not hold under all circumstances.

[282] *See* Use of Derivatives by Registered Investment Companies and Business Development Companies Investment Company Act Release No. 34084 (Nov. 2, 2020) [85 FR 83162 (Dec. 21, 2020)] (''Derivatives Adopting Release'') (requiring derivatives exposure calculations to be based on ''gross'' notional amounts, rather than a figure based on calculations that net long and short positions).

[283] *See* Item 27A(f) of amended Form N–1A. No commenters addressed this permitted explanation.

[284] *See id.*

[285] *See* Item 27(d)(2) of current Form N–1A.

[286] *See* Item 27A(f) of amended Form N–1A.

[287] ICI Comment Letter; Morningstar Comment Letter.

[288] ICI Comment Letter.

[289] Morningstar Comment Letter. This commenter stated that information about a fund's top 10 holdings would indicate potential concentration risk better than the proposed requirement for all funds to disclose the number of portfolio holdings as part of their disclosures on fund statistics.

[290] *Id.*

[291] *See* Item 27A(g) of amended Form N–1A.

[292] *See* Proposing Release, *supra* footnote 8, at n.273 (discussing the requirements of rule 35d–1, the ''names rule,'' and discussing how disclosure of a change in the fund's principal investment

Continued

• A change in the principal risks of investing in the fund (as described in Item 4(b) of Form N–1A); and

• A change in the fund's investment adviser(s), including sub-adviser(s) (as described in Item 5(a) of Form N–1A).[293]

Additionally, as proposed, a fund may describe other material fund changes that it would like to disclose to its shareholders.[294] In a change from the proposal, the final rules also permit a fund to describe other changes that may be helpful for investors to understand the fund's operations and/or performance over the reporting period.[295] A fund also may disclose material planned changes in connection with updating its prospectus for the current fiscal year. A fund will have to provide a concise description of each change that provides enough detail to allow shareholders to understand the change and how it may affect shareholders.[296]

The purpose of these requirements is to highlight and consolidate disclosure of material changes in a way that increases the salience of this disclosure. Currently, fund shareholders typically receive information about these changes in: (1) annual prospectus updates; or (2) other prospectus updates they may receive throughout the year (which can take the form of a prospectus ''sticker'' or an updated copy of the fund's prospectus). We are concerned, however, that material changes may not always be readily apparent to a shareholder. For example, changes in the annual prospectus update may not be easy for an average shareholder to identify.[297] There is no requirement for a fund to identify or highlight changes to the fund in its prospectus.[298] We also understand that there is diversity of practices among funds regarding what changes result in a prospectus sticker, and whether to transmit the sticker to shareholders. The categories of fund changes that we are requiring funds to disclose in their annual reports are meant to capture the types of material changes to a fund's operations that we believe are important to fund shareholders, that may influence their investment decisions, and that are more likely to occur.

The proposal would have added a new section to the annual report that would have required funds to describe briefly any material change in an enumerated list of items (as well as any other material change that the fund chooses to disclose) that has occurred since the beginning of the reporting period or that the fund plans to make in connection with its annual prospectus update.[299] Commenter responses to this proposed requirement were mixed. Some commenters supported this requirement.[300] Additionally, survey data submitted by one commenter indicated that a majority of retail investors found this disclosure useful.[301] Other commenters objected to this disclosure.[302] These commenters argued that providing a list of material changes, without the benefit of context from the prospectus, is not useful to investors. Additionally, several commenters took issue with the proposed approach of providing an enumerated list of material changes that would necessitate disclosure, arguing it was too prescriptive.[303] These commenters recommended that the Commission adopt a more principles-based approach, with one stating this approach would address concerns that one fund may reasonably view a particular type of change as material while another may not, given differences in funds' respective investment objectives, holdings, strategies, and risk profile.[304] One commenter stated that, if the Commission adopts a list, it should provide additional guidance to assist funds in determining whether a ''material'' change has occurred for any enumerated topic.[305] In contrast, one commenter urged the Commission to limit material changes to those included in the list and stated that funds should not be given the flexibility to disclose additional items in order to limit the length of the shareholder report.[306]

Some commenters suggested alternative approaches. For example, several suggested defining material changes as those that would require a fund to file an amendment to the fund's registration statement pursuant to rule 485(a) under the Securities Act.[307] In contrast, some commenters stated that the use of the term ''material'' in this section raises questions with respect to the impact of this requirement on the concept of materiality embedded in the requirements of rule 485(a) under the Securities Act.[308] One commenter

strategies could serve as a notice of a change to an investment policy as required under the names rule).

[293] As proposed, the final rules will not require a fund to disclose a change in a sub-adviser where Item 5 of Form N–1A would not require the fund to disclose the name of the sub-adviser in its prospectus. *See* Instructions 1 and 2 to Item 5 of current and amended Form N–1A.

[294] *See* Item 27A(g) of amended Form N–1A.

[295] In a change from the proposal, the final rules include the phrase ''or changes that may be helpful for investors to understand the fund's operations and/or performance over the reporting period'' in this provision. *See* Item 27A(g) of amended Form N–1A. For example, a fund could disclose plans to liquidate or merge the fund, even if previously disclosed to shareholders.

[296] As proposed, this section of the shareholder report must include a legend to the effect of the following: ''This is a summary of certain changes [and planned changes] to the Fund since [date]. For more complete information, you may review the Fund's next prospectus, which we expect to be available by [date] at [website address] or upon request at [toll-free telephone number and, as applicable, email address].''

[297] This also may be the case when a fund delivers a sticker, though a sticker typically would identify a change more explicitly.

[298] Some other types of registered investment companies currently are required to identify certain changes in their shareholder disclosure materials. *See* Variable Contract Summary Prospectus Adopting Release, *supra* footnote 9 (requiring updating summary prospectuses for variable contracts, which provide a brief description of any important changes with respect to the contract that occurred within the prior year to allow investors to better focus their attention on new or updated information relating to the contract); rule 8b–16(b) under the Investment Company Act (requiring certain registered closed-end funds to identify specific types of material changes in their annual reports).

[299] *See* Proposing Release, *supra* footnote 8, at n.271–272 and accompanying text. The proposed enumerated list of items varied from the enumerated list under the final rules by requiring a fund to disclose an *increase,* rather than a change, in the fund's ongoing annual fees, transaction fees, or maximum account fee (as described in Item 3 of Form N–1A) as well as requiring a fund to disclose a change in the fund's portfolio manager(s) (as described in Item 5(b) of Form N–1A).

[300] *See, e.g.,* Morningstar Comment Letter; NASAA Comment Letter; Fidelity Comment Letter; Consumer Federation of America II Comment Letter.

[301] Broadridge Comment Letter (also stating that surveyed investors identified certain changes in particular as important, including changes to investment objectives, risks, strategies, fund management, and changes that impact fund performance).

[302] *See, e.g.,* Stradley Ronon Comment Letter; TIAA Comment Letter; Tom and Mary Comment Letter (recommending instead adding the proposed list of material changes to the beginning of the prospectus).

[303] *See, e.g.,* ICI Comment Letter; Vanguard Comment Letter; Capital Group Comment Letter; SIFMA Comment Letter (supporting the proposed disclosure in principle but objecting to the list approach); John Hancock Comment Letter (suggesting replacing list with non-exhaustive list of examples as guidance in the adopting release).

[304] *See* ICI Comment Letter.

[305] SIFMA Comment Letter (providing a list of suggested factors funds could consider, including: (1) what is the nature of the change and does it reflect a change in the way the fund is currently being managed and/or does it reflect a material change in the fund's risk profile; (2) which section(s) of the prospectus does the change impact; (3) how likely would the change be to influence a shareholder's decision to continue to invest in the fund; and (4) what is the length of time before existing shareholders will have ''access'' to the information (*e.g.,* in the event the changes will be simply folded into the annual prospectus update that will be accessible to shareholders on the fund's website).

[306] Fidelity Comment Letter.

[307] *See, e.g.,* ICI Comment Letter; Vanguard Comment Letter; Federated Hermes Comment Letter.

[308] *See* SIFMA Comment Letter; John Hancock Comment Letter (requesting the Commission clarify

suggested that a material change should be defined as one that triggers a supplement or ''sticker'' filing.[309]

Commenters also raised concerns regarding certain topics included in the proposed list of material changes. For example, many commenters argued that portfolio manager changes should not be included in the list because these changes are immaterial in many circumstances.[310] Additionally, several commenters opposed including planned changes in connection with the fund's annual prospectus update, arguing funds should only discuss actual changes because planned changes may not be finalized.[311] These commenters also argued that requiring disclosure of future changes may create certain operational challenges for funds.[312]

Commenters also requested additional guidance and clarification regarding the list of material fund changes. Many related to fees. One commenter requested the Commission clarify that material increases in fees should only be disclosed if the increase is the result of a material increase in contractual fee rates, rather than the result of a loss in a breakpoint or a change in performance-related expenses.[313] Another commenter suggested that, instead of requiring disclosure of material increases in the fund's ''ongoing annual fees, transaction fees, or maximum account fee, it would be more protective for investors to mandate that any new fees be highlighted as well, irrespective of how the fees are characterized or the fees' potential magnitude.'' [314] This same commenter requested that the Commission add to the list any change in the fund's performance benchmark. Another commenter suggested the list also should include a decrease in fund fees and expenses, as well as an increase.[315]

Commenters also requested guidance about the level of detail that would appear in the required disclosure. One commenter suggested that funds be allowed to provide a narrative explanation of the reasons for the material change.[316]

After considering these comments, we are adopting this requirement substantially as proposed, with some modifications to address commenter concerns. We are retaining a list-based approach, where a fund must briefly describe any material change with respect to any listed item that has occurred since the beginning of the reporting period. We continue to believe that this approach will provide more certainty to funds about the types of changes they must disclose and enhance consistency of annual report disclosure across funds. We appreciate the concern that different funds may reasonably view different types of changes as material. We have therefore incorporated an addition to the final rules' provision that would permit funds to include material changes regarding topics that do not appear on the enumerated list. The addition to this proposed provision clarifies that funds also are permitted to describe changes that may be helpful for investors to understand the fund's operations and/or performance over the reporting period.

We are not, however, defining a material change for this purpose as a change that would require a fund to file an amendment to the fund's registration statement under rule 485(a) under the Securities Act because we do not believe linking this new disclosure requirement to that rule is necessary. The concept of materiality is a bedrock feature of the federal securities laws, and funds have extensive knowledge and experience in applying this standard in a wide array of contexts.[317]

While a fund should base the determination of whether a change is material on the facts and circumstances of the fund and the specific change, we are providing general guidance on the factors that funds could consider in making that determination. Factors funds may wish to consider include the nature of the change, whether it reflects a material change in the way the fund is currently being managed, whether it reflects a material change in the fund's risk profile, which section(s) of the prospectus the change affects,[318] and how likely the change would be to influence a shareholder's decision to continue to invest in the fund. For example, if a change to the fund's principal risks is due to a change in the way the fund is managed, such a change would likely be considered a material change. By contrast, if a fund that invests heavily in a foreign country changes its description of that foreign country risk as a result of changes in the country's political landscape, such a change would likely not constitute a material change.

The list of topics under the final rules differs in several ways from the proposed list. First, we agree with the commenters who suggested that the list should not include changes in portfolio managers. Under many circumstances, shareholders may not consider portfolio manager changes to be material in their ability to understand the fund's operations and performance over the past year, and may not consider these to be a material factor in deciding whether to buy, sell, or hold fund shares. If a fund considers a portfolio manager change to be a material change that should be disclosed, it would be permitted to disclose this change under the final rules, as the final rules include flexibility to disclose changes about topics that do not appear on the list.[319]

Second, we agree with certain commenters that a fund should have to disclose *any* material change in fund fees, even those that do not result in fee increases. We also agree with commenters who suggested that that fee movements of any kind, and irrespective of how the fees are characterized (*i.e.,* regardless of whether they are the result of a change in the contractual fees or a change in performance-related fees), are the type of material information that we believe

that changes the fund experiences in the list of topics do not necessarily mandate a 485(a) filing); *see also* rule 485(a) and (b) under the Securities Act [17 CFR 230.485] (post-effective amendments to registration statements filed under rule 485(b) may be filed for certain specified purposes, including ''making any non-material changes which the registrant deems appropriate'').

[309] Capital Group Comment Letter. *But see* ICI Comment Letter; SIFMA Comment Letter (each opposing defining material changes as those that trigger a rule 497 sticker filing, given the diversity of practices among funds on when to sticker and whether to transmit the sticker to shareholders).

[310] *See, e.g.,* SIFMA Comment Letter; Dechert Comment Letter; ICI Comment Letter (arguing that changes in portfolio managers are particularly irrelevant for index funds), Fidelity (arguing that only changes in the lead portfolio manager, or a fund's single portfolio manager, should be considered material).

[311] *See, e.g.,* ICI Comment Letter; SIFMA Comment Letter; Vanguard Comment Letter; Fidelity Comment Letter; Dechert Comment Letter; Stradley Ronon Comment Letter.

[312] *See, e.g.,* Federated Hermes Comment Letter; Dechert Comment Letter (stating that, if funds are required to disclose changes that are anticipated to occur after the close of the reporting period, there will be an increased administrative burden on funds to monitor and track changes that have not yet been reported to shareholders and suggesting that funds could be permitted, rather than required, to disclose future changes).

[313] ICI Comment Letter.

[314] NASAA Comment Letter.

[315] Charles Schwab Comment Letter.

[316] CFA Institute Comment Letter; *see also* Morningstar Comment Letter (suggests requiring funds disclose where shareholders can find more information regarding material changes).

[317] *See, e.g., Basic* v. *Levinson,* 485 U.S. 224, 231 (1988) (''*Basic* v. *Levinson*''); *see also* Selective Disclosure and Insider Trading, Release No. 33–7881 (Aug. 15, 2000) [65 FR 51715 (Aug. 24, 2000)] (citing *Basic* v. *Levinson* and stating that materiality has been defined by existing case law).

[318] A change that affects the summary prospectus is more likely to rise to the level of a material change than one that would only affect the statutory prospectus.

[319] For example, if the fund has a single portfolio manager who is well-known in the industry and prominently identified in fund advertisements, such a fund might consider a change in its portfolio manager to be a material change that would warrant disclosure in the shareholder report.

retail investors would find to be important in their decisions to continue to hold shares of the fund.[320] Because the termination or introduction of an expense reimbursement or fee waiver arrangement can affect the fees that a shareholder pays, in a change from the proposal the final rules clarify that these are changes that should be disclosed.[321]

Additionally, because a change in the fund's index will be highlighted in the MDFP section of the shareholder report, we do not believe it is necessary to add changes to the index in the enumerated list of material fund changes.[322]

The final rules do not require disclosure of changes the fund plans to make in connection with its next annual prospectus update. We agree with commenters that this requirement could create certain operational challenges for funds because of the increased administrative burdens funds will incur if they have to monitor changes occur after the end of the reporting period. A fund, however, will be permitted to include such a change in its annual report if it is a material change.[323]

g. Changes in and Disagreements With Accountants

As proposed, the final rules require funds to include a concise discussion of certain disagreements with accountants in the annual report. Specifically, when a fund has a material disagreement with an accountant that has resigned or been dismissed, the final rules will require the fund to include in its annual report: (1) a statement of whether the former accountant resigned, declined to stand for re-election, or was dismissed and the date thereof; and (2) a brief, plain English description of disagreement(s) with the former accountant during the fund's two most recent fiscal years and any subsequent interim period that the fund discloses on Form N–CSR.[324] As proposed, this required information is a high-level summary of more-detailed information that currently is required to appear in funds' shareholder reports.[325] Funds will be required to file the currently-required more-detailed information, as proposed, on Form N–CSR. Funds will not be required to disclose the absence of disagreements in response to the final rules' shareholder report disclosure requirement.

Commenters overwhelmingly supported these changes, explaining that accounting or auditing-related disagreements with accountants are particularly significant occurrences that should be prominently disclosed to shareholders.[326] We agree with commenters, and we believe that retaining this disclosure in funds' shareholder reports in summary form continues to be important because this would enhance the prominence of this disclosure and put investors on notice of the dismissal or resignation of an accountant and the existence of a material disagreement with that accountant. We continue to believe this shareholder report disclosure could discourage funds from engaging in audit ''opinion shopping.'' [327]

h. Availability of Additional Information

We are adopting, as proposed, the requirement for funds to include a brief, plain English statement in the shareholder report that informs investors about certain additional information that is available on the fund's website.[328] This statement must include plain English references to, as applicable, the fund's prospectus, financial information, holdings, and proxy voting information.[329] In addition, and as proposed, if the shareholder report appears on a fund's website or otherwise is provided electronically, the fund must provide a means of immediately accessing this additional information (such as a hyperlink or QR code).[330]

As proposed, the final rules will provide a fund with the flexibility to refer to other information available on this website, if it reasonably believes that shareholders would likely view the information as important.[331] This additional information referred to in the annual report would have the same status under the Federal securities laws as any other website or other electronic content that the fund produces or disseminates.[332]

Two commenters supported the ability of funds to refer to other important information available on the fund's website.[333] We are adopting this requirement as proposed. We continue to believe that it recognizes the importance of the referenced information to some investors. Highlighting the availability and location of additional information is consistent with a layered approach to fund disclosure that makes more-detailed or technical information available to those investors who find the information valuable. Additionally, we believe the flexibility for funds to refer to other information in the required statement is appropriate because funds may wish to provide additional information to investors more tailored or relevant to a given fund. We also continue to believe this flexibility is appropriate given the content limitations imposed on the shareholder report.[334]

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[320] *See supra* section I.A.3.

[321] The proposed rules would have required disclosure of a change of ''the fund's ongoing annual fees, transaction fees, or maximum account fee.'' The terms ''ongoing annual fees'' and ''transaction fees'' reflect the terms that the Commission proposed to replace current terms in the fee table: ''annual fund operating expenses,'' and ''shareholder fees,'' respectively. Because we are not adopting the proposed new terms, the proposed requirements in the final rules for disclosing material fund changes include the terms ''annual fund operating expenses'' and ''shareholder fees.''

[322] *See* Instruction 8 to Item 27A(d)(2) of amended Form N–1A.

[323] *See* Item 27A(g) of amended Form N–1A. The final rules also clarify—as the proposal did—that a fund will not be required to disclose a material change that it already disclosed in its last annual report.

[324] *See* Item 27A(h) of amended Form N–1A.

[325] *See* Proposing Release, *supra* footnote 8, at text accompanying nn.293 and 294. The current disclosure requirement, like the requirement we are adopting, is applicable only if a fund's accountant has resigned or was dismissed. In this case, the fund has to disclose the information that 17 CFR 229.304 [Item 304 of Regulation S–K] requires, concerning the circumstances surrounding the former accountant's dismissal or resignation, whether in the fund's two most recent fiscal years there were certain accounting-related disagreements with the former accountant, and other related information.

[326] ICI Comment Letter; CFA Institute Comment Letter; Consumer Federation of America II Comment Letter.

[327] *See* Proposing Release, *supra* footnote 8, at text accompanying nn.296–297 (discussing audit opinion shopping).

[328] *See* Item 27A(i) of amended Form N–1A. Under the final rules the term ''the Fund's'' in the required statement is placed in brackets to clarify that such information may be available either on the fund's website, or another website belonging to, for example, the fund sponsor.

[329] Currently, a fund is required to include statements regarding the availability of the fund's: (1) quarterly portfolio schedule, (2) proxy voting policies and procedures, and (3) proxy voting record. *See* current Items 27(d)(3) through (5) of Form N–1A. The final rule consolidates the currently-required statements about the availability of this information in a single statement that covers this same information, along with information about the availability of the prospectus and financial information.

[330] *See* Instruction 9 to Item 27A(a) of amended Form N–1A.

[331] *See* Proposing Release, *supra* footnote 8, at text following n.313 (providing examples of information to which a fund may wish to refer investors, such as a document describing the benefits of certain types of investments, a description of credit ratings, additional performance presentations, or additional commentary about how the fund performed).

[332] *See id.* at text accompanying n.315 (noting that the fact that a shareholder report references other information available on a website does not change the legal status of the referenced information); *see also* discussion at *infra* section II.A.4.

[333] ICI Comment Letter; Morningstar Comment Letter (also discussing the format of information presented online, which we discuss below in section II.C.2.b).

[334] As proposed, the annual report may only include information that Item 27A of amended Form N–1A specifically permits or requires. *See*

i. Householding

As proposed, the final rules retain the current provision that permits funds to explain in their annual report how to revoke consent to the householding of the annual report.[335] One commenter expressly supported the proposed requirement, stating that funds have experience applying the Commission's householding rules and have found this framework to be effective.[336]

Rule 30e–1 currently permits, and our final rules will continue to permit, the householding of fund shareholder reports if, in addition to the other conditions set forth in the rule, the fund has obtained from each investor written or implied consent to the householding of shareholder reports at such address.[337] The rule will continue to require funds that wish to household shareholder reports based on implied consent to send a notice to each investor stating, among other things, that the investors in the household will receive one report in the future unless the investors provide contrary instructions. In addition, at least once a year, funds relying on the householding provision must explain to investors who have provided written or implied consent how they can revoke their consent. One way to satisfy this annual notice requirement is to include a statement in the annual report. The final rules continue to permit funds to include this statement in the annual report.

3. Format and Presentation of Annual Report

We are adopting, substantially as proposed, general instructions related to the format and presentation of shareholder reports, designed to improve and simplify their presentation and encourage funds to use plain-English, investor-friendly principles when drafting their reports.[338]

First, as proposed, the final rules include an instruction specifying that the information in annual reports must be appear in the same order as is required under the amendments to Form N–1A. Consistent with the proposal, the final rules also include requirements that funds use ''plain English'' principles for the organization, wording, and design of the annual report.[339] In addition, as proposed, the instructions encourage funds to consider using, as appropriate, question-and-answer format, charts, graphs, tables, bullet lists, and other graphics or text features as a way to help provide context for the information presented. Finally, the instructions will include legibility requirements for the body of every printed shareholder report and other tabular data.[340]

Commenters generally supported the format and presentation requirements.[341] Additionally, according to survey results submitted by one commenter, retail investors indicated these requirements would be helpful in monitoring their investments.[342] While no commenters objected to the proposed format and presentation requirements, several suggested that more standardization than the proposal would result in investor protection benefits. One commenter suggested the Commission consider requiring standardized language to help investors identify key information, and that the Commission could improve readability by requiring funds to use standardized language for their benchmarking disclosures.[343] A different commenter, however, supported the flexibility that the Commission provided to modify information that otherwise would be required to appear in certain proposed headings and legends, if this information would not be applicable to a particular fund.[344] Another commenter recommended that the Commission establish a ''uniform format'' for the annual report, ''as it has when displaying information on more-structured filings like Form N–MFP, to enable investors to more easily compare funds.'' [345]

We continue to believe that the proposed requirements for shareholder reports' format and presentation will help promote effective communication between the fund and its investors, and therefore are adopting these requirements. For example, requiring that information appear in a specific order will promote consistency and comparison across funds and allow shareholders to review the most salient information, such as fund expenses, first. Additionally, ''plain English'' and legibility requirements, as well as the format and design instructions, will help ensure that shareholder reports are easily readable by investors. We are not adopting additional requirements for reports' uniformity, such as requiring additional standardized language, because we believe the final rules' approach appropriately balances the goals of promoting comparability, readability, and conciseness, with the variety of funds and strategies that will be subject to the final rules' requirements. We also are mindful that any further restrictions on the format and presentation of shareholder reports could prevent our requirements from remaining ''evergreen'' in light of evolving technology and increased complexity of funds and strategies. Additionally, this approach takes into account the differences in format and function between a reporting form that is required to support the Commission's examination and regulatory programs, and disclosure—like funds' shareholder reports—whose primary audience is retail investors.[346]

4. Electronic Annual Reports

Fund shareholders may access their annual reports online, rather than (or in addition to) reviewing the reports in paper format.[347] We recognize that the use of electronic channels, and the overlay of electronic tools onto required regulatory documents, may present both

Instruction 3 to Item 27A(a) of amended Form N–1A.

[335] *See* current rule 30e–1(f); amended rule 30e–1(e); and Item 27A(j) of amended Form N–1A.

[336] ICI Comment Letter.

[337] *See* current rule 30e–1(f).

[338] *See generally* Instructions to Item 27A(a) of amended Form N–1A.

[339] The proposal included a similar plain English requirement, which directed funds to ''use plain English . . . taking into consideration Fund shareholders' level of financial experience.'' Because funds are familiar with the plain English requirements of rule 421 under the Securities Act, and because funds' shareholders' level of financial experience may vary within a fund (and may not be directly known by a fund), we are adopting limited modifications to the proposed requirement. Therefore, the provision in the final rules specifies that the plain English requirements of rule 421 apply to shareholder reports, and disclosure in funds' shareholder reports must be provided in plain English under rule 421(d). These modifications are designed to enhance consistency with the plain English requirements of other aspects of the Federal securities laws.

[340] In a shareholder report posted on a website or otherwise provided electronically, the instructions provide that a fund may satisfy legibility requirements applicable to printed documents by presenting all required information in a format that promotes effective communication as described in Instruction 8 to Item 27A(a) of amended Form N–1A.

[341] *See, e.g.,* Consumer Federation of America II Comment Letter; Broadridge Comment Letter; Sidley Austin Comment Letter; TIAA Comment Letter.

[342] Broadridge Comment Letter.

[343] Comment Letter of Christina Zhu, Assistant Professor of Accounting, The Wharton School, University of Pennsylvania (Sept. 29, 2020) (''Wharton Comment Letter'').

[344] *See* ICI Comment Letter; *see also* discussion at footnote 124 and accompanying text.

[345] Morningstar Comment Letter.

[346] *See, e.g.,* Money Market Funds Reform, Investment Company Act Release No. 29132 (Feb. 23, 2010) [75 FR 10060 (Mar. 4, 2010)], at text following n.320 (''MMF Release'') (noting that while the information reported to the Commission on Form N–MFP is not primarily designed for individual investors, the Commission anticipated that many investors, as well as academic researchers, financial analysts, and economic research firms, would use this information to study money market fund holdings and evaluate their risk).

[347] *See supra* footnote 140.

practical and legal questions for fund registrants and other market participants.[348] We are adopting, as proposed, instructions designed to clarify requirements for electronic annual reports and to promote the use of interactive, user-friendly electronic design features. These instructions include: (1) ordering and presentation requirements for reports that appear on a website or are otherwise provided electronically; (2) instructions providing additional flexibility for funds to add tools and features to reports that appear on a website or are otherwise provided electronically; and (3) required links or other means for immediately accessing information referenced in reports available online.[349] Coupled with investors' increasing comfort with internet-based disclosure, we believe the instructions we are adopting will promote electronic disclosure that has the potential to enhance the information that printed paper documents and static electronic documents (such as those in PDF format) provide. At the same time, we are conscious of the need to set minimum standards so that these improvements do not detract from the usefulness of the streamlined shareholder report and ensure that all investors have access to the same baseline level of information.

First we are adopting as proposed clarifications that disclosure requirements for the annual report's ''cover page'' will also be applicable to the ''beginning'' of the report.[350] This is designed to reflect that electronic reports may not have a physical page at their beginning. Similarly, and as proposed, the final item instruction that will provide an ordering requirement for the contents of an annual report also includes a provision for annual reports that appear on a website or are otherwise provided electronically.[351]

We are also adopting, as proposed, instructions that will provide flexibility for funds to add tools and features to annual reports that appear on a website or are otherwise provided electronically.[352] The instructions encourage funds to use online tools designed to enhance an investor's understanding of material in the annual reports.[353] When using interactive graphics or tools, funds are permitted to include instructions on their use and interpretation. The general instructions also state that any explanatory or supplemental information that funds provide as online tools may not obscure or impede understanding of the required disclosures.[354]

For electronic shareholder reports that use online tools, the default online presentation must use the values required by Item 27A. For example, while the default presentation in the expense example and performance line graph must be on a $10,000 assumed investment, a feature may permit an investor to enter a different amount, but the investor must, as a default, be able to view the assumed amount. One result of this instruction will be that when the contents of a fund's annual report are derived from the fund's audited financial statements, the default online presentation will reflect the audited figures.

As proposed, under the general instructions we are adopting, any information in online tools the fund uses, but is not included in the annual report the fund files on amended Form N–CSR, would have the same status under the Federal securities laws as any other website or other electronic content that the fund produces or disseminates. The instruction is designed to remind funds about liability and any filing requirements associated with any additional information that a fund chooses to include with the online version of its annual report (other than the shareholder report information that it files with the Commission on amended Form N–CSR). The supplemental information will also be subject to a record retention requirement.[355]

Finally, we are adopting as proposed a new instruction providing that if the shareholder report references other information that is available online, the report must include a link or some other means of immediately accessing that information.[356] Under these requirements, a fund must include a link specific enough to lead investors directly to a specific item or alternatively to a central site with prominent links to the referenced information. For example, a reference to a fund's prospectus could include a direct link to the prospectus or might include a link to the landing page that includes prominent links to several fund documents, such as the summary prospectus, SAI and annual reports. However, the link cannot lead investors to a home page or section of the fund's website other than on which the specified item is posted. This requirement is designed to permit the investor easily to locate (*i.e.,* without numerous clicks) the information in which the investor is interested.

While we did not receive comment on the specific instructions proposed, we did receive comments regarding the accessibility of information presented online. Commenters who addressed this aspect of the proposal generally favored the proposed instructions regarding electronic annual reports. One commenter encouraged the use of the interactive and user-friendly design features that the proposed instructions were designed to encourage.[357] A different commenter stated that the ability for electronic reports to be personalized could be a first step toward allowing presentation of personalized expense information.[358] One commenter encouraged the Commission to consider the role of compliance with the Americans with Disabilities Act (''ADA'') ''to ensure all investors, including individuals with vision issues or those lacking the dexterity to use a

[348] *See* Proposing Release, *supra* footnote 8, at section II.B.4.

[349] *See generally* Instructions to Item 27A(a) of amended Form N–1A.

[350] *See* Item 27A(b) of amended Form N–1A.

[351] This instruction specifies that information in an electronic report should be organized in a manner that gives each item similar prominence, and presents the information in the same order, as that provided by the order the instruction prescribes. For instance, an annual report available on a website could satisfy this requirement if each required disclosure item is presented with equal prominence in a separate tab and the order of the tabs follows the prescribed order, such as from left-to-right or top-to-bottom. Similarly, a mobile application could satisfy this requirement if the shareholder report navigation screen presents each shareholder report item with equal prominence and follows the prescribed order of information.

[352] *See generally* Instructions to Item 27A(a) of amended Form N–1A.

[353] The online tools that funds could use could include, for example: video or audio messages, mouse-over windows, pop-up definitions or explanations of difficult concepts, chat functionality, and expense calculators.

[354] *See* Instruction 10 to Item 27A(a) of amended Form N–1A.

[355] Rule 31a–1 under the Act [17 CFR 270.31a–1] provides the records that a registered investment company must maintain; current rule 31a–2 under the Act [17 CFR 270.31a–2] provides the retention period for those records. To address funds' retention of any supplemental information that a fund chooses to include in its online version of its annual report (other than the shareholder report information that the fund files with the Commission on Form N–CSR), we are adopting as proposed a conforming change to rule 31a-2 that requires that every investment company preserve for a period not less than six years, the first two years in an easily accessible place, any shareholder report required by § 270.30e-1 (including any version posted on a website or otherwise provided electronically) that is not filed with the Commission in the exact form in which it was used. *See* amended rule 31a–2(a)(7).

[356] The instruction states that, for example, the fund should provide hyperlinks to the fund's prospectus and financial statements if the information is available online. The instruction also states that, in an annual report that is delivered in paper format, funds may include website addresses, QR codes, or other means of providing access to such information.

[357] *See* Mutual Fund Directors Forum Comment Letter.

[358] *See* Consumer Federation of America II Comment Letter.

mouse, can review . . . financial disclosure in their preferred delivery channel.'' [359] We agree that accessibility is an important issue for investors. Funds are required to comply with all applicable accessibility-related requirements under the ADA or otherwise.[360]

Many commenters that discussed the benefits of providing regulatory materials electronically also commented on the need for increased flexibility in electronic delivery of these materials.[361] We address these comments and topics related to electronic delivery below.[362]

B. Semi-Annual Report

We are specifying the design and content of funds' semi-annual reports through Item 27A of amended Form N–1A. These design and content specifications are similar to those we are requiring for funds' annual reports.

The table below summarizes the content that funds must include in their semi-annual reports and compares the new requirements to current semi-annual report disclosure requirements.

TABLE 3—OUTLINE OF SEMI-ANNUAL REPORT REQUIREMENTS

	Description	Item of amended form N–1A	Item of current form N–1A containing similar requirements
Cover Page or Beginning of Report	Fund/Class Name	Item 27A(b).	
	Ticker Symbol	Item 27A(b).	
	Principal U.S. Market(s) for ETFs	Item 27A(b).	
	Statement Identifying as ''Semi-Annual Shareholder Report''.	Item 27A(b).	
	Legend	Item 27A(b).	
	Statement on Material Fund Changes in the Report.	Item 27A(b).	
Content [363]	Expense Example	Item 27A(c)	Item 27(d)(1).
	Management's Discussion of Fund Performance (optional).	Item 27A(d)	Item 27(b)(7).
	Fund Statistics	Item 27A(e).	
	Graphical Representation of Holdings	Item 27A(f)	Item 27(d)(2).
	Material Fund Changes (optional)	Item 27A(g).	
	Changes in and Disagreements with Accountants.	Item 27A(h)	Item 27(b)(4).
	Availability of Additional Information	Item 27A(i)	Item 27(d)(3) through(5).

1. Scope and Contents of the Semi-Annual Report

As with the annual report, we are limiting the scope of funds' semi-annual reports in several respects to reduce the overall length and complexity of these reports. The Commission received comment supporting the layered disclosure approach for semi-annual reports, with some commenters specifically noting their support for the design and content of the semi-annual report.[364] Comments specific to each design and content element of the semi-annual report are discussed below; on semi-annual report elements where no comments are discussed, we received no comments separate from the comments we received on the parallel aspect of the annual report that are discussed above.[365] We are adopting the scope and content requirements discussed in this section for semi-annual reports largely as proposed.

The scope and content requirements for semi-annual report that we are adopting today mirror the scope and content requirements for annual reports. For the reasons we discuss in section II.A.1, we are requiring that fund semi-annual reports be prepared for each series of a fund and for each class of a multi-class fund.[366] We are adopting the requirement to limit semi-annual reports to one series of the fund as proposed. Requiring a separate semi-annual report for each class of a multiple-class fund is a change from the proposal. Our consideration of comments received and our rationale for limiting the scope of semi-annual reports in this way is consistent with our analysis and rationale for why we are adopting a parallel scope limitation for annual reports.

As proposed, we are generally limiting the content a fund may include in its semi-annual report to the information that Item 27A of Form N–1A specifically permits or requires.[367] However, as with annual reports, the fund may add additional information that is necessary to make the required disclosure items not misleading. The final amendments to Form N–1A do not permit a fund to incorporate by reference any information into its semi-annual report.[368] Collectively, these restrictions parallel our scope and content limitations for annual reports.

As is the case today, the semi-annual report will not be subject to page or word limits. As noted above and in the Proposing Release, we believe a set limit could constrain appropriate disclosure or lead funds to omit material information. However, we believe that the limits on shareholder report contents should nonetheless limit

[359] *See* DFIN Comment Letter; *see also* ICI Comment Letter (discussing the need to ensure that funds' websites and disclosure templates, as modified to comply with any final rules the Commission adopts, are accessible, consistent with the ADA).

[360] *See, e.g.,* Americans with Disabilities Act of 1990, Public Law 101–336, 104 Stat. 328 (1990).

[361] *See, e.g.,* CFA Institute Comment Letter; Consumer Federation of America II Comment Letter; Better Markets Comment Letter.

[362] *See infra* sections II.E.2–3.

[363] *See infra* discussion in section II.D regarding disclosure items that are being removed from the shareholder report.

[364] *See, e.g.,* ICI Comment Letter; Morningstar Comment Letter.

[365] In these cases, *see generally* the discussion in section II.A above on why we adopted that particular design or content element.

[366] *See* Instruction 4 to Item 27A of amended Form N–1A; *see also* Instruction 3 to Item 27A of amended Form N–1A.

[367] *See* Instruction 3 to Item 27A of amended Form N–1A.

[368] *See* Instruction 5 to Item 27A of amended Form N–1A.

length in support of our goal of concise, readable disclosure.[369]

The cover page or beginning of the semi-annual report will essentially contain the same content as the annual report (with the only difference being references to a ''semi-annual report'' instead of an ''annual report'').[370] Consistent with the requirement for annual reports, the semi-annual report cover page must reflect the fact that the report includes a statement of material changes, if one was included. If the fund's semi-annual report includes a discussion of material fund changes, the final rules will require the cover page of the report to include a prominent statement, in bold-face type, explaining that the report describes certain changes to the fund that occurred during the reporting period.

Semi-annual reports currently include an expense example.[371] The semi-annual report will retain an expense example, which will be subject to the same content requirements as the expense example in the annual report, including the changes we are adopting to the proposed example discussed above.[372]

We do not currently require MDFP in semi-annual reports. Under the final rules, semi-annual reports similarly will not require MDFP, but funds may include this disclosure on an optional basis.[373] We understand that it is currently common for funds to include MDFP disclosure in their semi-annual reports, and we believe continuing to allow this disclosure will enable funds to identify factors that could help investors better contextualize other information disclosed in the semi-annual report.[374] One commenter supported this approach.[375] This commenter requested clarification that a fund electing to include MDFP in its semi-annual report may provide some, but not all, of the information required by the MDFP requirements for annual reports and may include total return performance for the six-month period between shareholder reports. While a fund is not required to include MDFP information in semi-annual reports under the final rules, if a fund includes any MDFP information in its semi-annual report, that disclosure should, like other disclosure in the semi-annual report, reflect the semi-annual reporting period and otherwise must comply with the content requirements for that MDFP information in annual reports.[376]

Semi-annual reports, like annual reports, will have to include certain fund statistics, including the fund's: (1) net assets, (2) total number of portfolio holdings, and (3) portfolio turnover rate.[377] As in annual reports, this disclosure requirement is intended to provide succinct fund disclosures in a format that investors may be more likely to review than long narratives, and is designed to help contextualize other disclosures required in semi-annual reports. In addition, a fund may disclose any additional statistics that it believes will help shareholders better understand the fund's activities and operations during its most recent fiscal half-year.

Semi-annual reports currently include a graphical representation of holdings.[378] As proposed, we are retaining the current requirements for the graphical representation of holdings in funds' semi-annual reports. The graphical representation of holdings in the semi-annual report will be subject to the same content requirements as in the annual report, including the changes to the proposed content requirements that are discussed above.

Currently, we do not require discussion of changes to the fund in semi-annual reports. As proposed, such disclosure still will not be required, but funds may include this disclosure on an optional basis.[379] We received one comment advocating we require funds to disclose material changes every six months in their shareholder reports to put investors on notice of these changes, if they do not actively review annual prospectus updates.[380] We continue to believe that requiring a discussion of fund changes in the semi-annual report could be duplicative in light of other notices of changes that investors receive throughout the year, such as prospectus stickers or notices that rule 35d–1 under the Investment Company Act (the ''names rule'') requires for certain changes in a fund's investment policy. However, we are permitting funds to include disclosure describing material fund changes in their semi-annual reports because we believe that there could be circumstances in which discussing these changes could help investors better contextualize other information in the semi-annual report. Any such disclosure would have to comply with the content requirements for the discussion of material changes in annual reports.[381]

As proposed, when a fund has a material disagreement with an accountant that has resigned or has been dismissed, the fund will be subject to the same requirement to include concise discussion of this in its semi-annual report as it includes in its annual report.[382] No commenters discussed this proposed requirement for semi-annual reports.

As discussed above for annual reports, we are adopting, as proposed, the requirement that a fund's semi-annual report must include a brief, plain English statement that certain additional fund information is available on the fund's website, including, as applicable the fund's prospectus, financial statements, quarterly portfolio schedule, and proxy voting record.[383] The statement also could reference other information on this website that the fund reasonably believes shareholders will view as important. This requirement builds on the current shareholder report requirements that funds must include statements regarding the availability of certain information not included in the semi-annual report, namely the fund's: (1) quarterly portfolio schedule; (2) proxy

[369] Because we estimate that the annual report would be approximately 3 to 4 pages in length, we similarly estimate that the semi-annual report (which will include fewer required disclosure items than the annual report) would be approximately 3 to 4 pages in length or shorter.

[370] For the specific text of each semi-annual report content requirement described in this section, *see generally* Item 27A of amended Form N–1A.

[371] *See* Item 27(d)(1) of current Form N–1A.

[372] The expense example in the semi-annual report would cover a 6-month reporting period.

[373] *See* Item 27A(a) of amended Form N–1A.

[374] *See, e.g.,* Comment Letter of the Investment Company Institute on the Investor Experience RFC (''We understand that some funds voluntarily include a MDFP in semi-annual shareholder reports but others do not.'').

[375] *See* ICI Comment Letter.

[376] *See* Item 27A(a) of amended Form N–1A (providing that information that a fund includes at its option must meet the requirements of the relevant paragraph, including any related instructions, and not be incomplete, inaccurate, or misleading).

[377] Semi-annual reports currently must disclose net assets and portfolio turnover rate as part of the requirement to disclose condensed financial information. *See* Item 27(c)(2) of current Form N–1A. We are adopting certain changes to the proposed fund statistics requirements for annual reports, and these changes generally likewise apply to the final rules' fund statistics requirements for semi-annual reports. *See supra* section II.A.2.d. We are not, however, requiring total expenses paid by the fund to the adviser to appear in the semi-annual report in addition to the annual report. Providing a ''stub'' figure showing semi-annual expenses could confuse investors by making this figure appear lower than it would be if it were annualized to show expenses paid during a one-year period. The statistics in the semi-annual report figures (*e.g.,* portfolio) will reflect the semi-annual reporting period, like the other figures that are disclosed in funds' semi-annual reports.

[378] *See* Item 27(d)(2) of amended Form N–1A.

[379] *See* Item 27A of amended Form N–1A.

[380] *See* NASAA Comment Letter.

[381] *See supra* section II.A.2.f (discussing the final rules' requirement for material fund change disclosure in funds' annual reports).

[382] *See supra* section II.A.2.g; *see also* Item 27A(h) of amended Form N–1A.

[383] *See supra* section II.A.2.h; *see also* Item 27A(i) of amended Form N–1A.

voting policies and procedures; and (3) proxy voting record.[384] In addition, if the shareholder report appears on a fund's website or otherwise is provided electronically, the fund must provide a means of facilitating access to that additional information (such as a hyperlink).[385] Collectively, these requirements will be the same as the requirements with regard to the availability of additional information in annual reports.

2. Format and Presentation of Semi-Annual Report

The semi-annual report generally will be subject to the same format and presentation requirements as the annual report. We did not receive any comments on format and presentation requirements specific to semi-annual reports, and we are adopting these requirements with the same changes discussed above applicable to the format and presentation of annual reports.

Information in semi-annual reports will be required to appear in the same order as the corresponding form items appear in the final amendments to Form N–1A.[386] Any information that a fund may choose to include in the semi-annual report will also be subject to this ordering requirement (that is, it will have to be presented in the same order as the parallel mandatory disclosures in annual reports). Like the parallel requirement for annual reports, this ordering requirement is designed to ensure that information we believe is most salient to shareholders would appear first in the report. The ordering requirement also is designed to promote consistency and comparison across funds and will place related report contents close together.

The other instructions for annual reports' format and presentation discussed above also apply to semi-annual reports. These include the ''plain English'' instructions for the organization, wording, and design of the report. They also include the instructions encouraging funds to consider using, as appropriate, question-and-answer format, charts, graphs, tables, bullet lists, and other graphics or text features as a way to help provide context for the information presented.

3. Electronic Semi-Annual Reports Instructions and Requirements

The final instructions for electronic annual reports that we are adopting, including those that promote the use of interactive, user-friendly electronic design features, will also apply to semi-annual reports. We did not receive comments specifically addressing the instructions for semi-annual reports and we are adopting these requirements as proposed. Among other things, these instructions (1) provide ordering and presentation requirements for semi-annual reports that appear on a website or are otherwise provided electronically; (2) provide flexibility for funds to add additional tools and features to semi-annual reports that appear on a website or are otherwise provided electronically; and (3) require a semi-annual report to include a link or some other means of immediately accessing information referenced in the report that is available online.

C. Form N–CSR and Website Availability Requirements

We are adopting amendments to Form N–CSR and rule 30e–1 to implement the final rules' layered disclosure framework for funds' shareholder reports. We are requiring funds to continue to file certain information, which is currently included in fund shareholder reports, on Form N–CSR.[387] Commenters were broadly supportive of the proposed amendments to Form N–CSR.[388] As discussed below, we received several comments suggesting clarification or technical modification to the proposed rules. Several commenters stated that they supported the layered disclosure approach that the proposed amendments to Form N–CSR would effectuate, specifically supporting the proposed allocation of information among shareholder reports and Form N–CSR.[389] We are adopting the amendments to Form N–CSR and rule 30e–1 substantially as proposed, with some modifications in response to comments raised, including technical changes and a change in the amount of time a fund will have to make information available online, in response to comments received.

The Form N–CSR requirement is designed to continue to make available a broader set of fund information than what will appear in funds' annual and semi-annual reports. The Form N–CSR information is less retail-focused than the information that will appear in funds' annual and semi-annual reports, but as detailed below we believe that retaining the availability of this information is important for investors who desire more in-depth information, financial professionals, and other market participants.[390] This information will continue to provide shareholders and other market participants with access to historical, immutable data regarding the fund on EDGAR. This historical information also will facilitate the Commission's fund monitoring responsibilities and could create significant efficiencies in the location of information for data gathering, search, and alert functions used in those monitoring activities. A fund's principal executive and financial officer(s) are required to certify the financial and other information included on Form N–CSR, and these individuals are subject to liability for material misstatements or omissions on Form N–CSR.[391]

The amendments we are adopting to rule 30e–1, as proposed, will require funds to make available on a website the information that they will newly have to file on Form N–CSR, and to deliver such information upon request to shareholders, free of charge. These website availability requirements are designed to provide ready access to this information for shareholders who find this information pertinent. The requirements also should assist those investors who find it most convenient to locate fund materials on a website that is not EDGAR. We received several

[384] *See* Items 27(d)(3) through (5) of amended Form N–1A.

[385] *See* Instruction 1 to Item 27A(i) of amended Form N–1A.

[386] *See* Instruction 2 to Item 27A(a) of amended Form N–1A. This instruction also includes provisions that are applicable to a semi-annual report that appears on a website or is otherwise provided electronically.

[387] *See* Items 7 through 11 of amended Form N–CSR. Section 30 of the Investment Company Act requires funds to file their shareholder reports, including certain information that must appear in their reports, with the Commission. *See* Investment Company Act sections 30(a), 30(e); *see also infra* Table 4.

[388] *See, e.g.,* ICI Comment Letter; Comment Letter of CUSIP Global Services (Dec. 31, 2020) (''CUSIP Comment Letter''); Morningstar Comment Letter.

[389] *See, e.g.,* ICI Comment Letter; Morningstar Comment Letter; TIAA Comment Letter.

[390] For example, filing on EDGAR facilitates the financial statement reviews that section 408 of the Sarbanes-Oxley Act of 2002 mandates. Additionally, because Form N–CSR is filed with the Commission on EDGAR, a fund can incorporate by reference information that is disclosed on Form N–CSR, including the fund's financial statements, into a fund's registration statement, subject to certain limitations. *See* 17 CFR 270.0–4 [rule 0–4 under the Investment Company Act] (additional rules on incorporation by reference for funds); 17 CFR 230.411 [rule 411 under the Securities Act] (general rules on incorporation by reference in a prospectus); 17 CFR 232.303 [rule 303 of Regulation S–T] (specific requirements for electronically filed documents); General Instruction D to Form N–1A.

[391] *See* 17 CFR 270.30a–2 [rule 30a–2 under the Investment Company Act], Item 13(a)(2) of current Form N–CSR, and Item 18(a)(2) of amended Form N–CSR; *see also* Certification of Disclosure in Companies' Quarterly and Annual Reports, Investment Company Act Release No. 25722 (Aug. 28, 2002) [67 FR 57275 (Sept. 09, 2002)]; Proposing Release, *supra* footnote 8, at n.395 (discussing the certification requirements of the Sarbanes-Oxley Act of 2002, Public Law 107–204, 116 Stat. 745 (2002)).

comments supporting the proposed website availability requirements.[392] One commenter supported allowing funds to delay the availability of materials by 60 instead of 70 days after the end of the relevant fiscal period or up to the date the annual report is sent to shareholders, whichever is sooner, and as discussed below we are incorporating a modification to the proposed rules that reflects this suggested shortened time frame.[393]

The following table outlines the contents that we proposed and are now requiring funds to include in their Form N–CSR filings and make available online. Except for the new items to Form N–CSR that the Commission is adding as a part of this rulemaking, the current requirements of Form N–CSR remain unchanged.[394]

TABLE 4—OUTLINE OF FINAL RULES' FORM N–CSR AND WEBSITE AVAILABILITY REQUIREMENTS

Description (and related statutory requirement)	Current rule and form requirement(s) for shareholder report disclosure (if any)	New disclosure items for filing on SEC forms, under final rules	New website availability requirements, under final rules
Financial statements for funds *(required by section 30(e) of the Investment Company Act)*.	Items 27(b)(1) and 27(c)(1) of Form N–1A	Item 7(a) of Form N–CSR.	Rule 30e–1(b)(2)(i).
Financial highlights for funds	Items 27(b)(2) and 27(c)(2) of Form N–1A	Item 7(b) of Form N–CSR.	Rule 30e–1(b)(2)(i).
Remuneration paid to directors, officers and others of funds *(required by section 30(e) of the Investment Company Act)*.	Items 27(b)(3) and 27(c)(3) of Form N–1A	Item 10 of Form N–CSR.	Rule 30e–1(b)(2)(i).
Changes in and disagreement with accountants for funds.	Items 27(b)(4) and 27(c)(4) of Form N–1A; Item 304 of Regulation S–K.	Item 8 of Form N–CSR.	Rule 30e–1(b)(2)(i).
Matters submitted to fund shareholders for a vote.	Rule 30e–1(b)	Item 9 of Form N–CSR.	Rule 30e–1(b)(2)(i).
Statement regarding the basis for the board's approval of investment advisory contract.	Item 27(d)(6) of Form N–1A	Item 11 of Form N–CSR.	Rule 30e–1(b)(2)(i).
Complete portfolio holdings as of the close of the fund's most recent first and third fiscal quarters.	Currently required in Part F of Form N–PORT. Also website availability of this information currently required for funds relying on rule 30e–3.	N/A (not currently required to be filed on Form N–CSR; will not be required to be filed on Form N–CSR under the final rules).	Rule 30e–1(b)(2)(ii).

1. New Form N–CSR Filing Requirements

a. Financial Statements

We are adopting as proposed the requirement for a fund to file its most recent complete annual or semi-annual financial statements on Form N–CSR, and provide certain data points from the financial statements in its annual and semi-annual reports, in lieu of including the fund's complete financial statements in its shareholder reports.[395] Consistent with current requirements, the fund's annual financial statements must be audited and accompanied by any associated accountant's report, while the semi-annual financial statements need not be audited.[396] We received comments requesting clarification regarding whether funds will be permitted to prepare and file combined financial statements that include multiple series or portfolios in a trust. These comments are discussed below.

Section 30(e) of the Investment Company Act provides that funds' annual and semi-annual reports include the fund's financial statements, which in turn must include a statement of assets and liabilities, a schedule of investments that shows the amount and value of each security owned by the fund on that date, a statement of operations, and a statement of changes in net assets.[397] The annual report must include audited financial statements accompanied by a certificate of an independent public accountant.[398] The financial statements (including the fund's schedule of portfolio investments) provide data regarding the values of the fund's portfolio investments as of the end of the reporting period. They provide a ''snapshot'' of data at a particular point in time, or, for example in the case of the statement of operations, historical data over a specified time period.[399]

The rules under Regulation S–X establish general requirements for portfolio holdings disclosures in fund financial statements. Information regarding a fund's schedule of portfolio investments is designed to enable shareholders to make more informed asset allocation decisions by allowing them to monitor better the extent to which their investment portfolios overlap. In addition, this information

[392] *See, e.g.,* ICI Comment Letter; CUSIP Comment Letter; and Morningstar Comment Letter.

[393] *See* Morningstar Comment Letter.

[394] The Proposing Release requested comment on the use of CUSIP numbers in Item 6.b of Form N–CSR (which requires information about divested securities and was not a form item for which we proposed amendments). The Commission received two comments supporting the continued use of CUSIP numbers in Form N–CSR. *See* CUSIP Comment Letter and ABA Comment Letter. We are not amending the requirements of Item 6.b, and Form N–CSR will continue to require that funds provide CUSIP numbers for divested securities that funds list in response to Item 6.b.

[395] *See* Item 7(a) of amended Form N–CSR; *see also supra* section II.A.2.e (discussing the requirement to include a graphical representation of a fund's holdings in the shareholder report).

[396] *See* Item 27(b)(1) and 27(c)(1) of current Form N–1A. A fund's audited financial statements must include, among other items: (1) an audited balance sheet, or statement of assets and liabilities, as of the end of the most recent fiscal year; (2) an audited statement of operations for the most recent fiscal year; (3) an audited statement of cash flows for the most recent fiscal year if necessary to comply with generally accepted accounting principles (''GAAP''); (4) audited changes in net assets for the two most recent fiscal years; and (5) a schedule of investments in securities of unaffiliated issuers. *See* 17 CFR 210.3–18 and 210.6–10 [rules 3–18 and 6–10 of Regulation S–X].

[397] *See* sections 30(e)(1) through (4) of the Investment Company Act [15 U.S.C. 80a–29(e)(1) through (4)], and section 30(e)(6) of the Investment Company Act [15 U.S.C. 80a–29(e)(6)].

[398] *See* section 30(g) of the Investment Company Act [15 U.S.C. 80a–29(g)].

[399] *See* Investment Company Reporting Modernization, Investment Company Act Release No. 31610 (May 20, 2015) [80 FR 33590 (June 12, 2015)], at text following n.55.

may provide shareholders—particularly those with facility in analyzing funds' individual portfolio holdings—with information about how a fund is complying with its stated investment objective and expose any deviation from the fund's investment objective (*i.e.,* style drift).[400] In lieu of providing a complete schedule of portfolio investments as part of the financial statements included in its shareholder report, a fund may provide a summary schedule of portfolio investments (''summary schedule'').[401]

The final rules that we are adopting will require funds to provide the complete financial statements on Form N–CSR, while retaining the graphical representation of holdings in the annual and semi-annual reports. We did not receive comment on this element of the proposal and are adopting it as proposed. We continue believe that this layered approach to disclosure will help shareholders understand how the fund invests its assets. This approach is also designed to permit all shareholders, including retail shareholders, to monitor and assess their ongoing investment in the fund in a concise, easy-to-understand pictorial format, while preserving access to the more complete financial statements for shareholders that find this broader information useful. We understand that investors may find the inclusion of a fund's complete financial statements in the annual and semi-annual reports to be complex and difficult to understand.[402]

We also are adopting amendments to Form N–1A that will eliminate a fund's ability to provide a summary schedule in lieu of providing a complete schedule of portfolio investments as part of the financial statements. We did not receive comment on this aspect of the proposal and are adopting it as proposed. We believe that this is appropriate because the annual and semi-annual reports will no longer include the complete financial statements (which include the schedule of portfolio investments). Therefore, because a fund's full schedule of investments will only be included on Form N–CSR and on a website as required under the final rules, continuing to allow funds to use the summary schedule is unnecessary. Furthermore, because the annual and semi-annual reports are designed to help investors focus on the most salient features of the fund to better evaluate their investment, we do not believe it would be useful to shareholders, and may even be confusing, to allow funds to provide a summary schedule alongside the complete schedule of portfolio investments online. We received comments requesting clarification confirming that a fund may prepare and file combined financial statements for separate series or portfolios to satisfy Item 7 of amended Form N–CSR.[403] Commenters stated that they would incur significant financial cost to prepare separate financial statements for each series or portfolio of a trust when filing Form N–CSR, without a perceived benefit.[404] As discussed above, funds will be required to prepare separate shareholder reports for each series or portfolio in a trust, as well as for each share class of a fund, and will no longer be permitted to prepare ''combined'' shareholder reports under the final rules. The requirement that funds prepare separate shareholder reports for each series or portfolio of a trust, as well as for each share class, is intended to simplify information for retail investors. This rationale is not the same for Form N–CSR filings. We recognize that information in Form N–CSR will be lengthier and more complex than the information that appears in a fund's shareholder report, and we do not believe that funds and their shareholders should be required to bear the costs associated with preparing separate financial statements for each series or portfolio in a trust. The amendments we are adopting to Form N–CSR do not prohibit funds from preparing and submitting multicolumn financial statements that include multiple series or portfolios, or that address multiple share classes of a fund, provided such financial statement presentation is consistent with Regulation S–X.[405]

b. Financial Highlights

We are adopting, as proposed, the requirement for funds to file their financial highlights information on Form N–CSR.[406] This information is identical to the information currently required in fund shareholder reports. Funds will not be required to include financial highlights information in their annual or semi-annual reports, with the exception of certain specific data points as discussed below. We received comments supporting the proposed requirement that funds file their financial highlights information on Form N–CSR instead of including this information in their shareholder reports.[407] We did not receive any comment letters opposing this proposal.

Currently, funds are required to disclose the condensed financial information that Item 13(a) of Form N–1A requires (*i.e.,* financial highlights) in their annual and semi-annual reports.[408] The financial highlights include a summary table of financial information covering the preceding five years (or since the fund's inception, if less than five years).[409] Under certain circumstances, a fund may incorporate by reference its financial highlights from the shareholder report into its prospectus.[410] The information contained in a fund's financial highlights generally is designed to help investors evaluate the fund's historical performance and the fund manager's investment management expertise.

While the final rules will require funds to file the entirety of their financial highlights on Form N–CSR, we also are retaining certain elements of the financial highlight information in funds'

[400] *See* Shareholder Reports and Quarterly Portfolio Disclosure of Registered Management Investment Companies, Investment Company Act Release No. 26372 (Feb. 27, 2004) [69 FR 11244 (Mar. 9, 2004)], at text accompanying n.32.

[401] *See* Instruction 1 to Item 27(b)(1) of current Form N–1A (permitting the inclusion of Schedule VI—summary schedule of investments in securities of unaffiliated issuers under 17 CFR 210.12–12C [Rule 12–12C of Regulation S–X] in lieu of Schedule 1—Investments of securities of unaffiliated issuers under 17 CFR 210.12–12 (Rule 12–12 of Regulation S–X)). The summary schedule must list, separately, the 50 largest issues and any other issue exceeding one percent of the net asset value of the fund at the close of the period.

[402] *See* Comment Letter of the Investment Company Institute on the Investor Experience RFC (stating that the streamlined shareholder report mockup that the comment letter included did not include certain items, including the fund's full financial statements, ''because we concluded that they were of a more technical nature that a typical retail investor would not read or understand''); *see also* Proposing Release, *supra* footnote 8, at n.421 and accompanying text (discussing an industry survey conducted by a commenter finding that the ''average retail shareholder'' finds most of the items from the financial highlights section difficult to understand).

[403] *See, e.g.,* ICI Comment Letter; Dechert Comment Letter; Fidelity Comment Letter. These commenters also requested this clarification with respect to the financial statements that they would make available online under the proposed amendments to rule 30e–1. *See infra* section II.C.2.

[404] *See, e.g.,* ICI Comment Letter.

[405] Likewise, the final website availability requirements that we are adopting as amendments to rule 30e–1 do not prohibit this.

[406] *See* Item 7(b) of amended Form N–CSR.

[407] *See, e.g.,* ICI Comment Letter; DFIN Comment Letter.

[408] *See* Items 27(b)(2) and 27(c)(2) of current Form N–1A; *see also* Item 13(a) of current and amended Form N–1A.

[409] The summary table contains information regarding changes in a fund's net asset value, total returns, portfolio turnover rate, and capital distributions, among other things, during the preceding five years. *See* Item 13(a) of current and amended Form N–1A.

[410] *See* Instruction 4(e) to Item 13 of current Form N–1A. *See also* Proposing Release, *supra* footnote 8, at n.416 (discussing the ability of a fund to currently incorporate the financial highlights from a shareholder report into the prospectus if the fund delivers the shareholder report simultaneously with the prospectus or if the shareholder report has been delivered to shareholders).

annual and semi-annual reports, as proposed. The final rules require that a fund must disclose its expense ratio in the ''Fund Expenses'' section of the annual and semi-annual reports. Also, while funds' shareholder reports will no longer include annual total returns for *each* of the preceding five years, the MDFP section of the annual report will continue to include certain information regarding a fund's annual total returns. We are also requiring that funds disclose their net assets and portfolio turnover rate (which are data elements from the fund's financial highlights) as some of the statistics that funds will be required to include in their annual and semi-annual reports.

Item 13 of current Form N–1A requires a fund to include financial highlights information in its prospectus, and an instruction to this item permits a fund to incorporate this information from a shareholder report under rule 30e–1 by reference into its prospectus.[411] Because funds' shareholder reports will no longer include financial highlights, we proposed amending the current instruction to instead allow a fund to incorporate by reference into its prospectus its financial highlights from Form N–CSR (as opposed to from the fund's shareholder report).[412] We received comments supporting funds being permitted, but not required to, incorporate financial highlight information by reference.[413] We did not receive any comments opposing this aspect of the proposal. We are adopting this aspect of the proposal as proposed. For existing shareholders that have received the fund's shareholder report, a fund will be permitted to incorporate the financial highlights by reference into the prospectus if the cover page includes the legend that Item 1(b)(1) of Form N–1A requires, describing additional information available about the fund in the fund's annual and semi-annual financial statements and in Form N–CSR.[414] For new investors in the fund, the fund will be required to provide the fund's most recent shareholder report along with its prospectus.[415]

c. Changes in and Disagreement With Accountants for Funds

We are adopting, as proposed, the requirement that a fund must file on Form N–CSR the disclosures that Item 304 of Regulation S–K currently requires, concerning changes in and disagreements with accountants.[416] We did not receive any comment on this aspect of the proposal. Funds must currently include the entirety of this information in their shareholder reports. The new Form N–CSR filing requirement complements the new requirement that funds must include a high-level summary of changes in and disagreements with accountants in their annual reports.

While the disclosure that we are requiring funds to include in their shareholder reports is designed to put shareholders on notice of the dismissal or resignation of an accountant and the existence of a material disagreement with that accountant, the information that funds will report on Form N–CSR will provide additional, more nuanced and technical disclosure that may be informative to some shareholders and other market participants. This disclosure could be meaningful as it indicates that the fund has especially challenging, subjective, and/or complex accounting policies and financial statement disclosures or the accountant could not resolve audit findings. We also believe that it is appropriate to retain this disclosure in Form N–CSR, a location that includes audited financial information, to provide those investors, financial professionals, and other market participants who review and analyze this disclosure with appropriate contextual information.

d. Matters Submitted for a Shareholder Vote

We are adopting, as proposed, the requirement that funds must include information about matters submitted for a shareholder vote on Form N–CSR, rather than in their shareholder reports.[417] This information is identical to the information currently included in fund shareholder reports.[418] We did not receive any comments on this aspect of the proposal.

The amendments to the disclosure requirements for matters submitted for a shareholder vote are designed to further our layered approach to shareholder report disclosure. Shareholder voting plays a valuable role in fund regulation, and this disclosure keeps shareholders and other parties informed and may operate as a deterrent to self-dealing by the fund's adviser.[419] The final rule balances the importance of continuing to make available information about shareholder voting, while focusing the content of funds' shareholder reports on concise, retail-focused information.

The Commission's approach of removing shareholder vote information from the shareholder report also reflects that shareholders will continue to receive information about these matters through other channels. Shareholders will continue to receive a detailed description of matters submitted for a shareholder vote in fund proxy statements, as they do today.[420]

[411] *See* Instruction (4)(d) to Item 13 of current Form N–1A (allowing a fund to incorporate by reference its financial highlights from its shareholder report into the prospectus so long as the fund delivers the shareholder report with the prospectus (*i.e.,* for new shareholders)). If the shareholder report has been previously delivered (*e.g.,* to a current shareholder), the fund includes a statement clarifying that the financial highlights are being incorporated by reference pursuant to the requirements of Item 1(b)(1) of Form N–1A).

[412] *See* Instruction (4)(e) to Item 13 of proposed Form N–1A; *see also* discussion at Proposing Release, *supra* footnote 8, at text accompanying n.428.

[413] *See, e.g.,* ICI Comment Letter; DFIN Comment Letter.

[414] *See* Instruction (4)(e) to Item 13 of amended Form N–1A; *see also* Item 1(b)(1) of amended Form N–1A. The required legend will state (among other things) that: (1) additional information about the fund's investments is available in the fund's annual report to shareholders and in Form N–CSR; (2) the fund's annual report and Form N–CSR are available, without charge, upon request. A fund must also explain how shareholders may make inquiries to the fund, provide a telephone number for shareholders to call to request the fund's annual report and Form N–CSR, and state whether the fund makes available Form N–CSR, free of charge, on the fund's website. The requirement in Instruction 4(e) to Item 13 of amended Form N–1A is parallel to the current requirements for incorporation by reference in Instruction 4(d) to Item 13 of current Form N–1A. *See supra* footnote 411.

[415] *See* Instruction (4)(e) to Item 13 of amended Form N–1A

[416] *See* Item 8 of amended Form N–CSR.

[417] *See* Item 9 of amended Form N–CSR.

[418] *See* current rule 30e–1(b) (providing current shareholder report disclosure requirements regarding matters submitted for a shareholder vote). The disclosure that currently appears in shareholder reports includes: (1) the date of the meeting and whether it was an annual or special meeting; (2) if the meeting involved the election of directors, the name of each director elected at the meeting and the name of each other director whose term of office as a director continued after the meeting; and (3) a brief description of each matter voted upon at the meeting and the number of votes cast for, against or withheld, as well as the number of abstentions and broker non-votes as to each such matter, including a separate tabulation with respect to each matter or nominee for office. The final rules retain the requirement for registered investment companies that are not open-end funds to include this disclosure in their shareholder reports. *See* amended rule 30e–1(d).

[419] *See, e.g.,* Amendments to Proxy Rules for Registered Investment Companies, Investment Company Act Release No. 19957 (Dec. 16, 1993) [58 FR 67729 (Dec. 22, 1993)], at text following n.6.

[420] *See, e.g.* Schedule 14A [17 CFR 240.14a–101] under the Exchange Act (providing the content requirements for investment company proxy statements). Funds also are required to disclose on Form N–CEN whether the fund submitted any matters for a shareholder vote during the reporting period. The primary audience for Form N–CEN is not retail investors. This reporting item could, however, result in retail investors having access to additional information about shareholder votes to the extent that data aggregators or others include this data in their retail-investor-facing analysis.

Furthermore, because the annual report will require funds to describe certain material changes that have occurred in the fiscal year, shareholders will receive disclosure of certain material changes that have resulted from shareholder votes.

If it would be valuable to a shareholder to review additional information about the outcome of matters submitted for a shareholder vote, the shareholder will continue to have access to this more-detailed information, which the fund will file on Form N–CSR. For example, certain shareholders and other market participants may want to access shareholder vote information on matters such as changes in the fund's fundamental policies, investment advisory agreements, board of directors, and organizational documents. We also anticipate filing this information under a specific Item on Form N–CSR will help interested users locate it, as currently it is not required to appear in any particular location of funds' often-voluminous shareholder reports, and funds' practices with respect to the location and formatting of this information vary substantially.

e. Remuneration Paid to Directors, Officers, and Others

We are adopting, largely as proposed but with a technical change suggested by a commenter, the requirement for funds to file the aggregate remuneration the fund paid to its directors, officers, and certain affiliated persons on Form N–CSR instead of including this information in their shareholder reports.[421] This information is identical to the information currently required in fund shareholder reports. Funds currently provide this information in their annual reports under section 30(e) of the Investment Company Act.[422]

We continue to believe that availability of information about remuneration paid to the fund's directors and officers may help shareholders to analyze the use of corporate funds and assets, and to assess the value the fund's directors and officers bring to the fund. This approach also reflects that a fund currently is required to provide detailed disclosure regarding compensation paid to each of the directors, members of any advisory board, and certain officers and affiliates in the fund's SAI. Investors who desire more in-depth information, financial professionals, and other market participants who would find remuneration-related information valuable (for example, in monitoring fund management) will continue to be able to find it in the fund's SAI (where compensation information is disclosed for each director), as well as in Form N–CSR filings (where compensation information is aggregated, as it is in shareholder reports today).

We received one comment supporting this proposed requirement.[423] Another commenter opposed removing board compensation disclosure from shareholder reports and reporting it on Form N–CSR.[424] This commenter stated their concern that not including this information in shareholder reports may make it more difficult for investors to hold boards accountable as they would not receive a ''push'' communication of it through the shareholder report. We continue to believe that this type of information is not directly pertinent to a retail shareholder's understanding of the fund's operation and performance. We understand that this information may have less direct impact on an investor's returns than, for example, annual performance and fee information. We believe, however, that this type of information is important to retain publicly for those investors who want it because this information gives context to the fund's returns. We are therefore adopting the proposed approach employing layered disclosure principles, where current remuneration disclosure will remain available online but will not appear in funds' shareholder reports.

One commenter suggested a technical change to the proposed rule text language.[425] The commenter noted that, currently funds must disclose compensation paid to directors and officers in the annual report unless that information is disclosed as part of the financial statements. Accordingly, to avoid redundancy, this commenter recommended inserting the phrase ''unless the information is disclosed as part of the financial statements included in Item 7 [the Item requiring the filing of funds' financial statements]'' in the new Form N–CSR item addressing remuneration-related information. We agree with this commenter that it would be duplicative and unnecessary to require funds to disclose this information separately if it is included in funds' financial statements, and we have incorporated the requested technical change.[426]

f. Statement Regarding Basis for Approval of Investment Advisory Contract

Funds currently are required to provide a statement, in the annual and semi-annual reports, regarding the basis for the board's approval of the fund's investment advisory contract.[427] The final rules we are adopting, as proposed, instead require funds to provide this information on Form N–CSR.[428] We did not receive any comment opposing this recommendation and only received comment suggesting a technical correction addressing a faulty cross-reference.[429] We are adopting this requirement as proposed, with the suggested technical correction.[430]

Requiring funds to provide shareholders with information regarding the board's review of investment advisory contracts preserves transparency with respect to those contracts and fees paid for advisory services, assists investors in making informed investment decisions, and encourages fund boards to engage in vigorous and independent oversight of advisory contracts. The Commission proposed to remove this disclosure from the shareholder report because it does not pertain directly to a retail shareholder's understanding of the operations and performance of the fund, and the required information does not lend itself to the type of focused disclosure that the proposed annual report was designed to include. No commenters objected to the proposed approach. Because of the nature and

[421] *See* Item 10 of amended Form N–CSR.

[422] *See* section 30(e)(5) of the Investment Company Act [15 U.S.C. 80a–30(e)(5)] (permitting the Commission to require that funds transmit to shareholders, at least semi-annually, reports containing, among other things, a statement of aggregate remuneration paid by the fund during the period covered by the report to officers, directors, and certain affiliated persons); *see also* Items 27(b)(3) and 27(c)(3) of current Form N–1A. Funds are required to disclose aggregate remuneration paid to: (1) all directors and all members of any advisory board for regular compensation; (2) each director and each member of an advisory board for special compensation; (3) all officers; and (4) each person of whom any officer or director of the fund is an affiliated person.

[423] *See* ICI Comment Letter.

[424] Morningstar Trustees Comment Letter.

[425] ICI Comment Letter.

[426] *See* Item 10 of amended Form N–CSR.

[427] *See* Item 27(d)(6) of current Form N–1A.

[428] *See* Item 11 of amended Form N–CSR. We are also adopting a conforming amendment eliminating Item 10(a)(1)(iii) of amended Form N–1A, which requires funds to include, in the SAI, a statement noting that a discussion regarding the basis for the board's approval of any investment advisory contract is available in the fund's annual or semi-annual report, as applicable, and providing the period covered by the relevant report.

[429] ICI Comment Letter.

[430] The ICI Comment Letter noted that the instruction to proposed Item 11 of Form N–CSR inadvertently included a cross-reference to ''paragraph (d)(6)(i) of this Item.'' This cross-reference is a reference to Item 27 of current Form N–1A and was an inadvertent error. We are correcting this mistake by removing the cross-reference to Form N–1A from Item 11 in amended Form N–CSR.

quantity of information in this disclosure, we believe that it is better suited to appear in a different location that would continue to permit access to fund shareholders and other market participants who find this information to be particularly useful and meaningful. Providing this information on Form N–CSR will continue to allow these persons effectively to consider the costs and value of the services that the fund's investment adviser renders.[431]

2. Website Availability Requirements

a. Website Content Requirements

As proposed, we are requiring a fund to make available on a website all of the information that will be newly required on Form N–CSR and no longer included in a fund's shareholder reports. A fund must make the required disclosures publicly accessible, free of charge, and will be required to make this information available from 60 days after the end of the relevant fiscal period until 60 days following end of the next respective fiscal period.[432] This requirement represents a modification from the proposal, which would have required funds to make that same information available from 70 days after the end of the fiscal period until 70 days following the next fiscal period.

We received several comments supporting the proposed 70-day deadline for making information available on a website.[433] One commenter, however, supported allowing funds to delay the availability of materials by 60 instead of 70 days after the end of the relevant fiscal period or up to the date the annual report is sent to shareholders, whichever is sooner.[434] Funds are required to transmit shareholder reports to investors within 60 days after the close of the relevant period.[435] This commenter supported aligning the information that funds would newly have to make available online with the time in which funds must transmit their shareholder reports. This would help avoid a situation in which an investor has received a shareholder report that references the online availability of additional content, but the shareholder may not be able to access that content because the fund has not yet been required to make it available online. We are persuaded by the commenter and in order to facilitate the final rules' layered disclosure approach, the final rules require that the information on Form N–CSR should be made available on a website within 60 days—*e.g.,* the same time period that funds are required to transmit their shareholder reports.

The new website posting requirement therefore mandates that funds post the information contained in Items 7–11 of amended Form N–CSR within the suggested 60-day time period. The information contained in these items was previously required to be included in the fund's shareholder reports, and the time frame for transmitting shareholder reports to investors (that is, within 60 days of the end of the fiscal period) remains the same under the final rules as it did previously. Funds will continue to have 70 days to file the complete Form N–CSR with the Commission, as they do today.[436]

In addition, as proposed we are also requiring a fund (other than a money market fund) to make its complete portfolio holdings, as of the close of the fund's most recent first and third fiscal quarters, available on a website.[437] The Proposing Release would have required funds to make this information available within 70 days after the close of each such quarter. We did not receive comments on this aspect of the proposal. In light of the comment we received regarding the time period for making the other required information available online, we are similarly requiring that funds make the required portfolio holdings information available within 60 days after the close of each quarter. For the sake of clarity and consistency, requiring that funds post complete portfolio holdings within 60 days of the end of the fiscal quarter will ensure a uniform time period in which funds must make the required information available online and transmit shareholder reports. As proposed, fund's portfolio holdings information for its first and third fiscal quarters will have to remain publicly accessible online for a full fiscal year.[438]

This portfolio holdings information will complement the second and fourth fiscal quarter portfolio holdings information that we are also requiring funds to make available on a website (as part of the requirement to make their financial statements available online). The requirement to post first and third quarter portfolio holdings online is designed to provide investors and other market participants with easy access to a full year of complete portfolio holdings information in one location. The new requirement provides centralized access to this information, rather than requiring investors to access the fund's reports on Form N–PORT for each of those periods separately.[439] Also, we believe that this online portfolio holdings information will be in a more user-friendly presentation than the information that funds report on Form N–PORT in structured data format.

b. Accessibility and Presentation Requirements

Under the final rules, funds will have to comply with certain conditions designed to ensure the accessibility of information that is required to appear online.[440] We are adopting these rules as proposed.

First, the website address where the required information appears must be specified on the cover page or beginning of the shareholder report and cannot be the address of the Commission's electronic filing system.[441] The website address must be specific enough to lead investors directly to the particular information, but may be a central site with prominent links to the referenced

[431] Fund shareholders also will receive disclosure about the factors that form the basis for the board's approval of the advisory contract if a fund's advisory contract were to require a shareholder vote. In this case, the fund would be required to include in its proxy statement a discussion of the material factors the board considered as part of its decision to approve the fund's investment advisory contract. *See* Item 22(c)(11) of Schedule 14A.

[432] *See* amended rule 30e–1(b)(2)(i) (requiring a fund to disclose Items 7 through 11 of Form N–CSR on a website no later than 60 days after the end of the fiscal half-year or fiscal year of the fund until 60 days after the end of the next fiscal half-year or fiscal year of the fund, respectively).

[433] *See, e.g.,* ICI Comment Letter; T. Rowe Price Comment Letter; Comment Letter of Independent Directors Council (Dec. 22, 2020) (''Independent Directors Council Comment Letter'').

[434] Morningstar Comment Letter.

[435] *See* current rule 30e–1(c).

[436] Funds must file Form N–CSR with the Commission within 10 days of disseminating annual and semiannual reports to shareholders. *See* rule 30b2–1(a).

[437] *See* amended rule 30e–1(b)(2)(ii).

[438] Amended rule 30e–1(b)(2)(ii).

[439] Funds currently are required to disclose their holdings as of the end of each fiscal quarter in reports on Form N–PORT filed with the Commission (which are available on EDGAR). However, all open-end funds currently are not required to send holdings information as of the end of the first- and third-quarters to shareholders or to make that information accessible on a website other than EDGAR. *See* Part F of Form N–PORT (requiring N–PORT filers to provide, as exhibits to Form N–PORT, the fund's complete portfolio holdings for the end of the first and third quarters of the fund's fiscal year, as of the close of the period, no later than 60 days after the end of the reporting period).

[440] Amended rule 30e–1(b)(2). These requirements are similar to the accessibility requirements of rule 30e–3 and rule 498 under the Securities Act (permitting funds to use a summary prospectus to satisfy prospectus delivery obligations) and rule 14a–16 under the Exchange Act (requiring issuers and other soliciting persons to furnish proxy materials by posting these materials on a public website and notifying shareholders of the availability of these materials and how to access them).

[441] Amended rule 30e–1(b)(2)(i) through (iii). The Commission's electronic filing system for fund documents is EDGAR. Rule 498 under the Securities Act includes a similar requirement. *See* 17 CFR 230.498(b)(1)(v)(A).

information.[442] The website may not be the home page or section of the fund's website other than on which the information is posted. Thus, an investor must be able to navigate from the landing page to each of the required documents with a single click or tap.[443] These requirements are designed to ensure that investors are able to navigate websites with relative ease in order to locate the information that they are seeking quickly and easily.

Second, the required online materials must be presented in a format convenient for both reading online and printing on paper, and persons accessing the materials must be able to retain permanently (free of charge) an electronic copy of the materials in this format. These conditions are designed to ensure that this online information is user-friendly and allows shareholders the same ease of reference and retention abilities they would have with paper copies. We received several comments supporting our proposed amendments regarding accessibility of the required information and none opposing them.[444]

As proposed, funds will have the option to satisfy the website availability requirement for the information that the fund will newly have to file on Form N–CSR by posting its most recent Form N–CSR report in its entirety on the website the shareholder report specifies.[445] Funds may either post the online information separately for each series of the fund, or group the online information by types of materials and/or by series.[446] If a fund were to group the information on its website by type of materials and/or by series, the grouped information would have to meet certain presentation requirements, including that the grouped information: (1) is presented in a format designed to communicate the information effectively, (2) clearly distinguishes the different types of materials and/or each series (as applicable), and (3) provides a means of easily locating the relevant information (including, for example, a table of contents that includes hyperlinks to the specified materials and series). A fund generally should consider the terms it uses in its website presentation to describe the required materials, for example in a table of contents, to best facilitate shareholder understanding. Some funds may submit combined Form N–CSR filings that include multiple series, as discussed above.[447] The information contained in these combined Form N–CSR filings will also need to meet the presentation requirements of our rules. These requirements are designed to allow funds to tailor the website presentation of information to the unique aspects of their funds, while presenting the information in a manner that facilitates shareholder access. For example, for a fund complex that includes several funds, each with multiple classes, the fund complex's website could include a master table of contents that contains hyperlinks to the specific materials for each fund and each class.

Funds will have flexibility in how online information is presented, so long as that information is presented consistent with the requirements discussed above. One commenter suggested that we mandate the use of a table of contents, organized by topic, on the website where the newly required information will appear.[448] This commenter suggested that this presentation requirement could help shareholders access all of the relevant fund documents more easily. We agree that a table of contents organized by topic could, in certain circumstances, facilitate shareholder access to fund information. However, we are not adopting this requirement because we believe that funds should be able to present information online in an investor-friendly manner while also taking into account the unique structure and features of the fund. For example, the number of series or share classes may affect how a fund decides to present information online so that it is easily accessible by investors. We also are mindful that adopting prescriptive presentation requirements could prevent remaining ''evergreen'' in light of evolving technology.

As proposed, the final rule also will include a safe harbor providing that a fund shall have satisfied its obligations to transmit shareholder reports even if it did not meet the posting requirements of the rule for a temporary period of time.[449] In order to rely on this safe harbor, a fund will have to have reasonable procedures in place to help ensure that the required materials appear online in the manner required by the rule, and also must take prompt action to correct noncompliance with the rule's website availability requirements. The rule requires prompt action as soon as practicable following the earlier of the time at which the fund knows, or reasonably should have known, that the required documents are not available in the manner prescribed by the rule.

We received no comments on this safe harbor and are adopting it as proposed because we recognize that there may be times when, due to events beyond a fund's control, such as system outages or other technological issues or natural disasters, a fund may temporarily not be in compliance with the web posting requirements of the rule. Providing this safe harbor by rule may obviate the need to provide exemptive relief from the rule's conditions under these very limited and extenuating circumstances, as we have done from time to time.[450]

3. Delivery Upon Request Requirements

We are requiring funds to send, at no cost to the requestor and by U.S. first class mail or other reasonably prompt means, a paper copy of any of the materials that will have to appear online to any person requesting such a copy within three business days after receiving a request for a paper copy.[451] A fund must also send, at no cost to the requestor by email or other reasonably prompt means, an electronic copy of any materials discussed above within three business days after receiving a request for an electronic copy.[452] These

[442] Instruction 2 to Item 27A(b) of amended Form N–1A (describing the requirements for the website address that must appear on the cover page or at the beginning of funds' shareholder reports).

[443] *See* Rule 30e–3 Adopting Release, *supra* footnote 20, at n.168 and accompanying text (discussing similar requirements for the website link that rule 30e–3 notices must include, including Commission guidance that the effect of this requirement is that an investor must be able to navigate to each of the documents that must appear on the linked website with a single click or tap).

[444] *See, e.g.,* ICI Comment Letter; Mutual Fund Directors Forum Comment Letter. Some commenters also addressed how electronically-presented materials may benefit individuals with vision issues or other individuals for whom disclosure accessibility raises particular challenges. *See supra* section II.A.4.

[445] *See* amended rule 30e–1(b)(2)(i).

[446] *See* amended rule 30e–1(b)(2)(vii). This provision (''The [online materials] . . . may either be separately available for each series of a fund, or the materials may be grouped by the types of materials and/or by series . . .'') incorporates a clarifying change from the proposed provision, which read ''The [online materials] . . . may be separately available for each series of a fund or grouped by the types of materials and/or by series . . . .'' This clarifying change is not intended to change the substance of the proposed provision.

[447] *See supra* footnotes 403–405 and accompanying text.

[448] Morningstar Comment Letter.

[449] *See* amended rule 30e–1(b)(2)(vi).

[450] *See, e.g.,* Exchange Act Release No. 81760 (Sept. 28, 2017) [82 FR 46335 (Oct. 4, 2017)] (exemptive relief for individuals and entities affected by Hurricanes Harvey, Irma, or Maria); Regulation Crowdfunding and Regulation A Relief and Assistance for Victims of Hurricane Harvey, Hurricane Irma, and Hurricane Maria, Securities Act Release No. 10416 (Sept. 27, 2017) [82 FR 45722 (Oct. 2, 2017)]; *see also* Rule 30e–3 Adopting Release, *supra* footnote 20, at n.135.

[451] *See* amended rule 30e–1(b)(3)(i) *see also supra* section II.C.II.C.2.

[452] *See* amended rule 30e–1(b)(3)(ii). The requirement to send an electronic copy of materials may be satisfied by sending a direct link to the online materials; provided that a current version of

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requirements will also apply to any financial intermediary through which shares of the fund may be purchased or sold. We are adopting all of these requirements as proposed. We understand that some investors continue to prefer to receive information in paper format, and therefore our rules are designed to allow shareholders to have ready access to the fund information that appears online in print format, if they so prefer, or to receive electronic copies of this same information.[453]

The Commission received one comment recommending that the Commission replace the requirement that a fund deliver this information within three business days with an ''as soon as reasonably practicable but not later than fourteen business days'' requirement.[454] We continue to believe that investors would be better served by requiring the requested materials to be sent within three business days of the request. The three-business-day timeframe also appears in similar existing requirements with respect to requests for copies of other similar documents.[455] Based on experience with these other regulatory requirements, we believe that three business days generally is an appropriate time frame to send shareholders paper copies of information. A ''reasonably practicable'' requirement could extend the time frame in which certain investors receive requested materials, and conversely also could result in funds being required to send materials *more* quickly than within three business days, as funds and intermediaries may have the capability to send materials more quickly than this time frame.

One commenter suggested a technical change relating to the proposed delivery upon request requirement. This commenter noted the disparity that the prospectus cover page statement appears to require the entirety of Form N–CSR to be provided to shareholders, while rule 30e–1 would require only Items 7–11 to be provided.[456] In response, we are adopting a change to the prospectus cover page statement that Form N–1A requires. Instead of stating that ''the SAI, the Fund's annual and semi-annual reports to shareholders, and Form N–CSR are available, without charge, upon request,'' the statement we are adopting will require a fund to explain that ''the SAI, the Fund's annual and semi-annual reports to shareholders, and other information such as Fund financial statements are available, without charge, upon request.''[457] An instruction to this prospectus disclosure requirement specifies that the delivery requirement for the information that the statement references applies to ''other information such as financial statements that the Fund files on Form N–CSR.''[458] We believe that these changes clarify that funds (and intermediaries) must only provide the information in Item 7–11 of Form N–CSR to shareholders upon request.

D. Disclosure Items Removed From Shareholder Report and Not Filed on Form N–CSR

Our final rules will not require the following currently-required shareholder report contents to appear in funds' shareholder reports going forward, nor will they require this information to be filed on Form N–CSR:

TABLE 5—CURRENT SHAREHOLDER REPORT CONTENTS REMOVED FROM SHAREHOLDER REPORT, AND NOT FILED ON FORM N–CSR, UNDER THE FINAL RULES

Description	Current rule and form requirement(s) for shareholder report disclosure	Description of amendments under final rules
Management information and statement regarding availability of additional information about fund directors.	Form N–1A Item 27(b)(5) and (6)	Remove from shareholder reports, but identical information will remain available in a fund's SAI, which is available online or delivered upon request.
Statement regarding liquidity risk management program.	Form N–1A Item 27(d)(6)(ii)	Remove from shareholder reports, but information relevant to funds' liquidity risk and risk management will remain available on Form N–PORT, on Form N–CEN, and in funds' prospectuses.

As proposed, we are removing the information about a fund's directors and officers that currently appears in funds' annual reports (the ''management information table'') without requiring this disclosure to be filed on Form N–CSR. Currently, a fund is required to include the management information table both in the annual report and in the fund's SAI.[459] The Commission received one comment supporting the proposed removal of the management information table from the shareholder report, so long as the information remains disclosed in the fund's SAI, and no comments opposing the removal.[460] Several commenters, however, suggested that funds be required to provide different information about a fund's directors, including a statement on the role of the board, as well as information on board compensation, diversity, and board members' investments in the fund.[461]

We continue to believe that shareholders should have access to information regarding fund directors but

the materials is directly accessible through the link from the time that the email is sent through the date that is six months after the date that the email is sent and the email explains both how long the link will remain useable and that, if the recipient desires to retain a copy of the materials, the recipient should access and save the materials.

[453] *See* Proposing Release, *supra* note 8, at n.476; *see also, e.g.,* ICI Comment Letter; Vanguard Comment Letter; Fidelity Comment Letter; Dechert Comment Letter (each discussing investor preferences for electronic delivery.)

[454] ICI Comment Letter.

[455] *See, e.g.,* rule 498(f)(1) (parallel delivery upon request requirements for funds and intermediaries relying on rule 498); *see also* Instruction 3 to Item 1 of amended Form N–1A (requiring the SAI and shareholder reports to be sent within three business days of receipt of a request).

[456] ICI Comment Letter.

[457] *See* Item 1 of amended Form N–1A.

[458] *See* Instruction 2 to Item 1 of amended Form N–1A.

[459] *See* Item 27(b)(5) of current Form N–1A. For each director and officer, a fund must disclose: (1) name, address, and age; (2) position(s) held with the fund; (3) term of office and length of time served with the fund; (4) principal occupation(s) during the past five years; (5) number of portfolios in the fund complex overseen by the director; and (6) other directorships held by the director. *See* Item 17(a)(1) of current and amended Form N–1A (requiring the inclusion of the management information table in the fund's SAI).

[460] *See* ICI Comment Letter.

[461] Morningstar Comment Letter; Morningstar Trustees Comment Letter; Mutual Fund Directors Forum Comment Letter; Independent Directors Council Comment Letter (suggested allowing, but not requiring, this disclosure).

that it is unnecessary to include this disclosure in multiple regulatory documents. We also do not believe that including the management information table in the shareholder report is necessary for retail investors to understand a fund's performance and operations over the past reporting period. This disclosure—as well as the additional information about the board that some commenters requested—pertains less directly to retail shareholders' understanding of the operations and performance of the fund and does not lend itself to the type of focused disclosure that the annual report is designed to include. We therefore are not adopting requirements to include the additional information about funds' directors.

While the proposal would have required a fund to include a concise statement regarding its liquidity risk management program (''LRMP'') in the shareholder report, the final rules do not include this requirement.[462] The final rules also remove the currently-required statement regarding the operation and effectiveness of a fund's LRMP from the shareholder report. We are not requiring any of the shareholder report's currently-required LRMP narrative disclosure to appear elsewhere. We believe that other aspects of our disclosure and reporting rules require more specific information about funds' liquidity risk and risk management to be provided to the public and reported to the Commission and staff, and the currently-required narrative disclosure in practice does not augment these other requirements meaningfully.[463]

In the proposal, the Commission discussed the reforms that it has adopted over the past decade that are designed to promote effective liquidity risk management across the open-end fund industry and enhance disclosure regarding fund liquidity and redemption practices.[464] Based on a review of disclosures that funds are including in their shareholder reports as a result of these reforms, the Commission proposed modifications to the current disclosure requirements to emphasize that the disclosure must be tailored to each fund and be concise.[465]

Commenters generally opposed including a discussion of fund LRMPs in the shareholder report. Specifically, several individual shareholders opposed the inclusion of the LRMP disclosure in the shareholder report, as did many of the investors who responded to the Investor Feedback Flier, indicating that LRMP disclosure was not useful to them.[466]

Similarly, industry commenters generally opposed including this disclosure in the shareholder report, suggesting different alternatives to the proposed approached. Several commenters suggested that LRMP disclosure should be moved in its entirety to Form N–CSR for all funds.[467] Some commenters suggested that, as an alternative to *all* funds moving this disclosure to Form N–CSR, funds that meet the ''highly liquid fund'' and ''In-Kind ETF'' definitions in rule 22e–4 under the Investment Company Act should have to file this disclosure on Form N–CSR, and all other funds should retain this disclosure in the shareholder report.[468] Some commenters also stated that the proposed instructions that would modify the current LRMP disclosure requirements are complicated and likely to produce boilerplate language, particularly for highly liquid funds.[469]

The Commission has recognized, in considering disclosure related to funds' liquidity risks and risk management, that receiving relevant information about the operations of a fund and its principal investments is important to investors in choosing appropriate funds for their risk tolerances.[470] Historically, the Commission has modified the information funds are required to disclose and report about their liquidity risk and risk management to address developments in the market, funds' practices, and the Commission's evolving understanding about how to best convey salient and useful information to investors.[471] In the proposed amendments to funds' current LRMP disclosure, the Commission expressed that it preliminarily believed the disclosure in its current form is not well-suited to a concise shareholder report. We continue to believe this. After considering commenters' concerns, however, we are not adopting the proposed approach. The proposed approach, even if it would better tailor the disclosure currently appearing in funds' shareholder reports, may not result in disclosure that pertains directly to a retail shareholder's understanding of the operations and performance of the fund, and also may not result in the type of focused disclosure that the new shareholder report is designed to include. We highlight that funds will still be required to discuss in their MDFP the key factors that materially affects a fund's performance during the reporting period, including the relevant market conditions and the investment strategies and techniques used by the fund's investment adviser.[472]

We believe that helping shareholders to better understand how the fund is managing its liquidity risks, which in turn could inform the shareholders' ability to monitor their investments in the fund, merits further consideration.

E. Transmission of Shareholder Reports

1. Amendments Narrowing Scope of Rule 30e–3

Subject to conditions, current rule 30e–3 generally permits investment companies to satisfy shareholder report transmission requirements by making these reports and other materials available online and providing a notice of that availability instead of directly mailing the report to shareholders.[473]

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[462] *See* Proposing Release, *supra* footnote 8, at text accompanying n.304 (proposing to replace the currently required LRMP disclosure with a brief summary of: (1) key factors or market events that materially affected the fund's liquidity risk during the reporting period; (2) key features of the fund's LRMP; and (3) effectiveness of the fund's liquidity risk management program over the past year).

[463] *See, e.g.,* Items B.7, B.8, C.7 of Form N–PORT; Item C.20 of Form N–CEN; Items 11(c)(7)–(8) of current and amended Form N–1A; *see also* Investment Company Liquidity Disclosure, Investment Company Act Release No. 33142 (June 28, 2018) [83 FR 31859 (July 10, 2018)] (''2018 Liquidity Reporting Adopting Release'') at n.59 and accompanying text (clarifying how funds should discuss liquidity events that materially affected performance in the MDFP section of the annual report).

[464] *See* Proposing Release, *supra* footnote 8, at text accompanying nn.300–302.

[465] *See id.* at nn.305–306 and accompanying text; *see also* Instruction 1 to Item 27A(i) of proposed Form N–1A.

[466] *See, e.g.,* Ubiquity Comment Letter; Williams Comment Letter; Tom and Mary Comment Letter. *See supra* footnote 47 and accompanying text.

[467] *See, e.g.,* Morningstar Trustees Comment Letter; ICI Comment Letter; SIFMA Comment Letter; Fidelity Comment Letter; Dechert Comment Letter; T. Rowe Price Comment Letter; *see also* Angel Comment Letter; Barker Comment Letter; Abdullah Comment Letter.

[468] *See, e.g.,* Morningstar Trustees Comment Letter; ICI Comment Letter; Vanguard Comment Letter; Sidley Austin Comment Letter; Federated Hermes Comment Letter; *see also* SIFMA Comment Letter and Barker Comment Letter (suggesting this disclosure should be included in the shareholder report only for funds that hold a certain percentage of investments that the fund classifies as ''less liquid'' under rule 22e–4).

[469] *See* ICI Comment Letter; Capital Group Comment Letter; Vanguard Comment Letter; T. Rowe Price Comment Letter. *But see* SIFMA Comment Letter (arguing that the LRMP disclosure should not be customized to individual funds in all cases because liquidity risk is managed at the complex level).

[470] *See* Investment Company Liquidity Risk Management Programs, Investment Company Act Release No. 32315 (Oct. 13, 2016) [81 FR 82142 (Nov. 18, 2016)] (''2016 Liquidity Adopting Release''), at text preceding n.893.

[471] *See* 2018 Liquidity Reporting Adopting Release, *supra* footnote 463.

[472] *See* Instruction 1 to Item 27A(d)(1) of amended Form N–1A.

[473] Rule 30e–3 Adopting Release, *supra* footnote 20.

We are amending the scope of rule 30e–3 to exclude investment companies registered on Form N–1A, which will be transmitting tailored annual and semi-annual reports to shareholders. We received many comments both supporting and opposing the proposed amendments to rule 30e–3. After considering these comments, we are adopting these amendments largely as proposed. We are adopting technical changes to the proposed amendments to clarify that the scope of rule 30e–3 is narrowed with respect to the shareholder reports of *all* funds registered on Form N–1A, including those funds that serve as underlying funds of insurance company separate accounts.

The Commission received several comments supporting the proposed amendments to 30e–3.[474] One commenter specifically stated that the proposed new concise shareholder report ''offers a more-effective means of improving investors' ability to access and use fund information than continuing to permit open-end funds to rely on rule 30e–3, while also delivering significant cost savings over requiring delivery of 100+ page shareholder reports.'' [475] One commenter stated that the justification for rule 30e–3 is no longer warranted given that under the proposed new framework, the number of pages for a shareholder report would be reduced from hundreds of pages to a few pages.[476] This commenter stated that, under these changed circumstances, a return to the default of mail-based paper delivery of shareholder reports themselves is the best way to ensure that fund investors benefit from the new tailored disclosure framework.

However, the Commission also received many comments opposing the proposal, advocating for open-end funds to continue to be permitted to rely on rule 30e–3. Commenters stated that funds already have incurred the costs of complying with rule 30e–3, but because they could only rely on the rule starting in 2021, they have not fully realized the perceived benefits of the rule.[477] They stated that funds would be required to undo the processes that they have undergone to convert their current shareholder report transmission practices, which commenters noted were costly.[478] Specifically, some commenters stated that funds would need to re-implement legacy shareholder report transmission processes that were discontinued when they initially adjusted these processes in preparing to rely on rule 30e–3.[479]

Commenters also expressed concern that investors may be confused by the change to the transmission method of their shareholder reports as a result of our rule amendments because investors have been receiving notices identifying the upcoming transmission changes that went into effect in January 2021.[480] One commenter stated that the fund manager, as the investor's fiduciary, should be able to determine the most effective manner to distribute fund disclosure documents, while evaluating investor preference, costs, alternative transmission options, and other factors.[481] Commenters argued that investors have already received notification from funds that their shareholder reports will be available to access online, unless they request direct delivery, and the proposed amendments therefore would result in a change in transmission method for a number of investors' shareholder reports.[482]

Some commenters stated that the proposed amendments to 30e–3 may halt fund innovation to improve the effectiveness of electronic fund disclosure efforts.[483] Because funds will no longer be able to satisfy shareholder report transmission requirements by making these reports available online, these commenters stated that funds will no longer have an incentive to innovate the manner in which they present fund information online. For example, one commenter stated that electronic delivery incentivized funds to provide hyperlinked disclosures and interactive graphs, calculators and other materials that permit individual investors to understand fund performance.[484]

Finally, commenters expressed the view that the proposed amendments to rule 30e–3 would be contrary to investors' expressed preferences for electronic delivery.[485] Several fund commenters stated that investors have demonstrated a behavioral preference for digital engagement, noting that these funds have observed that most retail investors prefer to engage on fund-related issues through the fund's digital platform.[486] These commenters believe that the preference for digital engagement is best supported by the electronic delivery of fund documents, including rule 30e–3's notice and website access approach for delivering shareholder reports. The Commission received several comments indicating that the vast majority of fund investors have not indicated a preference for receiving paper copies of fund documents following the adoption of rule 30e–3.[487] One commenter discussed a survey this commenter conducted, finding that only ½ of one percent of direct-at-fund accounts requested paper shareholder reports in response to fund requests related to complying with rule 30e–3.[488] Another commenter likewise noted that less than 0.5% of investors have contacted the commenter to request the receipt of printed documents under rule 30e–3.[489] Similarly, another commenter stated that it has received requests for delivery of paper fund documents from 0.1% of shareholders who directly own shares in the fund.[490]

After considering commenters' input, we are adopting the amendments to rule 30e–3 substantially as proposed, with certain technical changes. As noted in the proposal, the new approach to funds' shareholder reports reflects the Commission's continuing efforts to search for better ways of providing investors with the disclosure that they

[474] *See, e.g.,* CFA Institute Comment Letter; Consumer Federation of America II Comment Letter; Better Markets Comment Letter; Barker Comment Letter.

[475] *See* Consumer Federation of America II Comment Letter.

[476] *See* CFA Institute Comment Letter.

[477] *See, e.g.,* Stradley Ronan Comment Letter; Dechert Comment Letter; TIAA Comment Letter; Vanguard Comment Letter; SIFMA Comment Letter.

[478] *See, e.g.,* Vanguard Comment Letter; ICI Comment Letter; John Hancock Comment Letter.

[479] *See, e.g.,* Federated Hermes Comment Letter; Vanguard Comment Letter; Mutual Fund Directors Forum Comment Letter; SIFMA Comment Letter.

[480] *See, e.g.,* Vanguard Comment Letter; ICI Comment Letter; Independent Directors Council Comment Letter; John Hancock Comment Letter.

[481] *See* ICI Comment Letter.

[482] *See, e.g.,* John Hancock Comment Letter; Federated Hermes Comment Letter; Vanguard Comment Letter; ICI Comment Letter.

[483] *See, e.g.,* Mutual Fund Directors Forum Comment Letter; SIFMA Comment Letter; TIAA Comment Letter.

[484] *See* Mutual Fund Directors Forum Comment Letter.

[485] *See, e.g.,* Center for Capital Markets Competiveness Comment Letter; Dechert Comment Letter; Comment Letter of State Street Global Advisors (Jan. 4, 2021) (''State Street Comment Letter''); Capital Group Comment Letter; ICI Comment Letter; Vanguard Comment Letter.

[486] *See, e.g.,* Vanguard Comment Letter; T. Rowe Price Comment Letter.

[487] *See, e.g.,* ICI Comment Letter; Vanguard Comment Letter.

[488] *See* ICI Comment Letter. These ICI survey respondents manage approximately $18 trillion of mutual fund assets, representing approximately 85 percent of industry mutual fund assets at the end of June 2020. *See* Letter to Dalia Blass, Director, Division of Investment Management, U.S. Securities and Exchange Commission from the Investment Company Institute, (Sept. 10, 2020), *available at https://www.sec.gov/comments/265-33/26533-7964920-224992.pdf.*

[489] *See* Vanguard Comment Letter; *see also* Capital Group Comment Letter (''From our perspective, it is telling that following the adoption of Rule 30e–3, only 0.40% of all of our funds' shareholders opted in to receiving paper copies, signaling strong investor support for accessing information online.'').

[490] *See* T. Rowe Price Comment Letter.

need. Rather than allowing fund managers to determine the transmission method for shareholder reports, the final rule ensures that all investors will receive the anticipated benefits of streamlined shareholder reports. We continue to believe that the new disclosure approach for shareholder reports represents a more-effective means of improving investors' ability to access and use fund information, and of preserving much of the expected cost savings to funds and investors that funds would experience by choosing to rely on rule 30e–3. Moreover, that investors will also receive annual prospectus updates under the final rules because we are not taking final action on proposed rule 498B does not diminish the centrality of fund shareholder reports. Providing information in shareholder reports directly to shareholders—as opposed to providing a notice of these reports' availability—will best effectuate the goals of the streamlined shareholder report.

We acknowledge, as commenters discussed, that many funds have already come into compliance with rule 30e–3 and have borne the costs associated with that rule. We also understand, as commenters stated, that investors may not be expecting to receive their shareholder reports in their mailbox in light of receiving notices of the upcoming transmission changes.[491] We continue to believe, however, that investors will benefit from receiving streamlined information delivered directly to them, rather than receiving that information indirectly via a rule 30e–3 notice with no substantive content and a hyperlink to the streamlined disclosure itself. Instead of receiving a one-page notice describing how investors may access their shareholder reports online, investors will now receive a streamlined shareholder report that may fit on a trifold self-mailer that is delivered directly to them. Fundamentally, under both rule 30e–3 and these final rules (to the extent an investor does not elect electronic delivery), a fund would transmit to investors a short paper document in the mail that provides a link to more information online. But under the final rules, this short document will contain key information that investors can use to monitor their fund investments, unlike a rule 30e–3 notice, which contains no substantive content. Now that we are adopting streamlined shareholder reports—as opposed to the lengthy and less reader-friendly versions in place at the time the Commission adopted rule 30e–3—we believe investors will benefit from receiving these reports directly, rather than receiving them indirectly via a rule 30e–3 notice with a hyperlink.

The final rules' approach reflects our continued understanding based on commenter feedback on the proposal, responses to the fund Investor Experience RFC, investor testing and surveys as discussed in section I.A.3 above, and other disclosure reform initiatives that shareholders strongly prefer layered disclosure, with summary information provided to them directly and more detailed information available elsewhere.[492] In assessing investor preferences, we understand—as commenters discussed—that few investors opted into continuing to receive the current, lengthy fund shareholder reports in paper after receiving 30e–3 notices. We do not, however, believe that this can be taken as evidence that investors would prefer to receive a rule 30e–3 notice instead of the new streamlined shareholder report, given the relative salience of the new reports versus the current reports, and the positive feedback the Commission has received about the proposed reports and the disclosure principles underlying these reports.[493]

As discussed above, many commenters supported a regulatory approach that would reflect investors' preferences around digital engagement with fund regulatory materials. We agree that the Commission should consider ways to streamline the information that is delivered in paper to fund investors and enhance fund information that is presented electronically. The new streamlined shareholder report shifts many of the lengthier, more technical aspects of fund disclosure from the shareholder report that is delivered directly to investors to be filed on Form N–CSR and made available on a website. We also do not believe that the final rules' approach with respect to rule 30e–3 will reduce funds' incentives or ability to offer innovative online regulatory disclosure. Many investors will review shareholder reports online, whether by opting into e-delivery or via links provided in the streamlined shareholder reports. And our final rules also encourage funds to continue to innovate the electronic presentation of fund information. Outside the scope of these amendments, funds have incentives to present shareholder reports on their websites—for example, because including more interactive, dynamic fund disclosure may be popular with investors and therefore could produce reputational benefits—which may also serve as a motivation for innovation.

Along with comments about the proposed narrowing of the scope of rule 30e–3, the Commission also received several comments requesting clarification regarding how the proposed amendments to rule 30e–3 would affect the shareholder report transmission requirements for variable contract separate accounts that are registered as UITs.[494] Rule 30e–2 requires these UITs to transmit the shareholder reports of the funds that serve as these contracts' underlying investments—which are registered on Form N–1A—to the UITs' investors.[495] These UITs currently may rely on rule 30e–3 to satisfy their shareholder report transmission requirements under rule 30e–2.[496]

Under the rules we are adopting and as was proposed, no shareholder report transmission requirements for funds that are registered on Form N–1A may be satisfied by relying on rule 30e–3.[497] We understand that the underlying funds of variable contract UITs are solely funds that are registered on Form N–1A. Therefore, in effect, variable contract UITs may no longer rely on rule 30e–3 to satisfy their shareholder report transmission requirements with respect to underlying funds registered on Form N–1A.[498]

[491] Funds will not be required to notify investors of the change in transmission method prior to the compliance date of the amendments to rule 30e–3, but are permitted to at the fund's discretion. Such a notice could, for example, be included along with a fund's shareholder report, provided that it meets the prominence requirements for materials that accompany the report. *See* Instruction 12 to Item 27A(a) of amended Form N–1A.

[492] *See* Fund Investor Experience RFC and comments received in response to the RFC, *supra* footnote 40; *see also* Consumer Federation of America I Comment Letter; Proposing Release, *supra* footnote 8, at section II.G; *supra* section I.A.2 (discussing the developments supporting layered disclosure approach to fund shareholder reports).

[493] Investor inertia also may make it less likely for investors to elect a change affirmatively with respect to the regulatory disclosure they receive. *See infra* footnote 504 (discussing that investor inertia makes it less likely for investors affirmatively to elect to change the default method of delivery of fund materials).

[494] *See, e.g.,* Comment Letter of the Committee of Annuity Insurers (Dec. 22, 2020) (''CAI Comment Letter''); ICI Comment Letter; Comment Letter of the Insured Retirement Institute (Jan. 4, 2021) (''IRI Comment Letter''); Stradley Ronon Comment Letter.

[495] *See* rule 30e–2.

[496] Current rule 30e–3(a).

[497] *See* amended rule 30e–3(h)(2) (defining ''fund'' as ''a management company registered on Form N–2 . . . or Form N–3 . . . and any separate series of the management company'').

[498] *See, e.g.,* Proposing Release, *supra* footnote 8, at section IV.I (Paperwork Reduction Act analysis for the proposed amendments to rule 30e–3, where the Commission's estimates of the burden of the

Continued

The commenters who requested clarification on this aspect of the proposal noted that the proposed rule text did not explicitly carve out variable contract separate account UITs from rule 30e–3, because the proposed amendments retained references to a fund being able to rely on rule 30e–3 to satisfy shareholder report transmission requirements under rule 30e–2.[499] The proposed amendments effectively would not permit UITs to satisfy shareholder report transmission obligations under rule 30e–2, however, because the amendments would exclude all Form N–1A-registered funds, including those that serve as variable contracts' underlying investments, from the scope of rule 30e–3. To clarify the scope of the amendments to rule 30e–3 and more clearly effectuate the Commission's regulatory intent as reflected in the proposed amendments, the amendments to rule 30e–3 that we are adopting remove current references to shareholder report transmission requirements under rule 30e–2.

2. Alternative Transmission Methods for Shareholder Reports and Other Regulatory Materials

Related to the comments on the proposed amendments to rule 30e–3, the Commission also received comments suggesting alternative methods of transmitting shareholder reports. Many of these comments were framed in terms of modernizing the Commission's guidance that governs electronic delivery.[500]

Some commenters suggested an ''access equals delivery'' framework.[501] Under this alternative, shareholder reports would be deemed to be delivered if they were made available online without the notice that rule 30e–3 currently requires. For example, one commenter stated that the Commission should reevaluate shareholder report disclosure and transmission requirements by first amending the format and substance of shareholder reports, and then adopting an ''access equals delivery'' standard for all fund disclosure documents.[502] Several commenters similarly suggested that the Commission permit funds to satisfy their transmission obligations, for both shareholder reports and prospectus updates, by filing them with the Commission, posting them on a website, and delivering them upon request to shareholders.[503] Commenters stated that investors have expressed a preference for accessing fund disclosures electronically, however there is inertia around shareholders affirmatively opting-in to electronic delivery.[504]

Rather than adopting an ''access equals delivery'' approach as discussed by commenters above, one commenter urged the Commission to reevaluate electronic delivery of fund documents, but to take up this issue in a separate rulemaking that takes a comprehensive review of the potential for electronic delivery.[505] This commenter asserted that investor engagement is not necessarily supported by switching the delivery of fund documents from paper to electronic, but instead encouraged the Commission to examine how to leverage electronic resources to enhance investor engagement as well as investor understanding of fund disclosures.

These commenters raise important considerations for any future initiative on the delivery of fund regulatory materials, and the Commission and staff are continuing to consider these issues. Rescinding rule 30e–3 in its entirety or reconsidering the Commission's electronic delivery regime for fund materials, however, merits further consideration.

3. Alternatives for Satisfying Transmission Requirements for Semi-Annual Reports

Funds will continue to be required to comply with the current requirements with regard to the frequency of transmitting shareholder reports, which are statutorily mandated to be transmitted on a semi-annual basis.[506] The Commission requested comment on alternative approaches to satisfy the statutory requirement to transmit semi-annual reports.[507] For example, the Commission stated that it considered proposing to allow funds to satisfy the semi-annual report transmission obligation by filing certain information on Form N–CSR and/or updating certain information on a website and requested comment on these approaches. We received feedback regarding these alternative approaches from commenters that both supported the current transmission requirements and those who preferred potential alternative approaches to satisfy these requirements.

Many commenters supported the alternatives that the Commission discussed in the Proposing Release.[508] Commenters also suggested different permutations of these alternatives, as well as ancillary requirements that could accompany these alternatives. For example, some commenters suggested that funds should have to include disclosure in the preceding annual report that the semi-annual report would be posted to a fund's website no later than a particular date and clarify that investors may obtain a paper copy of the report by contacting the fund.[509] Commenters cited a variety of reasons for favoring alternatives where semi-annual report transmission could be satisfied by Commission filing and/or website posting. For example, some commenters stated that the purpose of requiring direct transmission of the semi-annual report is not clear, opining that the content of the semi-annual report is duplicative of information that some funds already make available on fund websites, that the information funds choose to post online is more timely, and that monthly or quarterly fact sheets that are already made available online may be more useful.[510] Additionally, commenters cited cost savings for funds and investors as a basis for eliminating the direct transmission requirements for semi-annual reports.[511]

We also received comments supporting an approach that would continue to require the direct transmission of semi-annual reports to investors.[512] One commenter stated that there is no evidence that investors would see updated information posted on fund websites if it were no longer delivered to them.[513] Additionally, this

proposed amendments do not exclude investment companies registered on Form N–1A that serve as variable contracts' underlying investments).

[499] Current rule 30e–3(a) states that a company may satisfy its obligation to transmit a report required by rule 30e–1 or rule 30e–2 to a shareholder or record if all of the conditions set forth in paragraphs (b) through (e) of the rule are satisfied. The proposed rule amendments did not amend this provision of the current rule.

[500] *See, e.g.,* ICI Comment Letter; Dechert Comment Letter; Federated Hermes Comment Letter.

[501] *See, e.g.,* Dechert Comment Letter; Federated Hermes Comment Letter; ICI Comment Letter; *see also* discussion at *infra* footnotes 758–761 and accompanying text.

[502] *See* Federated Hermes Comment Letter.

[503] *See, e.g.,* ICI Comment Letter; T. Rowe Price Comment Letter; Charles Schwab Comment Letter; State Street Comment Letter; Capital Group Comment Letter.

[504] *See, e.g.,* T. Rowe Price Comment Letter; Charles Schwab Comment Letter; Capital Group Comment Letter.

[505] *See* CFA Institute Comment Letter.

[506] *See* section 30(e) of the Investment Company Act.

[507] *See* Proposing Release, *supra* footnote 8, at section II.C.3.b.

[508] *See, e.g.,* ICI Comment Letter; Dechert Comment Letter; Fidelity Comment Letter; Charles Schwab Comment Letter; Capital Group Comment Letter; T. Rowe Price Comment Letter.

[509] *See, e.g.,* ICI Comment Letter; T. Rowe Price Comment Letter.

[510] *See, e.g.,* Fidelity Comment Letter; Capital Group Comment Letter.

[511] *See, e.g.,* Capital Group Comment Letter; ICI Comment Letter; T. Rowe Price Comment Letter.

[512] *See, e.g.,* CFA Institute Comment Letter; DFIN Comment Letter.

[513] *See* CFA Institute Comment Letter.

commenter cited a study indicating that current shareholders prefer a twice-yearly delivery approach for shareholder reports.[514] Another commenter stated that elimination of the tailored shareholder report for semi-annual reports would reduce investor disclosure delivery and therefore reduce overall investor engagement and restrict information.[515]

After considering comments received, we are not adopting any of the alternative transmission requirements discussed in the proposal or suggested by commenters for semi-annual reports. Requiring investors to access a website to ''pull'' regulatory disclosures for their investments would place the burden on investors to seek out information without providing them any contemporaneous notification that updated disclosures are electronically available. The burden of accessing the semi-annual report would remain with the investor if notification of the date of the website publication of the semi-annual report is only included in the annual report. The timeliness of the ''push'' of information to the investor on a semi-annual basis is an important element of our current disclosure framework. The information that will be included in the semi-annual report has been streamlined to only include the information that we believe will be most useful and salient to investors in assessing and monitoring their fund investments. Thus, with respect to a transmission process that requires investors ''pull'' regulatory documents, the final rules do not incorporate any of the alternative approaches to semi-annual report transmission that commenters discussed.

F. Prospectuses and SAIs Transmitted Under Rule 30e–1(d)

We are adopting, as proposed, amendments that would rescind rule 30e–1(d). This rule provision permits a fund to transmit a copy of its prospectus or SAI in place of its shareholder report, if either or both of the prospectus or SAI includes all of the information that would otherwise be required to be contained in the shareholder report. We continue to believe that the consolidation of a fund's prospectus, SAI, and shareholder report disclosures into a single document is inconsistent with the layered disclosure framework we are adopting today, and we also understand that funds rarely rely on this rule provision in practice.[516] The Commission did not receive any comments directly addressing this aspect of the proposal.

G. Investment Company Advertising Rule Amendments

We are adopting amendments to the Commission's investment company advertising rules designed to promote transparent and balanced presentations of fees and expenses in investment company advertisements.[517] These amendments will apply to all investment companies that are subject to the Commission's advertising rules, including mutual funds, ETFs, registered closed-end funds, and BDCs.[518] We are adopting the amendments addressing investment company fee and expense presentations in advertisements largely as proposed.[519]

1. Requirements for Standardized Fee and Expense Figures

To promote more consistent and transparent presentations of investment costs in investment company advertisements, we are adopting amendments to rules 482, 433, and 34b–1 to require that investment company advertisements providing fee or expense figures for the investment company include certain standardized fee and expense figures, and that these figures must adhere to certain prominence and timeliness requirements.[520]

a. Inclusion of Required Fee and Expense Figures

The final amendments to rule 482 will require that investment company advertisements providing fee and expense figures include: (1) the maximum amount of any sales load, or any other nonrecurring fee; and (2) the total annual expenses without any fee waiver or expense reimbursement arrangement (collectively, the ''required fee and expense figures'') based on the methods of computation for a prospectus that the fund's Investment Company Act or Securities Act registration statement form prescribes for those figures.[521]

Because we believe these are important figures for assessing the fees and expenses of fund investments, any advertisement presenting fee and expenses figures must include these items. These requirements, however, would apply only to investment company advertisements that include fee and expense *figures,* and therefore an advertisement would not need to include the required fee and expense figures if it only included general, narrative information about fee and expense considerations and did not include any numerical fee or expense amounts.[522] Similarly, if an investment company does not present total annual expense figures in its prospectus, the final amendments addressing the required fee and expense figures would be inapplicable. For example, the registration statement forms for variable insurance contract separate accounts do not require that total annual expense

[514] *See supra* footnote 48 and accompanying text (discussing survey conducted by Broadridge); CFA Institute Comment Letter (discussing Broadridge survey). Asked about current shareholder reports, for example, more than 80% of survey respondents said the current twice-yearly delivery is ''about right.'' Specifically, 44% said they would prefer to receive the concise shareholder reports twice a year, 42% said they would like to receive them quarterly, and only 13% said they would like to receive them just once a year.

[515] *See* DFIN Comment Letter.

[516] *See* Proposing Release, *supra* footnote 8, at section II.H.3.

[517] For purposes of this release, we generally refer to the types of investment company communications covered by amended rules 482, 156, 433, and 34b–1 as ''advertisements,'' unless otherwise noted. The Commission's recently adopted rule amendments relating to investment adviser advertisements did not address investment company advertising rules. *See* Investment Adviser Marketing, Investment Advisers Act Release No. 5653 (Dec. 22, 2020) [86 FR 13024 (Mar. 5, 2021)] (''IA Marketing Release'').

[518] As a result, for purposes of this section II.G, the term ''fund'' is not limited to mutual funds and ETFs registered on Form N–1A. Instead, we use this term more broadly in this section to refer to any investment company that is subject to the Commission's investment company advertising rules, including registered closed-end funds and BDCs.

[519] We are not adopting the proposed modifications to the disclosure legend that accompanies certain investment companies' advertisements of performance data. The proposal would have required the legend to state that past performance is ''not a good predictor'' of future results instead of, as is currently required, stating that past performance ''does not guarantee'' future results. *See* proposed rule 482(b)(3)(i) under the Securities Act [17 CFR 230.482(b)(3)(i)]. While no commenters specifically addressed this part of the proposal, we believe further consideration on amending this required legend in the context of performance disclosure in fund advertisements is merited, and we are not adopting this aspect of the proposed amendments to rule 482 at this time.

[520] *See* amended rule 482(i)(1) under the Securities Act [17 CFR 230.482(i)(1)]; *see also* amended rule 433 under the Securities Act [17 CFR 230.433(c)(3)] and amended rule 34b–1 under the Investment Company Act [17 CFR 270.34b–1(c)(1)].

[521] In an expense reimbursement arrangement, the adviser reimburses the fund for expenses incurred. In a fee waiver arrangement, the adviser agrees to waive a portion of its fee in order to limit fund expenses.

[522] Similar to associated prospectus requirements, if an advertisement covers only a subset of a fund's share classes, the advertisement could provide the required fee and expense information for those classes only. *See, e.g.,* Instruction 1(e) to Item 3 of current and amended Form N–1A. An advertisement might, for example, only refer to the fund's fees and expenses in the context of the disclosure required by amended rule 482(b)(1), which requires a statement advising an investor to consider the investment objectives, risks, and charges and expenses of the fund carefully before investing. Further, amended rule 482(i) would not apply to advertisements that provide the disclosure required by current rule 482(b)(3)(ii), but otherwise contain no other fee or expense figures.

figures be presented, and therefore, we understand that total annual expense figures are not presented in variable insurance contract prospectuses.[523]

We designed the requirements for standardized fee and expense figures to promote consistent fee and expense computations across investment company advertisements, particularly within the same fund category, and to facilitate investor comparisons. We are requiring consistency with prospectus requirements because, like a fund's summary or statutory prospectus, advertisements are often designed for prospective investors and may influence an investment decision.

The final amendments we are adopting to rules 34b–1 and 433 incorporate rule 482's requirements for required fee and expense figures.[524] These amendments will help ensure that the same fee and expense-related requirements are applied consistently across registered investment company and BDC advertisements and sales literature.[525] As a result, regardless of whether an advertisement is in the form of a rule 482 advertisement or rule 34b–1 supplemental sales literature, or whether a registered closed-end fund or BDC advertisement uses rule 482 or rule 433 for a free writing prospectus, the advertisement would be subject to the same requirements regarding fee and expense information.[526]

The comments that the Commission received about the proposed investment company advertising rule amendments were mixed. Some commenters provided some general reactions supporting the proposed advertising rule amendments, and others expressed concerns about the proposed rules' scope. Commenters also addressed the interaction between the proposed amendments and current FINRA requirements regarding communications with the public, as those requirements address fee and expense information in certain investment company advertisements.

Comments Expressing General Support for Proposed Inclusion of Required Fee and Expense Figures

Several commenters stated that the proposed investment company advertising rule amendments should help investors make more informed investment decisions by more easily comparing costs among various funds.[527] Certain commenters also supported the application of those proposed amendments to all types of registered investment companies and BDCs.[528]

Comments Addressing FINRA's Communications Rules

Some commenters expressed broad-based concerns about the scope of the proposed amendments. While these commenters shared the investor protection concerns that underlie the proposed advertising rule amendments, they supported narrowing of the scope of the proposed amendments, and also questioned the need for the proposed amendments in light of FINRA's current requirements that address communications with the public.[529]

Some commenters discussed the similarities between the requirements for standardized fee and expense figures in the proposed amendments and the requirements that FINRA rule 2210(d)(5) imposes on fee and expense presentations in retail communications and correspondence that present non-money market fund performance data.[530] Specifically, those commenters discussed that, like the FINRA rule, the Commission's proposed rules would require a fund whose advertisements include fee and expense figures to include in such advertisements: (1) the fund's maximum sales charge; and (2) the total annual fund operating expense ratio, gross of any fee waivers or expense reimbursements (*i.e.,* ongoing annual fees).[531] Those commenters, nevertheless, recognized that there were key differences in scope between the proposed amendments to the investment company advertising rules and FINRA rule 2210(d)(5).[532]

Commenters observed that the Commission's proposed amendments would apply to all investment company advertisements that include fee and expense figures, while FINRA's rule applies only to retail communications and correspondence that present the performance of non-money market funds.[533] These commenters maintained that the proposed advertising amendments' reach to institutional investors was neither necessary nor warranted. One commenter stated that after ''careful consideration and rulemaking,'' FINRA developed its rules governing communications with the public by creating differing standards for retail and institutional communications.[534] Another commenter asserted that FINRA has the more appropriate rule structure to govern investment company advertising, and also argued that FINRA rule 2210(d)(5) provides greater flexibility for communications aimed at institutions by distinguishing between sophisticated institutional investors and retail investors who require greater protection.[535] A commenter also observed that FINRA rule 2210(d)(5) has been in effect for many years and that the vast majority of advertisements concerning fee information are filed with and reviewed by FINRA staff.[536]

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[523] *See, e.g.,* CAI Comment Letter; IRI Comment Letter; Comment Letter of Anonymous (Oct. 27, 2020) (''Anonymous Comment Letter'').

[524] *See* amended rule 34b–1(c). The amendments to rule 34b–1 will apply to any registered investment company or BDC advertisement, pamphlet, circular, form letter, or other sales literature addressed to or intended for distribution to prospective investors in connection with a public offering (collectively, ''sales literature'') that includes fee and expense figures (and where the investment company presents total annual expense figures in its prospectus). The current provisions of rule 34b–1, which largely relate to performance information, will continue to apply only to sales literature that is required to be filed with the Commission by section 24(b) of the Investment Company Act. *See also* amended rule 433(c)(3).

[525] The amendments to rule 34b–1 apply, for example, to sales literature that is excluded from the definition of ''prospectus'' in section 2(a)(10) of the Securities Act and thus is not subject to rule 482. *See also supra* section I.A.4 (discussing the scope of communications that amended rules 482, 34b–1, and 433 address).

[526] *See* Proposing Release, *supra* footnote 8, at paragraphs accompanying nn.679–681.

[527] *See* Better Markets Comment Letter; Consumer Federation of America II Comment Letter; John Hancock Comment Letter.

[528] *See* Consumer Federation of America II Comment Letter; John Hancock Comment Letter.

[529] *See supra* footnote 60 and accompanying text; *see also, e.g.,* Fidelity Comment Letter; ICI Comment Letter.

[530] *See* Fidelity Comment Letter and ICI Comment Letter; *see also supra* paragraph accompanying footnotes 59–60.

[531] FINRA rule 2210(d)(5). This provision only applies to retail communications and correspondence that present non-money market fund open-end management investment company performance data as permitted by rule 482 and rule 34b–1.

[532] *See* ICI Comment Letter.

[533] *See* Fidelity Comment Letter; ICI Comment Letter.

[534] Fidelity Comment Letter; FINRA Rule 2210(a)(3) defines an institutional communication as any written (including electronic) communication that is distributed or made available only to institutional investors, but does not include a member's internal communications. FINRA Rule 2210(a)(5) defines a retail communication as a written communication (including electronic) that is distributed or made available to more than 25 retail investors within any 30-day calendar period. FINRA Rule 2210(a)(2) defines correspondence as any written (including electronic) communication that is distributed or made available to 25 or fewer retail investors within any 30 calendar-day period.

[535] *See* ICI Comment Letter; *see also* Fidelity Comment Letter.

[536] Fidelity Comment Letter; *see* rule 24b–3 under the Investment Company Act [17 CFR 270.24b–3] (deeming, in part, any advertisement or other sales literature intended for distribution to prospectus investors to be filed with the Commission for purposes of section 24(b) of the Investment Company Act [15 U.S.C. 80a–24(b)] upon filing with a national securities association that has rule providing standards for the investment company advertising practices of its members and has established and implemented procedures to review that advertising).

The commenter suggested that, if FINRA and the Commission agree such an approach would be appropriate, FINRA could expand coverage of its communications rules in more tailored ways that would recognize the ''fundamental'' differences between retail communications and institutional communications.[537]

Apart from the suggestion to narrow the scope of the proposed amendments to exclude institutional investors, commenters more fundamentally questioned the need for the proposed amendments. One commenter recommended that the Commission not adopt the proposed advertising rules because ''the robust SEC advertising rules and FINRA rule 2210 more than suffice to inform investors of the fees and costs of investing.'' [538]

After considering these comments, we are adopting the amendments as proposed. We agree FINRA has an important investor protection role that it accomplishes, in part, through its review and regulation of certain communications of its member broker-dealers.[539] For example, FINRA rule 2210(d)(5) references the Commission's investment company advertising rules, and the Commission's investment company advertising rules recognize FINRA's review of investment company advertisements.[540] Nonetheless, FINRA rule 2210(d)(5)'s requirements apply only to the disclosure of fees and expenses in retail communications and correspondence that present performance data of open-end funds that are not money market funds. By contrast, our advertising rule amendments will address the disclosure of fees and expenses in the advertisements not only for open-end funds that include fee and expense figures, but also for closed-end funds and BDCs that include these figures.[541]

Further, the Commission's investment company advertising rules are based, in part, on the Commission's broad investor protection statutory mandate to help ensure that an investor's evaluation of fund shares is based on adequate and accurate information that is fairly presented.[542] That statutory mandate applies to all investors regardless of the investor's level of investment sophistication, regardless of the distribution channel (*e.g.,* a broker-dealer does not have to be involved in the communication), and regardless of the type of registered investment company or BDC in which the investor invested. For example, our current investment company advertising rules' requirements with respect to performance disclosure do not distinguish between retail and institutional investors, and it would be inconsistent with our current approach to build in such a distinction with regard to the presentation of fees and expenses in investment company advertisements. Consistent with our statutory mandate, therefore, the amendments to our advertising rules generally apply to any registered investment company or BDC advertisement that presents fee and expense figures. This enhanced standardization of fee and expense presentations that will be promoted by the advertising amendments may assist investors and other market participants in comparing investment products, as the fees and expense presentation requirements will not vary among the type of registered investment company or BDC advertisement. In addition, the enhanced standardization may assist institutional investors, including institutional investors representing 401(k) retirement plans, with their understanding of the fees and charges assessed by the funds in which their plans may invest.

Furthermore, we disagree that our amendments are not necessary or warranted, in light of existing FINRA rules. As discussed above, the scope of the Commission's investment company advertising rules is broader than FINRA rule 2210(d)(5), and the Commission's rules would apply to issuer communications regardless of whether a broker-dealer is involved in the communication. In addition, the advertising rule amendments are not inconsistent with FINRA's rules. Under FINRA rules, all member communications—whether correspondence, retail communications, or institutional communications, and whether they apply to registered investment companies or BDCs—must be fair and balanced and not misleading.[543] FINRA has similarly published regulatory notices that provide guidance on fee-related discussion in communications with the public that may mislead investors.[544] Both the Commission's investment company advertising rules, which address consistency and clarity in investment company advertisements' fee and expense presentations, and FINRA's communication rules, further the goal of preventing misleading investment company fee and expense presentations by promoting transparent presentations of investment costs in investment company advertisements.[545]

b. Requirements Addressing Prominence, Fee Waivers and Expense Reimbursements, and Timeliness in Standardized Fee and Expense Figures

The final amendments, like the proposed amendments, also incorporate prominence requirements for fee and expense figures that appear in investment company advertisements.[546] The final amendments will permit investment company advertisements to include other figures regarding a fund's fees and expenses in addition to the required fee and expense figures that the final rules prescribe. Those advertisements, however, will have to present the required fee and expense figures at least as prominently as any other included fee and expense figures. For example, under the final amendments, an advertisement could include a fund's fees and expenses net of certain amounts, such as a fee waiver or expense reimbursement arrangement, as we understand some fund advertisements do today. An advertisement, however, could not present the net figure more prominently

[537] Fidelity Comment Letter.

[538] ICI Comment Letter.

[539] *See, e.g.,* Fidelity Comment Letter and ICI Comment Letter.

[540] *See, e.g.,* FINRA rule 2210(d)(5); amended rule 482 under the Securities Act [17 CFR 230.482] and rule 24b–3 under the Investment Company Act [17 CFR 270.24b–3]; *see also, e.g.,* rule 497(i) under the Securities Act [17 CFR 230.497(i)] (providing, in part, that an investment company advertisement deemed to be a section 10(b) prospectus under rule 482 is considered to be filed with the Commission upon the filing of that advertisement with FINRA).

[541] *See supra* footnotes 522–523.

[542] 15 U.S.C. 80a–1–1(b)(1).

[543] *See, e.g.,* FINRA rule 2210(d)(1)(A); *see supra* footnote 60 (regarding the application of FINRA rule 2210 to BDCs).

[544] FINRA Regulatory Notice 13–23; NASD Notice to Members 06–48 (discussing, in part, the requirement that certain mutual fund performance sales materials disclose (1) the standardized performance mandated by SEC rules and (2) to the extent applicable, the maximum deferred sales charge or the maximum deferred sales charge imposed on purchases and (3) the expense ratio, gross of any fee waivers and expense reimbursements); NASD Regulatory & Compliance Alert (Winter 2001) (interpreting NASD Rule 2210 (now, FINRA Rule 2210) as requiring member communications that present variable life insurance performance to prominently disclose the significant impact that fees have on such performance); and NASD Regulatory & Compliance Alert (Fall 1994) (alerting members that for investment companies that have a front-end sales load, that all advertisements and supplemental sales literature containing an investment company ranking must disclose, in part, whether the ranking takes sales charges into account).

[545] *See, e.g.,* Morningstar Comment Letter (applauding the Commission for better aligning the investment company advertising rules with FINRA rules 2210 and 2241).

[546] *See* amended rules 482(i)(1) and 433(c)(3) under the Securities Act; Proposing Release, *supra* footnote 8, at section II.I; *see also* amended rules 156 and 34b–1(c)(1)(i) under the Investment Company Act.

than the required fee and expense figures.

One commenter addressed the proposed prominence requirements. That commenter supported allowing investment company advertisements to include other figures regarding a fund's fees and expenses as long as the advertisement presents the required fee and expense figures at least as prominently as any other included fee and expense figures.[547]

We are adopting the prominence requirements for investment company fee and expense figures in advertisements, as proposed. The Commission continues to believe this requirement will protect investors by ensuring that standard fee and expense figures are prominently featured in the advertisement so the investor can understand better how other fee and expense presentations, including a presentation of the fund's net expenses, may relate to the investor's investment costs.

In addition, the final amendments require advertisements that include a fund's total annual expenses net of fee waiver or expense reimbursement arrangement amounts also to include the expected termination date of the arrangement.[548] We received no comments on this requirement, and we are adopting it as proposed. We believe this requirement will help investors better understand how a fee waiver or expense reimbursement arrangement may affect their investment costs by providing information about how long the arrangement will likely be in place (including that it may be terminated at any time).[549]

Finally, as proposed, the final amendments include a timeliness requirement for fee and expense information in investment company advertisements.[550] The timeliness requirement applies to fee and expense figures as well as to relevant narrative information. Fee and expense information will need to be as of the date of the fund's most recent prospectus or, if the fund no longer has an effective registration statement under the Securities Act, as of its most recent annual report.[551] A fund will, however, be able to provide more current information, if available. The Commission received two comments about the proposed timeliness requirement, and each commenter supported the proposed requirement so funds could not use stale or outdated information in their advertisements.[552]

We are adopting the timeliness requirement, as proposed. The Commission continues to believe it is appropriate to include a timeliness requirement designed to protect investors by preventing investment company advertisements from including stale, outdated information about a fund's fees and expenses. The final amendments will require, for instance, a registered open-end fund maintaining an effective Securities Act registration statement on Form N–1A to provide its maximum sales load (or other nonrecurring fee) and gross total annual expenses, as of the date of the fund's most recent prospectus. As another example, a registered closed-end fund including fee and expense figures in a rule 482 advertisement, which presents total annual expense figures in its prospectus but does not maintain an effective Securities Act registration statement, will need to provide its gross total annual expenses, as of the date of the fund's most recent annual report.[553] Each example demonstrates how the final amendments protect investors by helping to ensure that a fund presents fee and expense figures in its advertisements that are reasonably current, which in turn helps to ensure that these figures are not misleading.

2. Materially Misleading Statements About Fees and Expenses in Investment Company Sales Literature

The final amendments to rule 156 address statements and representations about a fund's fees and expenses that could be materially misleading.[554] Specifically, the final amendments provide that representations about fees or expenses associated with an investment in a fund could be misleading because of statements or omissions involving a material fact, including situations where portrayals of the fees and expenses associated with an investment in the fund omit explanations, qualifications, limitations, or other statements necessary or appropriate to make the portrayals not misleading. We are adopting these amendments as proposed.[555]

Some commenters stated they share the Commission's expressed concern about funds that market themselves as ''zero expense'' or ''no expense funds'' without mentioning other costs investors would incur when investing in the fund.[556] These commenters expressed support for the proposed amendments to rule 156. Another commenter, however, suggested that the proposed amendments were ''unnecessary'' in light of FINRA rule 2210(d)(1)(A), which requires that communications be based on the principles of fair dealing and good faith and prohibits omissions of any material fact that, in light of the context of the material presented, would cause the communication to be misleading.[557] This commenter asserted that the proposed amendments would require funds to include even more fee and expense information in their sales literature than in their prospectuses (*e.g.,* securities lending costs). Alternatively, the commenter suggested that if the Commission were to adopt the proposed amendments, it should provide guidance that the amendments would not (1) preclude a fund from omitting non-material information relating to fees and expenses from sales literature; or (2) require that sales literature include disclosures that funds do not presently include their prospectus fee table presentations.[558]

We agree rule 156 broadly prohibits the use of materially misleading sales literature in connection with the offer or sale of security issued by an investment company, and FINRA rule 2210(d)(1)(A) requires that communications be based on the principles of fair dealing and good faith and not be misleading. The amendments to rule 156, however, are designed to protect investors by specifically addressing practices that could lead to materially misleading representations about fees and charges. As funds are increasingly marketed on the basis of costs, we remain concerned that investment companies and

[547] Consumer Federation of America II Comment Letter.

[548] *See* amended rule 482(i)(2); Proposing Release, *supra* footnote 8, at section II.1.

[549] This also is similar to information that funds generally must include in their prospectuses when including total annual expenses net of a fee waiver or expense reimbursement arrangement. *See* Instruction 3(e) to Item 3 of current and amended Form N–1A; Instruction 4(b) to Item 3 of current and amended Form N–1A; Instruction 15(e) to Item 4 of Form N–3; Instruction 17 to Item 4 of Form N–4.

[550] *See* amended rule 482(j); Proposing Release, *supra* footnote 8, at section II.I.

[551] In the case of a new fund that does not yet have an effective registration statement, fee and expense information will need to be as of the date of the fund's most recent prospectus filed with the Commission. *See* amended rule 482(j).

[552] Consumer Federation of America II Comment Letter; John Hancock Comment Letter.

[553] Under these circumstances, the registered closed-end fund will not have a maximum sales load to report in its advertisement because it does not have an effective Securities Act registration statement and cannot presently sell the fund's securities. The registered closed-end fund's gross total annual expenses will be computed using the method in Item 3 of Form N–2.

[554] Amended rule 156(b)(4).

[555] *See* Proposing Release, *supra* footnote 8, at section II.I.

[556] Consumer Federation of America II Comment Letter; CFA Institute Comment Letter.

[557] ICI Comment Letter.

[558] *Id.; see also infra* paragraph accompanying footnote 561.

intermediaries may, in some cases, be incentivized to understate or obscure the costs associated with a fund investment.[559] Rule 156 addresses the types of information in investment company sales literature that could be misleading for purposes of the federal securities laws, including section 17(a) of the Securities Act and section 10(b) of the Exchange Act and rule 10b–5 thereunder. The amendments to rule 156 will specify certain pertinent factors that could be considered to determine whether or not a particular representation is materially misleading, and are designed to address, for example, the Commission's concerns about funds that market themselves as ''zero expense'' or ''no expense funds'' without mentioning other costs investors would incur when investing in the fund.

The additional factors are designed to assist investment companies and their intermediaries, including FINRA members, when they consider whether a presentation of fee and expense information in investment company sales literature is materially misleading under Commission rules. The factors also could assist such intermediaries when they consider whether a presentation of fee and expense information in investment company sales literature is materially misleading under any other principles-based rule regarding investment company sales literature to which such intermediaries may be subject, such as FINRA rule 2210(d)(1)(A).

Consistent with the current framework in rule 156, whether a particular description, representation, illustration, or other statement involving a fund's fees and expenses is materially misleading depends on evaluation of the context in which it is made.[560] Under the amendments to rule 156 that we are adopting, a fund could, therefore, determine not to include certain information regarding fees and charges from sales literature if, based on an evaluation of the context of the fees and charges presentation, the omission of that information would not be materially misleading.[561] In such cases, a fund may determine not to include in its sales literature expenses that do not appear in the fund's prospectus fee table, such as expenses related to its securities lending activities or other non-material information regarding fees and expenses.

In addition, like current rule 156, the final amendments will apply to all investment company sales literature, regardless of whether the investment company's prospectus contains total annual expense figures.[562] We are not limiting the scope of the amendments to rule 156 to a subset of investment companies because our concerns regarding materially misleading statements about fees and expenses are not limited to certain types of investment companies. For example, depending on the facts and circumstances, it may be materially misleading for a variable contract advertisement to provide the current range of fees and charges that could be assessed without also indicating the maximum range of those fees and charges that may be assessed. Our investment company advertising rule amendments are designed to work together to promote balanced and transparent presentations of fees and expense information in all investment company sales literature.

3. Additional Suggested Amendments to Investment Company Advertising Rules

Some commenters suggested expansion of the proposed amendments to address other topics. One commenter recommended that the Commission expand the proposed amendments to require that the use of third-party ratings in an investment company advertisement not be misleading and be current.[563] That commenter suggested that the fund should specify the information on which the rating is based and that the rating should be representative of the fund and share class being advertised. In addition, the commenter recommended that the Commission address the illustration of synthetic performance before fund inception. The commenter stated that new funds seeking to illustrate synthetic performance should only be able to do so when these funds are related in specific ways to another registered fund.[564] Another commenter similarly requested, without discussion, that the Commission codify staff guidance regarding predecessor fund performance.[565] Further, a commenter suggested that the Commission require a single, all-inclusive number showing all the fees that an investor could expect to pay. That commenter, however, recognized that such a ''bottom-line'' number may not be feasible.[566] Finally, a different commenter suggested that the Commission amend the proposal to address AFFE disclosure in investment company advertisements.[567] These suggestions were generally beyond the scope of this rulemaking, which is focused on the presentation of fund fees and expenses in investment company advertisements. Because we continue to consider changes to open-end funds' prospectus fee table, including the proposed changes to AFFE disclosure, we are not addressing the commenter's suggestion regarding AFFE in investment company advertisements at this time.[568]

H. Inline XBRL Data Tagging

In a change from the proposal, we are adopting requirements for funds to tag the shareholder report contents in a structured, machine-readable data language, which will make shareholder report disclosure more readily available and easily accessible for aggregation, comparison, filtering, and other analysis. Specifically, our final rules require funds to tag the disclosures in Inline XBRL in accordance with rule 405 of Regulation S–T and the EDGAR Filer Manual.[569] The use of Inline XBRL will allow retail investors and other market participants to use automated analytical tools to extract the information sought wherever it may be located within a filing.[570]

Funds are currently subject to structured data requirements for certain aspects of their disclosure and reporting. In 2009, the Commission adopted rules requiring operating company financial statements and mutual fund risk/return summaries to

[559] *See* Proposing Release, *supra* footnote 8, at section II.I.

[560] *See* amended rule 156(b).

[561] *See supra* footnotes 557–558 and accompanying text.

[562] *See* amended rule 156(b).

[563] *See* Morningstar Comment Letter (suggesting further integration between the SEC's advertising rules and FINRA rule 2241, which addresses research analysts and research reports).

[564] Morningstar Comment Letter.

[565] Ubiquity Comment Letter.

[566] CFA Institute Comment Letter.

[567] Cornell Law School Comment Letter.

[568] *See supra* section I.B.2.

[569] *See* General Instruction C.4 to Form N–CSR; General Instructions C.3.(g)(iii) and (iv) to Form N–1A; 17 CFR 232.405(b)(2)(i).

[570] The Commission has an open source Inline XBRL Viewer that allows the user to make an Inline XBRL data human-readable and allows filers to more readily filter and identify errors. Anyone with a recent standard internet browser can view any Inline XBRL filing on EDGAR at no cost. More information about the Commission's Inline XBRL Viewer is available at *https://www.sec.gov/structureddata/osd-inline-xbrl.html.* Studies suggest XBRL requirements increase the information content of prices, reduce the informational advantages held by insiders over public investors, heighten the relevance, understandability, and comparability of financial information for non-professional investors, and enhance the reports and recommendations published by financial analysts, thereby indirectly benefitting retail investors for whom such analysts represent a significant source of investment information. *See* Proposing Release, *supra* footnote 8, at n.852.

be submitted in XBRL entirely within an exhibit to a filing.[571] In 2018, the Commission adopted modifications to these requirements by requiring issuers to use Inline XBRL to reduce the time and effort associated with preparing XBRL filings and improve the quality and usability of XBRL data for investors.[572] The Commission has also adopted requirements for most registered investment companies to file monthly reporting of portfolio securities on a quarterly basis, in a structured data language.[573] Much of this information is publicly available as structured data on the Commission's website at *www.sec.gov*.

In the Proposing Release, the Commission specifically discussed the alternative of requiring information filed on Form N–CSR to be tagged in Inline XBRL format and requested comment on this option.[574] The Commission discussed the potential benefits of tagging some or all of Form N–CSR—including the streamlined shareholder report—in Inline XBRL. The Commission stated such a requirement could, for example, benefit investors by enabling efficient retrieval, aggregation and analysis of information of information in Form N–CSR and by facilitating comparisons across funds and time periods. While an Inline XBRL tagging requirement was not proposed, the Commission sought comment on whether some or all of Form N–CSR should be tagged using Inline XBRL or some other structured machine-readable format and whether certain parts of the tailored shareholder report should be tagged.

Commenters who addressed this discussion generally supported tagging all or certain parts of the information filed on Form N–CSR using a structured data language.[575] Some commenters advocated an expansive tagging approach, either expressly or implicitly supporting all of the shareholder report contents, as well as all of the Form N–CSR disclosure items, to be tagged.[576] One commenter observed if information in the streamlined shareholder report were tagged, fund companies, broker-dealers, and others could create personalized and interactive experiences by, for example, using the tagged data to populate email templates with information that is ''ingested'' from filings made with the Commission.[577] Another commenter requested specific sections of funds' shareholder reports to be tagged, such as performance information.[578] In addition, some commenters addressed the particular structured machine-readable data language to be used to tag some or all of the information filed on Form N–CSR, specifically supporting the use of Inline XBRL.[579]

After considering these comments, we are requiring the contents of the shareholder report to be tagged using Inline XBRL. We believe the information in these reports is particularly salient to funds' largely retail shareholder base, and the benefits of tagging this information likewise will be beneficial in helping these investors, as well as other market participants, understand funds' performance and operations. The final rules, however, only will require that the streamlined shareholder reports—and not other information that funds file on Form N–CSR—to be tagged. Consistent with our objective of including in the shareholder report the information we believe is particularly important for retail shareholders to assess and monitor their fund investments on an ongoing basis, we believe that tagging this information in Inline XBRL format will provide a tool that helps these investors (through third parties that analyze tagged information) monitor their investments.[580]

While tagging other information filed on Form N–CSR also could be a useful tool for other fund investors and other market participants, we believe a broader tagging requirement merits further consideration. Form N–CSR is used by both open and closed-end management investment companies and some variable annuity separate accounts to file shareholder reports, as well as other information, with the Commission. Broader requirements to tag other content filed on Form N–CSR, could include further consideration of content filed by closed-end management investment companies and some variable annuity separate accounts that are not subject to our tailored shareholder report disclosure requirements.

In addition, we believe the use of Inline XBRL will promote the benefits of tagging information in the streamlined shareholder report more effectively than requiring a non-machine readable data language such as ASCII or HTML. The Inline XBRL tagging requirements will enable automated extraction and analysis of data in the shareholder reports for retail investors and other market participants who seek to access information about funds, both directly and through information that intermediaries such as data aggregators and financial analysts provide. Providing a standardized, structured data framework could facilitate more efficient investor large-scale analysis and comparisons across funds and across time periods.

An Inline XBRL requirement will facilitate other analytical benefits, such as the ability to compare/redline specific disclosures in a shareholder report automatically against the same disclosures in other periods, and to perform targeted assessments of specific narrative disclosures within the shareholder report rather than performing such assessments on an entire unstructured document. For retail investors and other market participants, requiring funds to tag their shareholder reports in a structured data language will both increase the availability, and reduce the cost, of collecting and analyzing such information, potentially increasing transparency and mitigating the potential informational costs as compared to unstructured disclosure.

[571] Interactive Data to Improve Financial Reporting, Securities Act Release No. 9002 (Jan. 30, 2009) [74 FR 6776 (Feb. 10, 2009)] as corrected by Securities Act Release No. 9002A (Apr. 1, 2009) [74 FR 15666 (Apr. 7, 2009)]; Interactive Data for Mutual Fund Risk/Return Summary, Investment Company Act Release No. 28617 (Feb. 11, 2009) [74 FR 7748] (Feb. 19, 2009)]).

[572] Inline XBRL Filing of Tagged Data, Investment Company Act Release No. 33139 (June 28, 2018) [83 FR 40846, 40847 (Aug. 16, 2018)]. Inline XBRL allows filers to embed XBRL data directly into an HTML document, eliminating the need to tag a copy of the information in a separate XBRL exhibit. *Id.* at 40851.

[573] *See* Investment Company Reporting Modernization Final Rules, *supra* footnote 9; *see also* Amendments to the Timing Requirements for Filing Reports on Form N–PORT, Investment Company Act Release No. 33384 (Feb. 27, 2019) [84 FR 7980 (Mar. 6, 2019)]. Money market funds must report portfolio information on Form N–MFP. *See* MMF Release, *supra* footnote 346.

[574] *See* Proposing Release, *supra* footnote 8, at sections III.E.8. and III.E.9; *see also* Proposing Release, *supra* footnote 8, at section II.B.2.B (requesting comment on whether the funds should be required to submit interactive data files to the Commission using XBRL containing their expense examples in fund annual reports).

[575] *See, e.g.,* Better Markets Comment Letter; Broadridge Comment Letter; Consumer Federation of America II Comment Letter; Morningstar Comment Letter; Comment Letter of XBRL US (Jan. 4, 2021) (''XBRL US Comment Letter'').

[576] *See, e.g.,* Better Markets Comment Letter; Consumer Federation of America II Comment Letter; Morningstar Comment Letter; XBRL US Comment Letter.

[577] Broadridge Comment Letter.

[578] Morningstar Comment Letter.

[579] *See, e.g.,* Broadridge Comment Letter, Morningstar Comment Letter, and XBRL US Comment Letter. *But see* Abdullah Comment Letter (suggesting that the Commission make Inline XBRL tagged data available in a more user-friendly format, and stating that the Commission's existing tagged data filings on EDGAR are difficult to use).

[580] *See, e.g.,* ICI Comment Letter (in the context of its discussion of the proposed delivery upon request requirements for Form N–CSR, stating that the ICI believes ''much of information in Form N–CSR is of little or no interest to shareholders (*e.g.,* audit fees paid, Sarbanes-Oxley certifications, etc.)).''

Further, for filers, Inline XBRL can enhance the efficiency of review, yield time and costs savings, and potentially enhance the quality of data compared to other machine-readable standards, as certain errors would be easier to correct because the data is also human readable.

This aspect of our final rules is in keeping with the Commission's ongoing efforts to implement reporting and disclosure reforms that take advantage of the benefits of advanced technology to modernize the fund reporting and disclosure regime and, among other things, to help investors and other market participants better assess different funds. The use of Inline XBRL to tag the streamlined shareholder reports also furthers the Commission's goal of making information more readily accessible and user-friendly in an electronic format to retail investors as well as promoting investor engagement online.

I. Technical and Conforming Amendments

We are adopting the proposed technical amendments to Form N–1A.[581] Specifically, the Commission proposed to update the current SAI requirement to provide the age and length of service for a fund's officers and directors to allow funds to instead disclose for each officer and director the birth year and the year their service began.[582] The Commission also proposed a similar instruction for the length of service for portfolio managers that must be disclosed in the prospectus to permit a fund to disclose the year the portfolio manager's service began.[583] The Commission stated that permitting a fund to use a static date rather than updating this information annually will reduce a burden on funds, while providing investors equivalent information, and we continue to believe this. The Commission also has observed that some funds already disclose each officer's and director's year of birth and the date the services of the officers, directors and portfolio managers began. No commenters addressed these proposed amendments, and we are adopting them as proposed.[584]

We are also adopting conforming edits to rule 30a–2 under the Investment Company Act to reflect numbering revisions to Form N–CSR are a result of the final rules we are adopting.

J. Compliance Date

We are adopting a transition period after the effective date of the amendments as proposed in order to allow funds adequate time to adjust their shareholder report disclosure and transmission practices, as the final rules will require. We received comments on this aspect of the proposal and after consideration of commenters' views, we continue to believe the 18-month transition period provides an appropriate amount of time for funds to comply with the new framework.

Certain commenters requested that we instead adopt a 24-month transition period to allow funds additional time to adjust their practices.[585] We continue to believe that the transition period we are adopting strikes the appropriate balance between allowing funds time to adjust their practices and allowing investors and shareholders to benefit from the new disclosure framework. We believe an 18-month transition period is adequate for these purposes. The transition period we are adopting is generally consistent with the transition periods associated with other disclosure- or advertising-based amendments the Commission has recently adopted.[586]

A summary of the transition periods for the various aspects of the framework follows.

- *Shareholder reports and related requirements.* All shareholder reports for funds registered on Form N–1A will have to comply with Item 27A of Form N–1A if they are transmitted to shareholders 18 months or more after the effective date. These funds also will have to comply with the amendments to rule 30e–1 and Form N–CSR no later than 18 months after the effective date by, among other things, meeting the website availability requirements for the new Form N–CSR items. Funds' registration statements and post-effective amendments to registration statements filed 18 months or more after the effective date that are required to include an appropriate broad-based securities market index must include an index that is consistent with the final rules' new definition of a ''broad-based'' index.
- *Rule 30e–3 amendments.* The amendments to the scope of rule 30e–3 are effective 18 months after the effective date in order to provide time for funds relying on rule 30e–3 to transition to the proposed disclosure framework.
- *Amended advertising rules.* There will be a transition period of 18 months after the effective date for investment company advertisements to comply with the amendments to rules 482, 433, and 34b–1. We have not provided an additional compliance period for the amendments to rule 156 after the amended rule is effective.
- *Inline XBRL data tagging.* There will be a transition period of 18 months after the effective date for funds to comply with the Inline XBRL data tagging amendments to rule 405 of Regulation S–T, Form N–1A, and Form N–CSR.
- *Technical amendments.* Funds' registration statements and post-effective amendments to registration statements filed following the effective date must reflect the requirements of Item 5(b) and 17(a)(1) of amended Form N–1A.

III. Other Matters

Pursuant to the Congressional Review Act, the Office of Information and Regulatory Affairs has designated these rules as a ''major rule'' as defined by 5 U.S.C. 804(2). If any of the provisions of these rules, or the application thereof to any person or circumstance, is held to be invalid, such invalidity shall not affect other provisions or application of such provisions to other persons or circumstances that can be given effect without the invalid provision or application.

IV. Economic Analysis

A. Introduction

We are mindful of the costs imposed by, and the benefits obtained from, our rules. Section 3(f) of the Exchange Act, section 2(b) of the Securities Act, and section 2(c) of the Investment Company Act state that when the Commission is engaging in rulemaking under such

[581] In addition to the proposed technical amendments discussed in this section, the Commission proposed certain conforming amendments relating to proposed rule 498B and the proposed amendments to funds' prospectus fee disclosure. *See* Proposing Release, *supra* footnote 8, at paragraphs accompanying nn.693–695. As we are not adopting these aspects of the proposal at this time, we are also not adopting the related proposed conforming amendments. The Commission also proposed conforming amendments to withdraw previously-adopted amendments to Form N–1A and rule 498 that became effective on January 1, 2021. Those proposed amendments related to rule 30e–3 legends that were required to be included in funds' summary and statutory prospectuses. We are not adopting those amendments because the requirement to include such legends in funds' summary and statutory prospectuses expired on January 1, 2022. *See* Rule 30e–3 Adopting Release, *supra* footnote 20, at amendatory instructions 5, 6, and 16.

[582] *See* Proposing Release, *supra* footnote 8; *see also* Item 17(a)(1) of proposed Form N–1A.

[583] *See* Proposing Release, *supra* footnote 8; *see also* Item 5(b) of proposed Form N–1A.

[584] *See* Item 17(a)(1) and Item 5(b) of amended Form N–1A.

[585] *See, e.g.,* ICI Comment Letter; Vanguard Comment Letter; Federated Hermes Comment Letter; John Hancock Comment Letter.

[586] *See, e.g.,* Derivatives Adopting Release, *supra* footnote 282, at section II.L; Good Faith Determinations of Fair Value, Investment Company Act Release No. 34128 (Dec. 3, 2020) [86 FR 748 (Feb. 10, 2021)], at section II.G.

titles and is required to consider or determine whether the action is necessary or appropriate in (or, with respect to the Investment Company Act, consistent with) the public interest, the Commission shall consider whether the action will promote efficiency, competition, and capital formation, in addition to the protection of investors. Further, section 23(a)(2) of the Exchange Act requires the Commission to consider, among other matters, the impact such rules will have on competition and states that the Commission shall not adopt any rule that will impose a burden on competition not necessary or appropriate in furtherance of the purposes of the Exchange Act. The following analysis considers, in detail, the potential economic effects that may result from the rule amendments, including the benefits and costs to investors and other market participants as well as the broader implications of the rule amendments for efficiency, competition, and capital formation.

The rule amendments will affect the provision of information by funds to investors. Under the rule amendments, funds will provide shareholders with more concise and visually engaging shareholder reports that highlight key information, including fund expenses, performance, and holdings.[587] The rule amendments will also affect how funds transmit shareholder reports. Under the rule amendments, funds registered on Form N–1A will not be permitted to send notices regarding the online availability of shareholder reports in reliance on rule 30e–3. Instead, funds will transmit the more concise shareholder report in full.[588] Through a layered disclosure approach, additional information that may be of more relevance to market professionals and some shareholders, such as fund financial statements, will be available online and delivered in paper or electronic format upon request, free of charge.[589] Accessibility-related requirements will help ensure that investors can easily reach and navigate the information that appears online.[590]

Also under the rule amendments, funds will prepare and transmit to each shareholder a separate shareholder report for each fund series and class. Many mutual funds and ETFs are organized as single registrants with several series (sometimes referred to as portfolios).[591] Currently, fund registrants may prepare a single shareholder report that covers multiple series and this contributes to the length and complexity of shareholder reports.[592] This rule amendment will enable shareholders to receive information that is more concise and salient using a consistent approach across funds in requiring that funds transmit a report to each investor that contains only information on the series and class of the fund in which the shareholder is invested.[593]

In addition, under the rule amendments, funds will tag their shareholder reports in the structured (*i.e.,* machine-readable) Inline XBRL data language. Currently, funds are not required to tag their shareholder reports in Inline XBRL or any other structured data language. This rule amendment will facilitate analysis of the disclosures included on funds' streamlined shareholder reports, providing informational benefits to investors.

Finally, to improve fee and expense information that is available to investors more generally, we are adopting amendments to the investment company advertising rules to require that investors receive more transparent and consistent fee and expense information.[594] These rule amendments will affect all registered investment company and BDC advertisements and are not limited to open-end fund advertisements.

We expect the rule amendments to benefit investors by permitting them to make more efficient use of their time and attention, and by facilitating informed investment decisions and choice among financial products. We expect some funds to experience lower costs of delivering materials under the rule amendments, which may be passed on to investors as a further benefit of the rule amendments, while other funds may experience increased costs of delivery and other aspects of the rule amendments, which will be a cost of the rule amendments to the shareholders of those funds.

B. Economic Baseline and Affected Parties

1. Descriptive Industry Statistics

The rule amendments will affect funds and investors who receive fund disclosure and fund advertising under the current rules.[595] Approximately 108.1 million individuals own shares of registered investment companies, representing 62.2 million (or 47.9%) of U.S. households. An estimated 102.6 million individuals own shares of mutual funds in particular, representing 59.0 million (or 45%) of U.S. households.[596] Changes in technology have led to changes in how investors obtain and use information from shareholder reports.[597] In 2021, approximately 95% of households owning mutual funds had internet access, while only 68% of these households had internet access in 2000.[598]

Based on staff analysis of Form N–CEN filings, we estimate that, as of December 2021, the number of funds that will be affected by the amendments to the disclosure and transmission requirements for shareholder reports is 11,840, including 9,396 mutual funds and 2,444 ETFs that register on Form N–1A.[599] As of December 2021, the 9,396 mutual funds (*i.e.,* series, or classes of series, of trusts registered on Form N–1A) had average total net assets of $26.3 trillion and 29,046 authorized share classes.[600] The 2,444 ETFs (*i.e.,* series,

[587] *See supra* sections II.A and II.B.

[588] *See supra* section II.E.

[589] *See supra* section II.C.

[590] *See supra* section II.C.2.b.

[591] *See* Proposing Release, *supra* footnote 8, at nn.108–110 and accompanying text (noting that each series has its own investment objectives, policies and restrictions and that the Federal securities laws and Commission rules often treat each series as a separate fund).

[592] *See id.* at text accompanying n.111 (providing examples of how the current presentation of multiple series within a single shareholder report may confuse shareholders); *see also supra* text accompanying footnotes 8 and 29.

[593] *See* Instruction 4 to Item 27A(a) of amended Form N–1A. As proposed, fund registrants could continue to include multiple shareholder reports that cover different series in a single Form N–CSR report filed on EDGAR under the final rules.

[594] *See supra* section II.G.

[595] The vast majority (88%) of mutual fund shares are estimated to be held through retail accounts. *See* 2022 ICI Fact Book, *supra* footnote 37. Based on staff analysis of Form 13F data, the mean institutional holding is estimated to be approximately 50% for exchange-traded funds. We calculated ''institutional holding'' as the sum of shares held by institutions (as reported on Form 13F filings) divided by shares outstanding (as reported in CRSP). Year-end 2021 Form 13F filings were used to estimate institutional ownership. We note that there are long-standing questions around the reliability of data obtained from Form 13F filings.] *See* Covered Investment Fund Research Reports, Investment Company Act Release No. 33311 (Nov. 30, 2018) [83 FR 64180, 64199 (Dec. 13, 2018), at n.223; *see also* Reporting Threshold for Institutional Investment Managers, Exchange Act Release No. 89290 (July 10, 2020) [85 FR 46016] (July 31, 2020), at n.63 (proposing certain technical amendments to Form 13F that the Commission believes may reduce filer mistakes and data inaccuracies).

[596] *See* 2022 ICI Fact Book, *supra* footnote 37. Among mutual fund-owning households, 66% held funds outside employer-sponsored retirement accounts, with 19% owning funds only outside such plans.

[597] *See supra* section I.A.1.

[598] *See* 2022 ICI Fact Book, *supra* footnote 37, at Figure 7.16.

[599] These estimates are based on staff analysis of Form N–CEN filings received through December 2021.

[600] The estimate of the number of authorized share classes is based on responses to Form N–CEN,

or classes of series, of trusts registered on Form N–1A) had average total net assets of $5.1 trillion and 2,577 authorized share classes as of December 2021.

The scope of the final advertising rule amendments is broader than that of the other elements of this rulemaking. The advertising rule amendments will apply to other registered investment companies and to BDCs, in addition to mutual funds and ETFs. As of December 2021, there were 1,338 other registered investment companies, including 656 registered closed-end funds, 20 funds that could file registration statements or amendments to registration statements on Form N–3, and 662 UITs.[601] As of December 2021, there were 103 BDCs with $209.4 billion in total assets.[602] The rule amendments will also affect financial intermediaries and other third parties that are involved in the distribution and use of shareholder reports and fund advertising. We understand that most fund investors are not direct shareholders of record, but instead engage an investment professional and hold their fund investments as beneficial owners through accounts with intermediaries such as broker-dealers.[603] As a result, intermediaries commonly distribute fund materials to beneficial owners, including shareholder reports and advertising materials. In the case of broker-dealers, self-regulatory organization (''SRO'') rules provide that broker-dealer member firms are required to distribute annual reports, as well as ''interim reports,'' to beneficial owners on behalf of issuers, so long as an issuer (*i.e.,* the fund) provides satisfactory assurance that the broker-dealer will be reimbursed for expenses (as defined in SRO rules) incurred by the broker-dealer for distributing the materials.[604] Based on information reported on Form BD, we estimate that 1,366 broker-dealers sell mutual funds' shares and may deliver shareholder reports and advertising materials that will be affected by the rule amendments.

2. Fund Shareholder Reports

Funds provide information about their past operations and activities to investors through periodic shareholder reports. Funds transmit shareholder reports to ongoing shareholders twice-annually. Thus, shareholders receive both a semi-annual and an annual report from the fund. Shareholder reports provide information about a fund's performance (in the case of an annual report), expenses, holdings, and other matters (*e.g.,* statements about the fund's liquidity management program, the basis for approval of an investment advisory contract, and the availability of additional information about the fund). The reports also include financial statements, which include audited financials (in the case of the annual report).

Many mutual funds and ETFs are organized as single registrants with several series (sometimes referred to as portfolios).[605] Currently, fund registrants may prepare a single shareholder report that covers multiple series, as well as multiple share classes of each series.

Shareholder reports can be quite long.[606] The average length of a shareholder report exceeds 100 pages.[607] Based on staff analysis of shareholder reports available on fund websites, we estimate that the average annual report length is 134 pages and the average semi-annual report length is 116 pages, or 87% of the average length of a fund's annual report.[608]

Funds must transmit the shareholder reports to shareholders and file them on EDGAR using Form N–CSR. In addition, funds often provide their shareholder reports on their websites. Commission rules affect the extent to which funds publish shareholder reports on public websites. All funds that rely on rule 498 to deliver summary prospectuses are required to make their shareholder reports available online at the website address identified at the beginning of the summary prospectus. We estimate that approximately 90% of funds currently provide their shareholder reports on their websites.[609] Under the current rules, the information in the Edgar N–CSR filings that is not in the fund shareholder report need not be delivered or otherwise made available to investors online.

Our staff has observed varying practices with respect to the use of benchmarks by funds in disclosing their performance in the prospectus and annual reports. Some funds include the performance of a single benchmark index in their performance disclosure, while others include the performance of more than one benchmark index in this disclosure.[610] Index providers generally charge fees for the right to present the performance of benchmark indexes (the required appropriate broad-based securities market index, as well as any additional index(es) a fund chooses to include) in their disclosure documents. These fees are not generally disclosed to the public.[611]

Item C.2.a., and includes non-ETF share classes of multi-class ETFs. We estimate that the average number of classes per open-end fund series was 2.68 with a median of 2 and a maximum of 23 classes per series, based on staff analysis of March 2022 Form N–CEN data, with two thirds (66%) of the open-end fund series having more than one class.

[601] We estimate that all registered investment companies would be affected by the advertising rule amendments. Based on staff analysis of Form N–CEN filings received as of December 2021, this includes all mutual funds and ETFs; 656 closed-end funds registered on Form N–2, with average total net assets of $356 billion; 20 variable annuity separate accounts registered as management investment companies on Form N–3, with total assets of $277.6 billion; and 662 UITs, with total assets of $2.7 trillion (including 5 ETFs that are registered as UITs with total assets of $724 billion).

[602] To estimate the number of BDCs, we use data from Form 10–K and Form 10–Q filings as of the fourth quarter of 2021. Our estimates exclude BDCs that may be delinquent, wholly owned subsidiaries of other BDCs, and BDCs in master-feeder structures.

[603] By one estimate, approximately 75% of accounts are held through brokers and other intermediaries, excluding positions held in employer-sponsored plans. *See* Rule 30e–3 Adopting Release, *supra* footnote 20, at n.275.

[604] See, *e.g.,* NYSE rule 465(2); NYSE rules 451(a)(1) and (2); FINRA rule 2251(e)(1)(C); FINRA rule 2251.01.

[605] *See supra* section I.A.1.

[606] *See supra* section I.A.2.

[607] Under the current rules, funds are required to include the full financial statements and financial highlights in the shareholder report. This contributes to shareholder reports' length and limits the ability of funds to provide concise mailings. *See* Proposing Release, *supra* footnote 8 at n.16 and accompanying text.

[608] *See supra* footnote 34 and accompanying text.

[609] We base this estimate on the number of filings pursuant to rule 497(k) (''Summary prospectus filing requirements'') under the Investment Company Act [17 CFR 230.497(k)] filed from May 2021 to May 2022. In addition, a fund relying on rule 30e–3 is required to make its shareholder reports publicly accessible on a website. In the case of rule 30e–3, the shareholder report must be available at the website address specified in the notice the fund would send to shareholders under the rule. Funds that rely on rule 30e–3 are also required to make their complete portfolio holdings for each quarter available online. *See also* T. Rowe Price Comment Letter (expressing the view that retirement plan participants, specifically older participants, overwhelmingly prefer to engage electronically with their funds and presenting survey evidence in which the preference was held by 88 percent of Baby Boomers as well as 93 percent of Millennials) and Fidelity Comment Letter (''elements currently required (and that would continue to be required under the Proposal) are routinely available to shareholders on fund websites. Information related to performance, expenses, and graphical holdings are all updated frequently on the internet, providing more timely information to shareholders when making an investment decision'').

[610] The staff of the Office of the Investor Advocate also has observed these varying practices with respect to the use of benchmarks by funds. *See* OIAD Benchmark Study, *supra* footnote 53.

[611] Current rules do not require that funds disclose the licensing fees that they pay to index providers separately from other fund expenses. A 2021 study ''collect[s] the first data on the licensing fees between index providers and ETF sponsors by reading all ETF filings on [EDGAR]'' and found that the fees are disclosed by ETF sponsors on a voluntary basis and that only about 10% of the ETFs in the study disclose their licensing fees. The study presents a ''first analysis of ETF index

Continued

Funds are not currently required to structure their shareholder reports in Inline XBRL or any other structured, machine-readable data language. However, funds are subject to Inline XBRL tagging requirements for other Commission filings—specifically, for the risk/return summary disclosure in their prospectuses.[612]

3. Transmission of Shareholder Reports

Under Commission rules and guidance, transmission of shareholder reports occurs by paper or email, depending on the investor's expressed preference. The Commission has provided guidance permitting electronic delivery of required disclosure materials under certain circumstances.[613] Under this guidance, funds can transmit shareholder reports electronically in lieu of paper if they satisfy certain conditions relating to investor notice, access, and evidence of delivery. Funds (or intermediaries) acting consistently with this guidance typically obtain an investor's informed consent to electronic delivery to satisfy the ''evidence of delivery'' condition. Fund investors that have elected electronic delivery typically receive an email that contains a link or a notice with a link to where the materials are available online. One commenter on the proposal projected a rate of digital delivery of 80%–85% in 2023 for all mutual fund and ETF positions held in street name.[614] One commenter estimated that the vast majority (96 percent) of fund-company respondents to a survey offer e-deliver of investor materials.[615] The estimated proportion of shareholders who elect to receive fund disclosure by email has increased over time and varies among funds. By one earlier estimate provided as a comment to the Fund Investor Experience RFC, the average enrollment rate for electronic delivery was 19.35% for direct-held positions (*i.e.,* shares purchased directly through an account with the fund) and 55% for beneficial positions (*i.e.,* shares purchased through an account with an intermediary).[616] Based on a 2020 survey of fund companies, one commenter on the proposal estimated that e-delivery of shareholder reports and prospectuses to direct held accounts comprises approximately 34% of all deliveries to those accounts.[617] One commenter on the proposal estimated that 24 percent of respondents on a survey reported a positive spike in requests for e-delivery from direct-at-fund accounts since the beginning of the COVID–19.[618]

Funds are not permitted to provide electronic delivery unless the fund shareholder has requested (and thus opted into) electronic delivery.[619] Commenters on the proposal have argued that the enrollment rate for electronic delivery would be higher if funds were permitted to provide electronic delivery as the default and shareholders were permitted to opt into paper delivery on request.[620]

Starting in 2021, certain investment companies have been permitted under rule 30e–3 to send a short notice that a semi-annual or annual report is available online to shareholders instead of transmitting the shareholder report, in order to satisfy semi-annual report transmission requirements under rules 30e–1 and 30e–2.[621] For example, funds have been permitted to send a short paper notice instead of transmitting the shareholder report in paper. Rule 30e–3 does not modify the transmission method for shareholders who request receiving the reports in paper or who have elected to receive the reports in electronic form.[622] Funds that intended to rely on rule 30e–3 before 2022 were required to provide a notice to shareholders of this intent in their prospectuses and shareholder reports. Under rule 30e–3, what shareholders see when they access a shareholder report does not vary in substance or length according to whether they access the report online or by requesting a paper copy.[623] The funds that rely on rule 30e–3 to transmit their shareholder reports are required to make their shareholder reports available online (at the website address specified in the notice the fund sends to shareholders under the rule) and to make their complete portfolio holdings for each quarter available online. Transmission of the report is generally less costly for funds that choose to rely on rule 30e–3 than if they had not chosen to rely on rule 30e–3 because printing and mailing costs are lower for a short paper notice as opposed to a full-length report.[624] However, to implement the requirements of rule 30e–3, funds incurred costs to make adjustments to their shareholder report transmission practices.[625] We estimate that 89% percent of funds registered on Form N–1A currently rely on rule 30e–3, and that the same percentage of UITs

licensing fees,'' and despite ''this limitation and possible selection bias,'' estimates that index-tracking ETFs pay an index fee equal to one-third of their management fee and that ''estimated licensing fees were 4.4 bps of an ETF's AUM on average'' in 2019 (and, for example, State Street ''pays 3 bps of the ETF assets plus a flat fee of $600,000 per year to S&P Dow Jones'' and Invesco QQQ Trust paying ''9 bps . . . in the form of licensing fees to the index provider (NASDAQ), who owns the underlying NASDAQ–100 index''). *See* An, et al., *Index Providers: Whales Behind the Scenes of ETFs* (Jan. 28, 2022), *available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3855836.* Because the funds in the study are equity funds and may include a disproportionate share of index-tracking funds (as the examples indicate), the licensing fee data it includes may not be representative of licensing fees that funds pay solely for purposes of performance disclosure. *See* Index Industry Association Comment Letter (stating that index providers typically charge proportionately low fees for the merely comparative uses of an index, such as publication of charts and graphs in a fund's shareholder reports).

[612] *See* General Instruction C.3.(g) to current and amended Form N–1A; rule 405(b)(2)(i) of Regulation S–T (17 CFR 232.405(b)(2)(i)).

[613] *See* Electronic Media 1995 Release, *supra* footnote 27 (providing Commission views on the use of electronic media to deliver information to investors, with a focus on electronic delivery of prospectuses, annual reports, and proxy solicitation materials); Electronic Media 1996 Release, *supra* footnote 27; Electronic Media 2000 Release, *supra* footnote 27.

[614] *See* Broadridge Comment Letter. This commenter estimated that 73% of the shareholder reports and prospectuses were digital at the time of the comment (inclusive of householding, e-delivery, and account consolidations) and that this was more than twice the level of digital delivery found among direct-held accounts.

[615] *See* ICI Comment Letter.

[616] *See* Proposing Release, *supra* footnote 8, at n.734 and accompanying text.

[617] *See* Broadridge Comment Letter (citing evidence from a 2020 ICI survey).

[618] *See* ICI Comment Letter.

[619] With respect to the transmission mechanism, fund shareholders currently receive shareholder reports in paper or electronically, depending on their preferences. *See supra* section I.A.1.

[620] *See, e.g.,* T. Rowe Price Comment Letter (inertia around shareholder requests for e-delivery when the default for electronic delivery is opt-in rather than opt-out) and Broadridge Comment Letter (''If the delivery default were switched from paper to electronic, we estimate that mutual fund companies would save between $30 million and $40 million by transmitting streamlined shareholder reports and annual summary prospectuses electronically, instead of by mail. This estimate assumes that a change in the default would raise the level of digital delivery from between 80% and 85% in 2023 to 90% instead (for all mutual fund and ETF positions held in street name).''); *see also* ICI Comment Letter; SIFMA Comment Letter; Charles Schwab Comment Letter; Federated Hermes Comment Letter; TIAA Comment Letter.

[621] For a discussion of UITs that currently may rely on rule 30e–3 to satisfy their shareholder report transmission requirements under rule 30e–2, and how the final rules address these UITs, *see supra* footnotes 495–499 and accompanying paragraphs.

[622] Rule 30e–3 requires the fund to deliver shareholder reports in paper to those shareholders who expressly opt in to paper delivery. For funds that rely on rule 30e–3, other shareholders who have not consented to electronic delivery receive a link to the shareholder report in a paper notice from the fund.

[623] *See supra* section IV.B.2.

[624] Shareholders of funds that rely on rule 30e–3 may request paper copies of the full report, which has the effect of reducing the cost savings to funds associated with rule 30e–3.

[625] *See, e.g.,* Vanguard Comment Letter; ICI Comment Letter; John Hancock Comment Letter *see also supra* footnote 479 and related text (discussing costs for funds to convert their current shareholder report transmission processes to comply with rule 30e–3).

currently rely on rule 30e–3 to satisfy shareholder report transmission obligations under rule 30e–2.[626]

A summary of the transmission scenarios that would occur without the rule amendments (in the baseline), along with typical transmission outcomes for semi-annual and annual shareholder reports (''reports''), appears in table 6 below. As indicated, the baseline transmission outcomes vary across funds and shareholders, according to their expressed preferences and circumstances:

TABLE 6—TRANSMISSION SCENARIOS FOR SHAREHOLDER REPORTS WITHOUT THE RULE AMENDMENTS (BASELINE)

Fund relies on rule 30e–3?	*Shareholder requests electronic delivery*	*Shareholder requests paper delivery*	*Shareholder makes no delivery election*
Yes	Email (with link to 100+ page report)	Paper mail (100+ page) report	Paper notice (1 page) with link to 100+ page report
No	Email (with link to 100+ page report)	N/A[1]	Paper mail (100+ page) report

Notes: 1. ''N/A'' reflects the fact that, if a fund does not rely on rule 30e–3, paper delivery of the full (semi-annual or annual) shareholder report is the default delivery mechanism. If the fund relies on rule 30e–3, however, delivery of a paper notice with a link to the online location of the shareholder report becomes the default, as the table indicates. As discussed above, we estimate that the report lengths for the semi-annual and annual reports are 116 and 134 pages, respectively.

4. Investor Use of Fund Disclosure

The Proposing Release discussed evidence that was available to the Commission at the time of the proposal showing that investors generally prefer concise, layered disclosure and supporting the conclusion that investors view funds' existing shareholder reports as too lengthy and complicated.[627] The feedback on investors' preferences that the Commission received in response to the Proposing Release was consistent with the Commission's understanding of investors' preferences that the Proposing Release described regarding the length, format, and content of the proposed streamlined annual report.[628]

5. Fund Advertisements

The Commission rules on investment company advertising apply to all registered investment companies and BDCs. These rules largely focus on how certain types of funds present their performance in advertisements. While investment company advertising rules limit how a fund may present its performance to promote comparability and prevent potentially misleading advertisements, these rules generally do not similarly prescribe the presentation of fees and expenses in advertisements.[629] This focus reflects the Commission's understanding that investors use information about performance to choose among funds and concern that, absent requirements to standardize how funds present performance in advertisements, investors may be susceptible to basing their investment decisions on information that is inaccurate or creates an inaccurate impression of the fund's performance.[630]

In addition to the Commission rules regarding the presentation of performance information, FINRA rules that govern member broker-dealers' communications with the public provide an important source of advertising requirements and guidance for investment companies.[631] As discussed in section I.A.4, FINRA rule 2210(d)(5), the specific requirements of the FINRA rules for the presentation of fee and expense information in non-money market open-end funds' communications with the public, do not apply to closed-end fund or BDC advertisements or to non-money market fund open-end investment company advertisements to institutional investors. FINRA rules do not apply to investment company advertisements where a broker-dealer is not involved in disseminating the particular communication.[632]

C. Benefits and Costs

Where possible, we have attempted to quantify the benefits, costs, and effects on efficiency, competition, and capital formation expected to result from the rule amendments. We are providing both a qualitative assessment and quantified estimates of the potential economic effects of the rule amendments where feasible. As explained in more detail below, because we do not have, and in certain cases do not believe we can reasonably obtain, reliable quantitative evidence to use as a basis for our analysis, we are unable to quantify certain economic effects. For example, because the rule amendments will provide fund investors with more tailored, concise disclosures than they currently receive, it is possible that readership of the fund disclosures will

[626] Our estimate reflects the percent of open-end funds registered on Form N–1A that included a statement notifying investors of their intent to rely on rule 30e–3 in annual or semi-annual reports filed on Form N–CSR in 2020. *See also* Proposing Release, *supra* footnote 8 at n.738 (stating that, in a June 2019 survey, the ICI found that 97 percent of member funds responding to the survey planned to rely on rule 30e–3). We apply this same percentage to estimate the number of UITs that rely on rule 30e–3 to satisfy their obligations under rule 30e–2, as the Commission has historically taken a similar estimation approach, and we have no reason to believe this estimation approach is inappropriate. *See* Rule 30e–3 Adopting Release, *supra* footnote 20, at section III.

[627] *See supra* section I.A.3 (Evidence of Investor Preferences Regarding Fund Disclosure). This feedback generally showed that retail investors prefer concise, layered disclosure and feel overwhelmed by the volume of information they currently receive, with some individual investors specifically addressing and supporting a more concise, summary shareholder report. *See* Proposing Release, *supra* footnote 8, at nn.28–30 and accompanying text.

[628] *See supra* footnotes 47–51 and accompanying text; s*ee also, e.g.,* CFA Institute Comment Letter; Fidelity Comment Letter; Mutual Fund Directors Forum Comment Letter; SIFMA Comment Letter; TIAA Comment Letter; FS Investments Comment Letter.

[629] *See supra* section I.A.4.

[630] *See* Mutual Fund Sales Literature Interpretive Rule, Investment Company Act Release No. 10915 (Oct. 26, 1979) [44 FR 64070 (Nov. 6, 1979)] (''Rule 156 Adopting Release''); Investment Company Sales Literature Interpretive Rule, Investment Company Act Release No. 10621 (Mar. 8, 1979) [44 FR 16935 (Mar. 20, 1979)], at paragraph accompanying n.5.

[631] FINRA rule 2210, ''Communications with the Public,'' includes both general and specific standards for communications with the public, and requires non-money market fund open-end funds' communications with the public that include performance information to include certain specified fee and expense information, as discussed in *supra* sections I.A.4 and II.G.1. *See also, e.g.,* Fidelity Comment Letter and ICI Comment Letter (discussing the scope of FINRA rule 2210).

[632] *See* paragraphs accompanying *supra* footnotes 530, 539–542.

increase. We do not have reliable quantitative estimates of the extent to which the use of more concise disclosure will enhance readership compared to the baseline scenario in which funds continue to transmit the materials that investors now receive.

Similarly, changes in the format and content of the annual and semi-annual reports under the rule amendments may reduce the amount of time and effort that shareholders allocate to monitoring their fund investments and making portfolio decisions (that is, whether to buy additional shares, or to continue to hold or sell a fund investment). We also do not have reliable quantitative estimates of the extent to which the transmission of the more concise, tailored reports will reduce the amount of time and effort investors allocate to monitoring their fund investments or to making portfolio decisions, or the value of that time and effort to investors. Nor do we have such estimates for the baseline conditions, without the rule amendments. The Commission did not receive public comment regarding the specific estimates of benefits and costs in the Proposing Release, although it did receive comments suggesting that certain aspects of the shareholder report requirements would be more burdensome than the Commission estimated at the proposal. We have adjusted the proposal's annual estimated costs to reflect such comments and changes from the proposal (for example, requiring class-specific shareholder reports), as well as to reflect updated estimates of the number of affected funds and the wage rates.[633] In addition, in those circumstances in which we do not have quantitative evidence, we have provided a qualitative analysis of the economic impact of the rule amendments relative to the baseline environment. Our inability to quantify these costs, benefits, or other effects does not imply these effects are less significant from an economic perspective.

1. Broad Economic Considerations

The economic analysis of the benefits and costs of the rule amendments is based on broad economic considerations regarding fund disclosure and fund advertising.

a. Fund Disclosure

The rule amendments will provide fund shareholders with more concise and more readily usable disclosures that are consistent across funds and that highlight information that is key to retail shareholders for the purpose of monitoring fund investments and informing portfolio decisions, while providing layered access to other information that shareholders now receive that may be of more relevance to market professionals and some fund shareholders.

Under the new approach, funds will provide shareholders with annual and semi-annual reports that highlight key information, including fund expenses, performance, and portfolio holdings in a format that is consistent across funds.[634] Funds will tag their shareholder reports in Inline XBRL and will have flexibility to make electronic versions of their shareholder reports more user-friendly and interactive. Funds will be required to make other information, such as the schedule of investments and other financial statement elements, available to shareholders online and to deliver the information free of charge in paper or electronically upon request in addition to providing it on a semi-annual basis with the Commission on Form N–CSR. Shareholder reports will contain cover page legends directing investors to websites containing this information. Accessibility-related requirements that we are adopting will help ensure that investors can easily reach and navigate the information that appears online. The new shareholder report will replace the notice that some shareholders currently receive from open-end funds in reliance on rule 30e–3.

In addition, under the new approach, funds will be required to provide a separate shareholder report for each series and share class of a fund. This is a change from the proposal, which would not have required a separate shareholder report for each share class of a fund. The effect is to provide shareholders with information that is more concise and narrowly tailored to their specific investments in the funds and to reduce the complexity of the disclosures that shareholders receive. For example, shareholders who hold more than one class of a fund will receive separate reports, instead of a single report, although the reports may be provided in a single mailing or delivery under the final rule.[635]

Under the rule amendments, funds also will provide investors with disclosures that better enable them to make performance comparisons among funds and between funds and other investments.

The economic analysis of the effects of these amendments is based in part on the comments and evidence the Commission received in response to the Proposing Release and the Fund Investor Experience RFC and the investor testing and surveys that are discussed in section I.A.3 above.[636] It is also based in part on the evidence from academic studies that have documented potential benefits of providing more concise and tailored disclosure.

Recent academic studies have produced findings and conclusions that are consistent with our belief that investors will benefit from more concise and tailored disclosures under the rule amendments. Some of these studies were the subject of comments on the Proposing Release. For example, one commenter identified a study consistent with the conclusion that ''high-fee funds attempt to obfuscate their high fees.'' [637] Another commenter identified a study of fee disclosure reforms in Australia concluding that ''salient fee disclosure has a material impact on investors' decisions.'' [638]

[633] *See infra* footnote 724*; see also infra* section V for details on the adjustments to the cost estimates that we have made though adjustments to the PRA cost estimates, which are expressed as changes from the estimates in the Proposing Release in the estimated burden hours (and related costs) associated with relevant rule amendments.

[634] As discussed in section II.A, *supra,* the final rule amendments incorporate certain changes from the proposal to address commenters' feedback. These changes are discussed in more detail above. However, the final rules' layered disclosure approach mirrors the layered disclosure approach that the proposal incorporated, and (except as noted in section II.D *supra*) the content items that would appear in the proposed shareholder report cover the same topics as the contents that the final rules require.

[635] *See* Instruction 12 to Item 27A(a) of amended Form N–1A.

[636] For more discussion of the comments on the Proposing Release, *see supra* sections II.A–II.G.

[637] *See* Wharton Comment Letter (citing paper by Ed deHaan, et. al, *Obfuscation in Mutual Funds* 72 J. Acct. & Econ. No. 2/3 (Mar. 13, 2020, revised Jul. 12, 2021), *available at https://ssrn.com/abstract=3540215; see also* Bruce I. Carlin, *Strategic Price Complexity in Retail Financial Markets,* 91 J. Fin. Econ., 278–287 (March 2009).

[638] *See* Comment Letter of Kingsley Fong (Jan. 4, 2021) (citing abstract by Roger M. Edelen et. al., *Disclosure, Inattention and Conflicted Remuneration in Financial Advice* (citation omitted)). Edelen et al. present a study of the effects a 2012 Australian law known as the Future of Financial Advice (FOFA). They find that the law's required disclosure of an ''advice fee'' in a stand-alone Fee Disclosure Statement led to an ''economically and statistically significant'' change in client (investor) behavior. In addition, they find evidence of further changes in investor behavior from the law's requirement that investors must ''opt into'' financial advice. The evidence of an effect of an opt-in requirement, even in the presence of the Fee Disclosure Statement, indicates that investors can benefit from reforms that go beyond enhanced salience to address investor inattention. (''Our evidence confirms the literature view that salient fee disclosure has a material impact on investors' decisions. But our evidence on the FOFA opt-in requirement is more novel and arguably more important.'')

In the proposal, we considered studies that applied to certain elements of the rule amendments in addition to studies that applied more broadly to the framing of our analysis of the economic impact. Some of the research that we considered identified characteristics that may increase the effectiveness of a disclosure document to consumers, as discussed below.[639]

Specifically, the research we considered suggests that, because individuals can exhibit limited ability to absorb and understand the implications of the disclosed information, for example due to limited attention or low level of financial sophistication,[640] more targeted and simpler disclosures may be more effective in communicating information to investors than more complex disclosures. Specifically, the academic studies that we considered suggest that costs, such as from increased investor confusion or reduced understanding of the key elements of the disclosure, are likely to increase as disclosure documents become longer, more complex, or more reliant on narrative text.[641] Consistent with such findings, other empirical evidence suggests that disclosure simplification may benefit consumers of disclosed information.[642] This research supports the notion that shorter and more focused disclosures could be more effective at increasing investor understanding than longer, more complex disclosures. For example, a concise shareholder report could more effectively communicate information to investors than current shareholder reports.

Another characteristic of effective disclosures documented in the academic research that we considered is disclosure salience.[643] Salience detection is a key feature of human cognition allowing individuals to focus their limited time and attention on a subset of the available information and causing them to place relatively greater weight on this information in their decision-making processes.[644] Within the context of disclosures, information disclosed more saliently, such as information presented in bold text, or at the top of a page, tends to be more effective in attracting attention than less saliently disclosed information, such as information presented in a footnote. Some research finds that more visible disclosure signals are associated with stronger stakeholder responses to these signals.[645] Moreover, some research suggests that increasing signal salience is particularly helpful to consumers with lower education levels and lower financial literacy.[646] There is also empirical evidence that visualization improves individual perception of information.[647] For example, one experimental study shows that tabular reports lead to better decision making and graphical reports lead to faster decision making (when people are subject to time constraints).[648] Overall, these findings suggest that problems such as limited attention may be alleviated if key information in shareholder reports is emphasized, is reported closer to the beginning of the document, and is visualized in some manner (*e.g.,* tables, graphs, bullet lists). However, it is also important to note that, given a choice, registrants may opt to emphasize elements of the disclosure that are most beneficial to themselves rather than investors, while deemphasizing elements of the disclosure that they regard as least beneficial.

There is also a trade-off between allowing more disclosure flexibility and ensuring more disclosure comparability (*e.g.,* through a more consistent approach to disclosure across funds). Greater disclosure flexibility potentially allows the disclosure to reflect more relevant information, as disclosure providers can tailor the information to firms' own specific circumstances. Although disclosure flexibility allows for disclosure of more decision-relevant information, it also allows registrants to emphasize information that is most beneficial to themselves rather than investors, while deemphasizing information that is least beneficial to the registrants.[649] Economic incentives to present one's operations and performance in a better light may drive funds to deemphasize information that may be relevant to retail investors. Moreover, although the requirement for a consistent approach across funds can make it harder to tailor disclosed information to a fund's specific circumstances, it also comes with some benefits. For example, people are generally able to make more coherent and rational decisions when they have comparative information that allows them to assess relevant trade-offs.[650]

In addition, studies have found that changes in the structure or format of disclosure can improve (or decrease) investor understanding of the disclosures being made. Every disclosure document not only presents new information to retail investors but also provides a particular structure or format for this information that affects investors' evaluation of the

[639] *See* George Loewenstein et al., *Disclosure: Psychology Changes Everything,* Harv. Pub. L. (working paper no. 13–30, Aug. 18, 2013) (''Loewenstein Paper''), *available at https://ssrn.com/abstract=2312708* (retrieved from SSRN Elsevier database). The paper provides a survey of the literature regarding disclosure regulation.

[640] *See, e.g.,* David Hirshleifer & Siew Hong Teoh, *Limited Attention, Information Disclosure, and Financial Reporting* (Sept. 2003) (''Hirshleifer & Teoh Study'') *available at https://ssrn.com/abstract=334940;* Lauren E. Willis, *Decision Making and the Limits of Disclosure: The Problem of Predatory Lending: Price,* 65 MD. L. REV. 707 (2006).

[641] *See, e.g.,* Samuel B. Bonsall & Brian P. Miller, *The Impact of Narrative Disclosure Readability on Bond Ratings and the Cost of Debt,* 22 Rev. Acct. Stud. 608 (2017) and Alistair Lawrence, *Individual Investors and Financial Disclosure,* 56 J. ACCT. & ECON. 130 (2013).

[642] *See, e.g.,* Sumit Agarwal, *et al., Regulating Consumer Financial Products: Evidence from Credit Cards* Nat'l Bureau of Econ. Rsch (working paper no. 19484, Sept. 28, 2013, last revised Mar. 28, 2022), *available at https://ssrn.com/abstract=2332556* (finding that a series of requirements in the Credit Card Accountability Responsibility and Disclosure Act (CARD Act), including several provisions designed to promote simplified disclosure, have produced substantial decreases in both over-limit fees and late fees, thus saving U.S. credit card users $12.6 billion annually).

[643] *See, e.g.,* Pedro Bordalo *et al., Salience,* 14 Ann. Rev. Econ. (2022) (reviewing the growing economics literature on salience and economic behavior).

[644] *See* Daniel Kahneman, *Thinking Fast And Slow,* Farrar, Straus and Giroux, 1st ed. (Apr. 2, 2013) and Shelley E. Taylor, *Social Cognition: From Brains To Culture* SAGE Publ'n Ltd., 3d ed. (Mar. 15, 2017).

[645] *See* Hirshleifer & Teoh Study, *supra* footnote 640.

[646] *See, e.g.,* Victor Stango & Jonathan Zinman, *Limited and Varying Consumer Attention: Evidence from Shocks to the Salience of Bank Overdraft Fees,* 27 REV. FIN. STUD. 990 (2014).

[647] *See* John Hattie, *Visible Learning: A Synthesis Of Over 800 Meta-Analyses Relating To Achievement,* Routledge; 1st ed. (Nov. 18, 2008).

[648] *See* Izak Benbasat & Albert Dexter, *An Investigation of the Effectiveness of Color and Graphical Information Presentation Under Varying Time Constraints,* 10 Mgmt. Info. Sys. Q. no. 1 (Mar. 1986).

[649] This flexibility, however, operates within a statutory and regulatory framework that addresses materially misleading statements and omissions by issuers. *See, e.g.,* section 10(b) of the Exchange Act; rule 10b–5 under the Exchange Act; *see also supra* footnote 543 and accompanying text (discussing FINRA rules that require all member communications to be fair and balanced and not misleading).

[650] *See, e.g.,* Jeffrey R. Kling, et al., *Comparison Friction: Experimental Evidence from Medicare Drug Plans,* 127 Q. J. Econ. 199 (2012) (finding that in a randomized field experiment, in which some senior citizens choosing between Medicare drug plans that were randomly selected to receive a letter with personalized, standardized, comparative cost information (''the intervention group'') while another group (''the comparison group'') received a general letter referring them to the Medicare website, plan switching was 28% in the intervention group, but only 17% in the comparison group, and the intervention caused an average decline in predicted consumer cost of about $100 a year among letter recipients); Christopher K. Hsee, et al., *Preference Reversals Between Joint and Separate Evaluations of Options: A Review and Theoretical Analysis,* 125 Psychol. Bull. 576 (1999).

disclosure.[651] This ''framing effect'' could lead investors to draw different conclusions depending on how information is presented. Because of such framing effects, it is important that the structure of a disclosure document supports the intended purpose of the disclosure.

b. Advertising

The final advertising rule amendments will enhance the transparency of the fees and expenses that are associated with investing in a particular investment company.[652] To obtain this improvement in transparency, the amendments will require that presentations of fund fees and expenses in registered investment company and BDC advertisements and sales literature be consistent with the relevant prospectus fee table presentations and be reasonably current.[653] These rule amendments will require that funds use a consistent approach to the presentation of the fee and expense information that appears in fund advertisements and add to the pertinent factors that should be considered to determine whether or not a particular representation is materially misleading.[654]

Regarding the presentation of fees and expenses, the amendments to rules 482, 433 and 34b–1 will require that investment company advertisements providing fee or expense figures for the investment company include certain standardized fee and expense figures, and that these figures must adhere to certain prominence and timeliness requirements.[655] The amendments will apply to advertisements of any registered investment company or BDC. The amendments will require that the fee and expense presentations prominently include timely information about a fund's maximum sales load (or any other nonrecurring fee) and gross total annual expenses, computed in a manner that is consistent with relevant prospectus requirements. Further, if an advertisement includes an investment company's total annual expenses net of a fee waiver or expense reimbursement amount in addition to the required gross annual expense figure, the advertisement will need to disclose the expected termination date of that arrangement.

Regarding materially misleading statements, the amendments to rule 156 will add to the pertinent factors that should be considered to determine whether or not a particular representation is materially misleading. The rule amendments provide that, when considering whether a particular statement involving a material fact is or might be misleading, weight should be given to representations about the fees or expenses associated with an investment in the fund that could be misleading because of statements or omissions involving a material fact.

By enhancing the transparency and salience of the fees and expenses in fund advertising materials, we expect that the rule amendments will reduce investor search costs and reduce the risk of a mismatch between investor preferences and investor choice while also introducing certain new costs in the production and delivery of fund advertising to investors. Costs could include costs to funds (and their intermediaries) of assessing compliance with the new requirements we are adopting in relation to the requirements of FINRA's rules on communications with the public, to the extent that a communication could be subject to both sets of requirements.[656] These effects may vary across investors and funds according to the conditions of their participation in the market for financial products.[657]

The economic analysis of the effects of the final advertising rule amendments is based in part on the observation that, in recent years, many funds have reduced the fees they charge to investors and on comments that the Commission received on the Proposing Release.[658] The staff has observed that some funds have highlighted low fees in their advertising materials as a salient factor for investors to consider when choosing among funds.[659] For example, we understand that some funds are advertised as ''zero expense'' or ''no expense'' funds based on the information included in their prospectus fee tables, potentially leading investors to believe these funds impose no costs even though the adviser or an affiliate may be collecting fees or incurring money otherwise from the investor's fund investment. As a result, investors may be more likely today to consider a fund's fees when making their investment choices than they were when the Commission last updated the investment company advertising rules.[660] Also as a result, funds may face increased incentives to understate or obscure fees in their advertising materials. This is distinct from the incentives of funds to incur marketing costs to influence the likelihood of being observed by investors.[661]

Advertising can benefit investors by reducing information asymmetries and thereby lowering investor search costs, leading to more efficient matches between investor preferences and choices. The effectiveness of advertising in lowering search costs and improving match efficiency depends on the accuracy of the information and on the investor's ability to understand the information.[662] Indeed, it is possible for

[651] *See* Amos Tversky & Daniel Kahneman, *The Framing of Decisions and the Psychology of Choice,* 211 Sci. 453 (1981).

[652] As detailed in section I.A.4 *supra,* investment company advertisements typically are prospectuses for purposes of the Securities Act. Rule 34b–1 under the Investment Company Act is designed to help prevent performance claims in supplemental sales literature from being misleading and to promote comparability and uniformity among supplemental sales literature and covered advertisements.

[653] *See supra* section II.G.1 (discussion of final rule amendments regarding fund advertisements).

[654] *See supra* sections II.G.1–II.G.2.

[655] *See supra* section II.G.1.

[656] *See also infra* text following footnote 666.

[657] For example, we understand that the registration statement forms for variable insurance product separate accounts do not require that total annual expense figures be presented, and therefore, we understand that total annual expense figures are not presented in these separate accounts' prospectuses. *See supra* footnote 523 and accompanying text. The final amendments addressing the required fee and expense figures are inapplicable if an investment company does not present total annual expense figures in its prospectus, and therefore these amendments would be inapplicable to advertisements for such variable insurance contracts. *See* section II.G.1 *supra. But see supra* paragraph accompanying footnote 562 (discussing variable contract advertisements that could be materially misleading under rule 156).

[658] *See supra* section II.G for discussion of comments on the advertising rule amendments. Some commenters stated that the advertising rule amendments should help investors make more informed investment decisions by more easily comparing costs among various funds. *See* Better Markets Comment Letter; Consumer Federation of America II Comment Letter; John Hancock Comment Letter. In addition, some commenters stated that the proposed amendments were not necessary in light of FINRA rules addressing fee and expense information in retail communications. *See* Fidelity Comment Letter; ICI Comment Letter.

[659] Comments that the Commission received on the Proposing Release similarly recognized ''the trend for some funds to market their investment products based on claims of low or no fees.'' *See* CFA Institute Comment Letter; *see also* Consumer Federation of America II Comment Letter (discussing concerns that accompany funds being ''increasingly marketed on the basis of costs'').

[660] *See, e.g.,* Michael Goldstein, *Issues Facing the U.S. Money Management Industry: Presentation to SEC Asset Management Advisory Committee* (Jan. 2020), at 27–28, *available at https://www.sec.gov/files/Empirical-Research-Issues-Facing-US-MM.pdf;* Ben Phillips, *Remarks and Discussion: U.S. Securities and Exchange Commission, Asset Management Advisory Committee* (Jan. 14, 2020), at 2, 8, and 15, *available at https://www.sec.gov/files/BenPhillips-CaseyQuirk-Deloitte.pdf.*

[661] *See, e.g.,* Nikolai Roussanov, et al., *Marketing Mutual Funds,* Nat'l Bureau Econ. Rsch.(working paper no. 25056, Jan. 3 2018, last revised Sep. 11, 2020), *available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3093438* (''Roussanov, et al.'') (developing and estimating a structural model of the effects of mutual fund marketing with costly investor search).

[662] For example, Edelen et al. (2021) study a regulatory change for financial advisers that

investors to be made worse off by fund marketing efforts. For example, a positive relation between funds' marketing efforts and investor flows (cash investment from investors) is well-documented among mutual funds.[663] In that context, the adviser to the fund bears marketing expenses as part of its total operating cost, and fund shareholders are found to bear some of that cost in the form of fund expenses—unless shareholders react by switching to a similar fund that has lower expenses. One study observed that funds charge higher fees to cover the marketing cost as they engage in an ''arms race'' for similar pools of investors.[664] Some of this cost is passed on to investors according to their abilities to distinguish among funds and thus ultimately their costs of searching across funds. The authors suggest that as fees increase, investors with a high search cost would be more likely to be made worse off by the increase in fees and related marketing expenditures than those with low search costs.[665] This is because the investors with the high search costs would be more likely to match with asset managers of poor ability, and because the higher fees would reduce returns.

The effects of the advertising rule amendments will be relatively greater for advertising materials that are not currently covered by the FINRA advertising rules. Specifically, as discussed in section II.G.1.a, the objectives of some of the FINRA advertising rules are similar to those of the rule amendments, even while the scope of the FINRA advertising rules is narrower than that of the final advertising rule amendments.[666] To the extent that a fund's advertisements that include fee and expense information already reflect the requirements of FINRA rule 2210(d)(5), which includes specific requirements for the presentation of fee and expense information, the beneficial effects of the advertising rule amendments will be relatively smaller than for the advertising materials of a fund that is not currently subject to the FINRA rule's requirements (*e.g.,* because it is not an open-end fund, because it is intended for non-retail audiences, or because a broker-dealer is not involved in disseminating the particular communication).

2. New Approach for Funds' Shareholder Reports

The following sections discuss the potential costs and benefits of the rule amendments' approach to funds' shareholder reports. Table 7 provides an overview comparison of the shareholder content and transmission outcomes with the rule amendments versus without the rule amendments.

TABLE 7—SHAREHOLDER REPORT CONTENT AND TRANSMISSION WITH AND WITHOUT THE RULE AMENDMENTS

Fund relies on rule 30e–3?	Shareholder requests electronic delivery	Fund relies on rule 30e–3, and Shareholder requests paper delivery	Shareholder makes no delivery election
Yes	With rule: Email with link to streamlined 3–4 page report. Without rule: Email with link to 100+ page report.	With rule: Paper mail with streamlined 3–4 page report.. Without rule: paper mail with 100+ page report. (Printing and mailing cost decrease and processing fee decrease).	With rule: Paper mail with streamlined 3–4 page report. Without rule: Paper mail with 1 page notice including link to 100+ page online report. (Printing and mailing cost increase and processing fee decrease).[667]
No	With rule: Email with link to streamlined 3–4 page report. Without rule: email with link to 100+ page report.	N/A	With rule: Paper mail with streamlined 3–4 page report. Without rule: Paper mail with 100+ page report. (Printing and mailing cost decrease).

Notes: Page lengths are illustrative and likely to vary across funds.[668] The costs and benefits of the required modification to shareholder report transmission under the rule amendments will vary across the baseline transmission scenarios—*i.e.,* the scenario that would be in place at the time of the rule implementation if the current rules had remained in place—that are shown in the table. Some of the costs and benefits will be transitional and others will be sustained. Each will depend on factors beyond what appears in the table, as discussed below. In addition, under the rule amendments, shareholders may request delivery of paper or electronic copies of the documents that funds will be required to make available online. As discussed above, we estimate that the report lengths for the semi-annual and annual reports are 116 and 134 pages, respectively, and that the streamlined shareholder report is a trifold (3–4 pages).

required salient annual fee disclosure and biennial opt-in (unresponsive clients default out of advice), and banned conflicted remuneration. They conclude that requiring salient disclosure has a material impact on investors' decisions and that other factors including investor attention play a role in determining investor choice. *See supra* footnote 638.

[663] *See, e.g.,* Prem Jain & Joanna Wu, *Truth in Mutual Fund Advertising: Evidence on Future Performance and Fund Flows,* 2 J. FIN 937 (Apr. 2000) (finding that advertising in funds increases flows (comparing advertised funds with non-advertised funds closest in returns and with the same investment objective)); Steven Gallaher, Ron Kaniel & Laura T. Starks, *Madison Avenue Meets Wall Street: Mutual Fund Families, Competition and Advertising* (Jan. 31, 2006), *available at https://ssrn.com/abstract=879775;* Ron Kaniel & Robert Parham, *WSJ Category Kings—The Impact of Media Attention on Consumer and Mutual Fund Investment,* Simon Bus. Sch. (working paper no. FR–15–07, Nov. 18, 2015), *available at https://ssrn.com/abstract=2556627* (finding a significant and positive impact of advertising expenditures and the resulting media prominence of the funds on fund inflows).

[664] *See* Roussanov, et al., *supra* footnote 661.

[665] *See id.* (''Heterogeneity in search costs faced by investors captures the wide variation in financial sophistication (and perhaps even cognitive ability) required to consider and analyze the different investment alternatives.'').

[666] *See, e.g.,* Fidelity Comment Letter; ICI Comment Letter. Commenters questioned the need for the proposed amendments in light of FINRA's current requirements that address communications with the public, as discussed in section *II.G.1.a.*

[667] According to one comment on the Proposing Release, the mailing of streamlined shareholder reports instead of rule 30e–3 notices would provide estimated savings to fund companies of between $15 million and $20 million in calendar year 2023, primarily from the elimination of the regulated incremental notice & access fee with a slight offset in higher print costs for streamlined shareholder reports (assuming 80% of streamlined shareholder reports will be distributed digitally). According to this comment, streamlined shareholder reports would not entail regulated incremental notice & access fees for fund report notice & access mailings. *See* Broadridge Comment Letter (''Delivery Cost Savings of Streamlined Shareholder Reports: Mailing streamlined shareholder reports instead of notices would provide modest additional savings to fund companies. We estimate the extra savings would be between $15 million and $20 million in calendar year 2023. Much of the added savings is from reduced processing fees.'').

[668] *See supra* footnote 34 and accompanying text (discussing the average page length of shareholder report based on staff analysis).

a. Benefits

The benefits of the rule amendments include benefits from the introduction of the new streamlined shareholder reports, savings in the cost of transmission, and benefits from the Form N–CSR amendments.

i. Streamlined Shareholder Reports

The transmission of more concise and visually engaging shareholder reports by funds under the approach of the rule amendments is likely to reduce the investor effort required to monitor existing fund investments and to make subsequent portfolio decisions.[669] Key information provided in a concise, user-friendly presentation could allow investors to understand information about a fund's operations and activities and to compare information across products more easily or efficiently. This may lead investors to make decisions that better align with their investment goals.[670]

The amendments to the definition of the broad-based index will require that funds provide investors with more reliable and consistent access to information about the performance of the fund relative to the performance of a broad market portfolio of securities than under current rules. Some investors in funds that do not currently benchmark their performance against an index that would qualify as an ''appropriate broad-based securities market index'' under the definition in the final rules will gain access to information about the fund's performance against an index that represents that overall applicable debt or equity markets under the rule amendments.[671] Funds that currently present performance relative to an index that would not qualify as an ''appropriate broad-based securities market index'' under the definition in the final rules may continue to provide this information to investors alongside information about the performance of the broad-based index.[672] All investors will therefore have, and may benefit from, reliable access to information about the performance of the fund relative to the required broad-based benchmark, either as the only benchmark or in addition to another benchmark, under the rule amendment.[673] To the extent that some investors already have easy access to information about the performance of commonly recognized indexes of broad market performance, from sources other than fund disclosure documents, some commenters suggested that those investors may not realize benefits from the new definition.[674]

Some commenters on the proposal suggested that the required benchmarking of fund performance against a broad-based index could affect the level of confusion that investors may face when interpreting fund performance disclosures.[675] The potential effects may vary across funds and investors. The views of commenters on the effect on investor confusion were mixed. For some investors, the required use of a broad-based index as a benchmark will reduce the level of confusion by requiring consistency across funds in the reporting of fund performance relative to a benchmark. Currently, confusion can arise from the practice of some funds using a broad-based index as a benchmark and others using another, narrower index. This creates the potential for investors to confuse the two benchmarks when comparing the performance reports of different funds. The rule amendment would reduce this source of potential confusion. However, for investors who prefer or anticipate fund disclosure relative to a narrower benchmark, the rule amendments would introduce potential for confusing the broad-based index for a narrow index by requiring funds to disclose performance relative to the broad-based index. The requirement to report performance relative to both broad and narrow indexes for those funds that prefer to retain the narrow index will limit the potential for such confusion, which will decline over time as investors gain experience with the new disclosure framework.

By limiting each shareholder report to information about a single series and share class of a fund, the rule amendments will further reduce the complexity of the shareholder report by focusing it more narrowly on the shareholder's fund investment.[676] Shareholders will then be able to identify information more quickly the series and class in which they invest, instead of having to find their fund in a long report that covers multiple series, funds and classes.

The rule amendments require funds to distill certain key information—such as expenses, performance, and holdings—and use graphs, tables, and other more visually engaging presentations using the approach of the rule amendments in their shareholder reports.[677] By

[669] Many commenters have expressed support for the new approach to funds' shareholder reports with layered disclosure, as detailed in section I.A.3. *See, e.g.,* Mutual Fund Directors Forum Letter; SIFMA Comment Letter; CFA Institute Comment Letter; Fidelity Comment Letter.

[670] Research suggests that individuals are generally able to make more efficient decisions when they have comparative information that allows them to assess relevant trade-offs. *See, e.g., supra* footnote 650.

[671] This release discusses the anticipated benefits of this disclosure approach above. *See supra* paragraph accompanying footnotes 221–226.

[672] As under current rules, funds will be required to present their performance relative to the performance of an ''appropriate broad-based securities market index'' under the final rules. The amended instructions to the form requirements, however, include a new definition of ''broad-based'' index, which defines this term as ''an index that represents the overall applicable domestic or international equity or debt markets, as appropriate.'' As under current rules, the final rules the Commission is adopting continue to allow funds to present performance relative to narrower, tailored indexes. *See supra* section II.A.2. Commenters indicated that the two types of benchmark disclosures benefit investors in different ways. First, by including a broad-based index, consistent with the new definition, funds will provide investors with easier access to information about the fund performance relative to the performance of the entire market. *See, e.g.,* NASAA Comment Letter (regarding the purpose of this benchmarking as ensuring investors of a simple readily-accessible window into the performance of a specific investment fund against the broader performance of the securities markets). *See also* Mary and Tom Comment Letter and Ubiquity Comment Letter. Second, by including information about performance relative to a second, narrower benchmark, funds may provide investors with information about how the fund performance tracks that of funds with similar strategies. *See, e.g.,* Capital Group Comment Letter (helpful for investors to compare with a blend of indexes representing the typical asset allocation of the fund is more appropriate for certain types of funds that invest in multiple asset classes); Dimensional Comment Letter (a more precise comparison allows investors to better evaluate how effectively the fund has pursued its stated strategy); ICI Comment Letter (providing examples of the use of appropriate tailored benchmarks for setting advisers' performance-based fees and for other purposes that include evaluating the performance of a technology fund *as a technology fund*); John Hancock Comment Letter (fund performance comparisons to indexes are commonly used during the annual review of advisory agreements performance by a fund's board of trustees); Morningstar Comment Letter (the appropriate benchmark needs to be matched to the investment strategy of the fund, such as a value fund should be matched to an index of value stocks); T. Rowe Price Comment Letter (the appropriate index for evaluating the performance of a technology fund as a technology fund is not a broad-based index); TIAA Comment Letter (the most relevant comparison for investors is the index—with a similar investment strategy or level of exposure—against which the fund (and its board) benchmarks for performance purposes).

[673] The individuals who participated in the OIAD Benchmark Study ''overwhelming expressed a preference for a graph with both narrow and broad benchmarks.'' This study focused on benchmarks for actively managed equity funds. *See supra* footnote 53.

[674] *See, e.g.,* ICI Comment Letter (performance information for commonly recognized indexes may be free to investors and easily accessible through different widely available channels (*e.g.,* online news or financial websites).

[675] *See, e.g.,* Capital Group Comment Letter, ICI Comment Letter, SIFMA Comment Letter, T. Rowe Price Comment Letter.

[676] *See supra* sections II.A.1.a–b.

[677] *See supra* footnotes 647 and 648 and accompanying text (discussing studies suggesting that visualization improves an individual's perception of information).

providing conditions under which funds have flexibility in using technology to provide interactive or user-friendly features in electronic versions of their shareholder reports, the rule amendments may provide shareholders with access to information that is more tailored to their individual needs and circumstances (*e.g.,* performance or expense information based on their individual investment amounts), which may facilitate better monitoring of fund investments or more informed investment decisions.

There is evidence to suggest that consumers benefit from disclosures that highlight key information.[678] Some studies have found that the benefit occurs from the ability of investors to spend less time making their investment decisions. For example, one study finds that the use of summary prospectuses helps investors spend less time and effort to make investment decisions.[679] This research is consistent with the 2012 Financial Literacy Study, which showed that at least certain investors favor a layered approach to disclosure with the use, wherever possible, of tailored disclosures containing key information about an investment product or service.[680] We understand that investors may prefer a layered approach to save time in reaching similar investment decisions, although the enhanced salience of the information that investors receive through the layered approach also could lead to better decisions. [681]

Further, investors allocate their attention selectively,[682] and the sheer volume of disclosure that investors receive about funds may discourage investors from reading the materials that are currently delivered to them. For example, in connection with the development of the summary prospectus, the observations of a 2008 telephone survey conducted on behalf of the Commission with respect to mutual fund statutory prospectuses are consistent with the view that the volume of disclosure may discourage investors from reading disclosures.[683] That survey observed that many mutual fund investors did not read statutory prospectuses because they are long, complicated, and hard to understand. Responses to investor surveys, based on the feedback fliers addressing the Proposing Release, and on the Fund Investor Experience RFC, similarly suggest that shareholders may be more likely to read more concise shareholder reports.[684] If the rule amendments increase readership of fund shareholder reports, they could improve the efficiency of portfolio allocations made on the basis of disclosed information for shareholders who otherwise would not have read the fund disclosures.

Other information that shareholders currently receive under the baseline, including financial statements and financial highlights, will be available online and delivered upon request to those shareholders who are interested in more detailed information.[685] As a result, shareholders who use this information to monitor their fund investments or inform portfolio decisions could continue to access and use this information.

By tailoring the information that funds provide to meet the needs of retail shareholders, the rule amendments could facilitate better or more efficient monitoring of fund investments and overall investment decision-making.[686] The magnitude of this effect will depend on the extent to which investors review the disclosures directly as a basis for their choices.

The requirement that funds tag their shareholder reports in Inline XBRL, a structured (*i.e.,* machine-readable) data language, could provide further informational benefits to fund shareholders by making the reports more readily available for aggregation, comparison, filtering, and other analysis. Retail investors may derive particular benefit from the assembly and analysis of fund disclosures by third parties (such as financial analysts and data aggregators) that make the disclosures more informative and understandable.[687] For example, XBRL requirements for public operating company financial statement disclosures have been observed to improve investor understanding of the disclosed information.[688] While those observations are specific to operating company financial statement

[678] *See, e.g., supra* footnote 642; *see also* Robert Clark, et al., *Can Simple Informational Nudges Increase Employee Participation in a 401(k) Plan?,* Nat'l Bureau Econ. Rsch. (working paper no. 19591, Oct. 2013), *available at https://www.nber.org/papers/w19591.* The authors find that a flyer with simplified information about an employer's 401(k) plan, and about the value of contributions compounding over a career, had a significant effect on participation rates.

[679] *See* John Beshears, et al., *How Does Simplified Disclosure Affect Individuals' Mutual Fund Choices?* Nat'l Bureau Econ. Rsch. (working paper no. 14859, Apr. 2009, revised Dec. 2011), *available at https://www.nber.org/papers/w14859.*

[680] *See* SEC Staff, *Study Regarding Financial Literacy Among Investors: As Required by Section 917 of the Dodd-Frank Wall Street Reform and Consumer Protection Act* (Aug. 2012) (''Financial Literacy Study''), *available at https://www.sec.gov/files/917-financial-literacy-study-part1.pdf.*

[681] The evidence from academic studies of whether and how salient disclosure affects investor choice is mixed. For example, Edelen et al, *supra* footnote 638, reports (in a study finding that ''increased salience helps nudge clients toward better decisions'') that the effects of salience on investor attention are limited relative to other factors (including client literacy, gender and behavioral biases); Beshears, et al., *supra* footnote 679, conclude (in a study finding that investors spend less time making investment decisions when they are able to use summary prospectuses) that the use of the summary prospectus does not affect investors' portfolio investor choices (in particular, ''On the positive side, the Summary Prospectus reduces the amount of time spent on the investment decision without adversely affecting portfolio quality. On the negative side, the Summary Prospectus does not change, let alone improve, portfolio choices. Hence, simpler disclosure does not appear to be a useful channel for making mutual fund investors more sophisticated . . . .'').

[682] *See, e.g.,* Loewenstein Paper, *supra* footnote 639; Hirshleifer and Teoh Study, *supra* footnote 640.

[683] Prior to the Commission's 2009 adoption of mutual fund summary prospectus rules, the Commission engaged a consultant to conduct focus group interviews and a telephone survey concerning investors' views and opinions about various disclosure documents filed by companies, including mutual funds. During this process, investors participating in focus groups were asked questions about a hypothetical summary prospectus. Investors participating in the telephone survey were asked questions relating to several disclosure documents, including mutual fund prospectuses. *See* Abt SRBI, Inc., *Final Report: Focus Groups on a Summary Mutual Fund Prospectus* (May 2008), *available at https://www.sec.gov/comments/s7-28-07/s72807-142.pdf.*

[684] *See, e.g., supra* section I.A.3 (describing survey findings presented in Broadridge Comment Letter); *see also, e.g.,* Proposing Release, *supra* footnote 7, at n.44 (discussing: (1) the results of a quantitative survey related to fund disclosure in which approximately 39% of investors said they would be more likely to look at or review a summary format of a fund's annual and semi-annual reports, as well as (2) an investor survey of a summary shareholder report prototype, in which more than 90% of participants indicated that they would be more likely to read the summary prototype than a full-length shareholder report).

[685] *See supra* section II.C.

[686] *See infra* section IV.D regarding effects on competition.

[687] *See infra* footnote 689. Retail investors in operating companies have been observed to rely heavily on analyst interpretation of financial information. *See, e.g.,* Alastair Lawrence, James P. Ryans, & Estelle Y. Sun, *Investor Demand for Sell-Side Research,* 92 Acct. Rev. 2 (2017).

[688] *See, e.g.,* Jacqueline L. Birt, Kala Muthusamy & Poonam Bir, *XBRL and the Qualitative Characteristics of Useful Financial Information,* 30 Account. Res. J. 107 (2017) *available at https://econpapers.repec.org/RePEc:eme:arjpps:arj-11-2014-0105* (finding ''financial information presented with XBRL tagging is significantly more relevant, understandable and comparable to non-professional investors''); Steven F. Cahan, et al., *The roles of XBRL and Processed XBRL in 10–K Readability,* J. Bus. Fin. Acct. (2021), *available at https://ssrn.com/abstract=4030204* (finding 10–K file size reduces readability before XBRL's adoption since 2012, but increases readability after XBRL adoption, indicating ''more XBRL data improves users' understanding of the financial statements''); Jap Efendi, et. al., *Does the XBRL Reporting Format Provide Incremental Information Value? A Study Using XBRL Disclosures During the Voluntary Filing Program,* 52 ABACUS 259 (2016), *available at https://ssrn.com/abstract=2795334* (retrieved from SSRN Elsevier database) (finding XBRL filings have larger relative informational value than HTML filings).

disclosures (including footnotes), and not to disclosures from funds outside the financial statements, they indicate that the proposed Inline XBRL requirements could provide fund investors with increased insight into key fund information (*e.g.,* expenses, performance, and holdings) at specific funds and across funds, asset managers, and time periods.[689]

In addition, the rule amendments that exclude funds from rule 30e–3 will have the effect of enabling some fund shareholders to receive key information to monitor their fund investments or inform their investment decisions more directly as compared to the baseline. This may lead to more efficient allocation of capital across funds and other investments.[690]

The magnitude of these effects of the rule amendments will generally depend on how many shareholders rely on the reports that are the subject of the rule amendments to monitor their funds.[691] In addition, it will depend on whether and how the current users of the reports change the way they monitor their investments in response to the tailored disclosures and, for other shareholders, how many will choose to rely on the reports under the rule amendments.

ii. Transmission Cost Savings

The rule amendments will reduce some of the costs to funds of providing information to shareholders. As the owners of the fund assets, shareholders could benefit from this cost reduction in proportion to their holdings of those assets. The amount of the cost savings will vary across funds, depending on the expressed preferences of the fund and its shareholders for paper versus electronic delivery consistent with the Commission guidance on electronic delivery and, with respect to shareholder reports, rule 30e–3 notices. The scenarios where transmission costs may decline under the rule amendments, relative to the baseline scenario, are indicated in Table 7 and discussed below. The rule amendments will reduce the cost of transmitting a shareholder report by a larger per-fund amount for funds that do not rely on rule 30e–3 (transmit the full report) than for funds that rely on rule 30e–3 (transmit a notice).[692] Thus, we consider separately the transmission-cost savings from the rule amendments for funds under each of these two baseline transmission scenarios.

For funds that do not rely on rule 30e–3, the rule amendments will reduce transmission costs by replacing the cost of transmitting current annual and semi-annual reports with the lower cost of transmitting the concise reports to those shareholders who do not request e–delivery. The transmission cost includes the cost of printing, mailing and processing fees. We estimate that funds will transmit annual and semi-annual reports as trifold mailings (3–4 pages) under the rule amendments instead of the annual reports that are approximately 134 pages on average and the semi-annual reports that are approximately 116 pages on average. One commenter on the Fund Investor Experience RFC estimated that transmitting a concise shareholder report instead of the current shareholder reports will reduce the per unit cost of transmission from $0.50 to $0.33 annually, which is a reduction of $0.17 per unit or 34 percent.[693] The commenter's per unit transmission cost estimates assume that 3 out of 10 fund shareholders receive a shareholder report by mail.[694] We understand that these costs may or may not be representative of the costs for all funds. For example, the commenter's estimates are based on costs for delivering shareholder reports to shareholders who hold their shares in beneficial accounts and may not reflect any differences in costs for directly held accounts.[695] Nevertheless, we believe that the estimate of 34 percent is a reasonable estimate of the likely decline in the per-unit cost of delivering the concise report for funds that do not rely on rule 30e–3 under the rule amendments.[696] Thus, for these funds, we estimate that the rule amendments will reduce their current shareholder report transmission costs by 34 percent on average, resulting in an average annual cost savings of approximately $7,040 per fund that does not rely on rule 30e–3.[697]

For funds that rely on rule 30e–3, the rule amendments will reduce costs because it will be less costly to mail and process the concise report than the rule 30e–3 notice. Specifically, while the cost of printing the concise report may be greater than the cost of printing the notice (see table 7), the processing fees will be lower.[698] The overall cost of transmission, which includes the costs of printing, mailing, and processing fees, will likely be lower for the concise report.[699] One commenter estimated that transmitting (delivering) a concise shareholder report instead of a rule 30e–

[689] Investors could benefit from their direct use of the Inline XBRL data, or through indirect use of the data (*i.e.,* through information intermediaries such as financial media, data aggregators, academic researchers, et al.). *See, e.g.,* Nina Trentmann, *Companies Adjust Earnings for Covid-19 Costs, But Are They Still a One-Time Expense?* Wall St. J. (Sept. 24, 2020) (citing an XBRL research software provider as a source for the analysis described in the article), *available at https://www.wsj.com/articles/companies-adjust-earnings-for-covid-19-costs-but-are-they-still-a-one-time-expense-11600939813* (retrieved from Factiva database); *Bloomberg Lists BSE XBRL Data,* XBRL.org (2018); Rani Hoitash & Udi Hoitash, *Measuring Accounting Reporting Complexity With XBRL.* 93 Account. Rev. 259–287 (2018).

[690] *See supra* section I.A.3 (discussing investor preferences for concise, layered disclosure).

[691] *See infra* section IV.D regarding effects on capital formation.

[692] *But see supra* section II.E.1 and footnotes 477–480 and accompanying text (noting that some commenters stated that funds already have incurred the costs of complying with current rule 30e–3, but because they could only rely on the rule starting in 2021, they have not fully realized the perceived benefits of the rule. Additionally funds stated that they will incur costs associated with undoing the processes that they have undergone to convert their current shareholder report transmission processes, which commenters noted were costly. Specifically, some commenters stated that funds would need to re-implement legacy shareholder report transmission processes that were discontinued when they initially adjusted these processes in preparing to rely on rule 30e–3).

[693] *See* Proposing Release, *supra* footnote 8, at n.782.

[694] *See id.* We understand that the commenter's cost estimates are not limited to shareholder reports that are delivered by mail and, instead, the cost per unit averages the costs of different transmission mechanisms (including paper and electronic delivery). *See, e.g.,* Comment Letter of Broadridge Financial Solutions, Inc. (Oct. 31, 2018) on File No. S7–13–18, *available at https://www.sec.gov/comments/s7-13-18/s71318-4593946-176328.pdf* (estimating that the average cost of paper, printing, and postage of a mailed shareholder report is $0.94).

[695] For instance, we understand that the average enrollment rate for electronic delivery may be lower for direct-held accounts, which would result in higher per unit costs for delivering current shareholder reports than the commenter provided. *See supra* footnote 616 and accompanying text. In addition, the cost of delivering shareholder reports currently, and the costs we estimate for shareholder reports under the final rules, vary by individual funds based on a number of factors. For example, we understand that printing and mailing costs vary depending on the length of the fund's shareholder reports and the number of reports it delivers by mail.

[696] $0.17 estimated reduction in shareholder report transmission costs associated with summary shareholder reports/$0.50 estimated costs of transmitting current shareholder reports = 34 percent.

[697] *See* Proposing Release, *supra* footnote 8, at n. 786 and accompanying text (noting that the Commission estimated annual printing and mailing costs (inclusive of processing fees) of $20,707.33 absent rule 30e–3 per fund). $20,707.33 × 34 percent = $7,040.49.

[698] According to one commenter on the proposal, much of the incremental savings is from reduced processing fees. Specifically, the streamlined reports would not entail regulated incremental notice & access fees for fund report notice & access mailings. *See* Broadridge Comment Letter.

[699] *See* Proposing Release, *supra* footnote 8, at n.787 (noting that one commenter on the Fund Investor Experience RFC stated that processing fees on average would be $0.20 for rule 30e–3 notices and $0.15 for concise shareholder reports); *see also* Broadridge Comment Letter (explaining that processing fees will be lower under the proposed rule amendments, thereby causing the total amount to be lower; this commenter did not provide any updated estimates of average processing fees for notices or for concise shareholder reports).

3 notice will reduce the transmission cost from $0.36 to $0.33 annually, which is a decrease of $0.03 per unit or approximately 8 percent.[700] This is assuming that 3 out of 10 fund shareholders receive a shareholder report by mail and is based on the commenter's experience processing shares held in beneficial accounts.[701] We understand that this estimate may or may not be representative of the average costs for all funds. For example, the average enrollment rate for electronic delivery may be lower for direct-held accounts, which will result in higher per unit costs than the commenter provided.[702] As another example, to the extent a fund currently shares a single, consolidated rule 30e–3 notice with other funds to notify a shareholder of the website address(es) for each fund's report, and the fund has many shareholders who are invested in those other funds, the fund may not experience the same extent of cost savings under the rule amendments.[703] This estimate also does not take into account the final rules' requirement to transmit shareholder reports that cover only one share class; to the extent that delivery costs would increase if delivery processes needed to be updated to reflect this requirement, this would increase the estimate for these funds. Nevertheless, we believe that the estimate of approximately 8 percent is a reasonable estimate of the likely average decline in the per-unit cost of transmitting the concise report rather than rule 30e–3 notices.[704] Thus, for funds that rely on rule 30e–3, we estimate that the rule amendments will reduce their current shareholder report transmission costs by approximately 8 percent, on average, and that the average annual cost savings will be approximately $1,243 per fund that relies on rule 30e–3.[705]

The total shareholder report transmission cost savings from the rule amendments will be a weighted combination of the savings in transmission costs for funds that rely on rule 30e–3 and the savings for funds that do not rely on rule 30e–3. For example, if 89 percent of funds send rule 30e–3 notices before the rule amendments are in effect, the transmission cost savings from the rule amendments will be an estimated $13.1 million from those funds.[706] In addition, if 11 percent of funds do not rely on rule 30e–3 before any rule amendments are in effect, the transmission cost savings will be $9.2 million from those funds.[707] Thus, the aggregate transmission costs savings for shareholder reports from the rule amendments will be $22.3 million.[708]

We understand that the estimated cost savings for shareholder reports will depend on factors in addition to those discussed above. These include the extent to which funds that send notices under rule 30e–3 actually experience a transmission cost savings under the rule amendments. For example, if the cost of transmitting a concise shareholder report were about the same as the cost of sending a notice under rule 30e–3, then our estimated cost savings would decline from $22.3 million to $9.2 million. As another example, if fewer than 89 percent of funds send notices under rule 30e–3, then our estimated aggregate cost savings would be greater than $22.3 million because a larger number of funds would experience the higher transmission cost savings.

iii. Amendments to the Form N–CSR Requirements

There also are benefits associated with the requirement of the rule amendments that funds continue to file on Form N–CSR certain information, such as financial statements and financial highlights, which will no longer appear in shareholder reports, relative to the alternative of not continuing to require such filings. The continued availability of this information, including on a historical basis on EDGAR, will allow investors and other market participants to continue to analyze this information over time. This historical information also may facilitate the Commission's efforts in administering the regulation of funds to benefit investors. Finally, a fund's principal executive and financial officer(s) will continue to be required to certify the financial and other information included on Form N–CSR and will continue to be subject to liability for material misstatements or omissions on Form N–CSR.

b. Costs

We expect funds and fund shareholders to incur transition costs of adapting to the new approach to funds' shareholder reports. Some shareholders also could incur ongoing costs due to a mismatch between their preferences and the design of the rule amendments. Finally, we expect costs to arise from implementing the rule amendments.

i. Transition to New Approach

Fund shareholders could experience certain transition costs under the rule amendments, and some shareholders may experience ongoing costs. Transition costs will include the costs of the inconvenience to some shareholders of adapting to the new materials and to the changes in the presentation of information. While the more concise shareholder reports required by the rule amendments will likely reduce investor comprehension costs, investors will nevertheless bear a one-time cost of the inconvenience of adjusting to the changes in the disclosures they receive. These costs are likely to be relatively lower for less experienced shareholders and relatively greater for the more seasoned shareholders who are accustomed to existing fund practices.

Shareholders in funds that rely on rule 30e–3 to send paper notices to notify shareholders that a shareholder report is available online—including investors in UITs that rely on rule 30e–3 to satisfy shareholder report transmission requirements under rule 30e–2—may experience greater transition costs than shareholders in funds that are not relying on rule 30e–3. For example, those shareholders who currently receive rule 30e–3 notices may experience some confusion when a fund begins to transmit concise shareholder reports.[709] However, shareholders

[700] *See* Proposing Release, *supra* footnote 8, at n.788 and accompanying text. We did not receive comments on this estimate in response to the proposal.

[701] *See id.*

[702] *See supra* footnote 616 and accompanying text.

[703] *See* Rule 30e–3 Adopting Release, *supra* footnote 20, at paragraph accompanying n.211 (discussing consolidated rule 30e–3 notices).

[704] $0.03 average reduction in transmission costs for summary shareholder reports/$0.36 average cost of delivering rule 30e–3 notices = 8.33 percent.

[705] Based on one estimate from a commenter on the Fund Investor Experience RFC, delivering the concise report instead of the rule 30e–3 notice would reduce the per-unit transmission cost from $0.36 to $0.33, or $0.03 per unit. *See* Proposing Release, *supra* footnote 8, at n.788 and accompanying text. This is $0.03/$0.17 or approximately 17.65 percent of estimated per-unit reduction in the shareholder report transmission costs for funds that do not rely on rule 30e–3. We thus estimate that the savings from delivering the concise report instead of the notice is 17.65 percent of the estimated $7,040.49 cost savings from delivering the concise report instead of the full report, or 17.65 percent × $7,040.49 = $1,242.65.

[706] 11,840 funds × 89 percent × $1,242.64 estimated savings in transmission costs per fund that delivers a rule 30e–3 notice = $13.1 million.

[707] 11,840 funds × 11 percent × $7,040.49 estimated savings per fund that delivers the full report (and does not rely on rule 30e–3) = $9.2 million.

[708] The weighted average savings in transmission cost per fund is (89 percent × $1,242.64) + (11 percent × $7,040.49) = $1,105.95 + $774.45 = $1,880.4. Multiplying this across all 11,840 funds yields an estimated transmission cost savings from the proposal of 11,840 funds × $1,880.4 per fund = $22.3 million. That is, the aggregate cost savings is $13.1 million + $ 9.2 million = $22.3 million.

[709] *See supra* paragraph accompanying footnotes 480–482.

receiving the annual and semi-annual reports as required under the rule amendments will be receiving tailored information more directly than through the rule 30e–3 notice, and a fund that relies on rule 30e–3 will be able to communicate to investors about these shareholder report changes.

In addition, shareholders may face initial costs in addressing any confusion that might arise during the transition to the new ''broad-based'' index definition.[710] For example, for shareholders who currently receive fund disclosures that are relative to a benchmark that is inconsistent with the final rules' definition of a ''broad-based'' index, the inclusion of a new index could cause confusion.[711] The potential for this confusion will be greatest during the transition and diminish over time as shareholders become more familiar with the newly required disclosure practice.

ii. Costs to Shareholders After the Transition

Beyond transition costs, the rule amendments will impose costs on shareholders who prefer to receive the baseline disclosure as opposed to the more concise and tailored disclosure they will receive under the rule amendments. These shareholders may experience costs associated with locating additional information online or requesting delivery of materials they will no longer automatically receive. Some shareholders may rely on information that is currently included in the annual and semi-annual report but will, under the rule amendments, be located in other documents, such as Form N–CSR or the SAI. Those shareholders will incur the cost of reviewing multiple disclosure documents to locate the information that was previously located in a single document. The significance of this cost will likely depend on several factors, including the delivery method and relative importance of each piece of information to the individual shareholder. For those shareholders who prefer to receive disclosures in paper, the rule amendments provide an option for the shareholder to request the mailing of a paper copy of the new Form N–CSR items, such as financial statements, that will no longer appear in shareholder reports.

For some shareholders, the cost of making requests for additional information will be small and therefore, the cost of losing their preferred option as the default under the rule amendments will be small. Those shareholders will likely react to the rule amendments by making the effort to request continued mailing of more-detailed semi-annual information. For those shareholders, the cost of the rule amendments will include the cost of the inconvenience from having to make the request. Shareholders who find it relatively burdensome to make a request for continued mailing, however, will be migrated over to the new approach for funds' shareholder reports and face disutility from migrating to the new tailored disclosures. By providing a mechanism for shareholders to continue to receive the more-detailed information, the rule amendments will limit this disutility. Thus, the overall cost of inconvenience or disutility to those shareholders who prefer the approach to delivery of fund's shareholder reports under the current rules to the approach that is being adopted through the rule amendments will depend on how difficult it is for shareholders to request continued mailings of more-detailed semi-annual information by funds after the rule amendments go into effect.

In addition, the requirement for funds to provide a separate shareholder report for each series and share class of a fund could limit the usefulness of the shareholder report as a means for shareholders to compare their current fund investment with alternative investments in other series and share classes of the fund.[712] Because information about multiple series and multiple share classes will no longer be consolidated in a single shareholder report, an investor wishing to use shareholder reports to compare information would need to use multiple reports to do so. Any burden associated with the use of multiple reports, however, could be mitigated through the increase in comparability among shareholder reports, as a result of the reduced complexity of shareholder reports, significantly shorter report length, and the content and formatting requirements that are designed to promote comparability across funds by causing reports to highlight the most relevant information for shareholders.

If investors do make fewer comparisons among series and/or share classes using the shareholder report, shareholders could turn to other methods for comparing their current investment with alternatives. One such method could be to use the web tools provided under the rule amendments.[713] We believe these tools could be particularly useful for investors who wish to compare series and share classes within a report, and would permit investors who wish to do so to retain the ability to make effective series and share class comparisons while receiving a separate report for each series and share class. Investors also could continue to consult prospectus disclosure for certain information about available share classes, as investors will continue to receive annual prospectus updates, and the prospectus includes class-specific information (for example, about fund fees, performance, and various classes' respective sales loads). Investors who make fewer comparisons among series and/or share classes using the shareholder report, and who do not turn to the tools or existing disclosure described in this paragraph, could be made worse off by the elimination of the single shareholder report for multiple series and share classes of funds under the rule amendments.[714]

In addition, some shareholders may incur costs of continued inconvenience from the new definition of a ''broad-based'' index.[715] Specifically, the new definition will cause a fund that currently reports its performance alongside one or more indexes that are inconsistent with the new definition (and no index that meets the new definition) instead to report its performance alongside an index that meets the required ''broad-based'' index definition, and any optional more narrowly based index(es). To the extent that any shareholders would prefer a performance presentation that solely includes one or more indexes that do not meet the new definition, these shareholders would be made worse off

[710] *See* ICI Comment Letter on the OIAD Benchmark Study.

[711] A fund that selects an index for its prospectus performance disclosure that is different from the index used for the immediately preceding period must explain the reason(s) for the selection of a different index and provide information for both the newly selected and the former index. *See* Instruction 2(c) to Item 4 of amended Form N–1A.

[712] *But see* discussion in *supra* section II.A.1.a (discussing the relative benefit of such comparisons to existing investors who use shareholder reports to monitor their investments on an ongoing basis, as opposed to prospective investors making initial investment decisions and using the fund prospectuses to inform these decisions).

[713] *See supra* section II.A.4.

[714] To assist with shareholders' and other market participants' analysis of those share classes, the rule amendments will require website posting of fund documents that will enable a shareholder or other market participants to easily obtain information about those other share classes. The interactive data requirements of the rule amendments also will enable shareholders and other market participants to conduct efficient comparisons of those share classes. *See supra* sections II.C.2 and II.H.

[715] *See* ICI Comment Letter on the OIAD Benchmark Study.

on an ongoing basis by the new definition in the final rule amendments.

Finally, fund shareholders will bear some costs of the new approach for funds' shareholder reports through the increased expenses that funds will incur to implement the rule amendments and passed through to shareholders in the form of fund expenses. We discuss these costs of implementing the rule amendments next.

iii. Expenses of Implementation

The costs of transmitting shareholder reports, including preparing the reports, and printing and mailing costs and processing fees, are generally fund expenses borne by shareholders. The cost of preparing the reports under the rule amendments will include new costs to funds, and thus fund investors, associated with the payment of licensing fees to index providers, as we explain in this section.

Some of the changes in transmission from the rule amendments will cause fund shareholders to face greater fund expenses than they otherwise would. In addition to the transition costs associated with preparing the new streamlined shareholder report, with new scope and content requirements (discussed in more detail below), the likelihood and extent of these increases will depend on the fund's baseline transmission scenario, as follows. For funds that rely on rule 30e–3, including UITs that rely on the rule to satisfy shareholder report transmission requirements under rule 30e–2, the costs of printing and mailing shareholder reports will be higher under the final rule amendments.[716] We generally believe these additional printing and mailing costs will be small. For example, funds may be able to transmit the shareholder reports under the final rule amendments as a trifold mailing, which will only incrementally increase the printing and mailing costs of a rule 30e–3 notice. One commenter on the Fund Investor Experience RFC estimated that a concise shareholder report will be approximately $0.01 more expensive to print than a rule 30e–3 notice.[717] We estimate that this cost increase will be less than the estimated decline in the cost of processing fees. Moreover, to the extent a fund shareholder invests in multiple of a registrant's funds or multiple series and/or share classes of a fund, and the funds would otherwise have used a single shareholder report, the final rule amendments may increase printing and mailing costs in some instances if certain disclosures across the funds otherwise are the same (and taking into account multiple streamlined shareholder reports under the final rules, compared to a single, potentially significantly lengthier report under the baseline). The ability to send multiple reports to a shareholder in a single mailing or transmission limits the cost of the requirement to send multiple reports rather than a single report to shareholders who hold more than one class or series of a fund. These costs are distinct from the processing fees that will be lower under the rule amendment.[718]

As a further transmission-related cost, funds will incur costs under the rule amendments in rule 30e–1 to deliver certain materials to shareholders upon request. The extent of these costs will depend on how many shareholders prefer the current transmission approach in which they receive additional shareholder report information, how many of these shareholders will prefer to request these materials directly (*e.g.,* in paper) instead of accessing them online, and whether the shareholders request paper or electronic copies of these materials. We estimate that a fund will incur an average annual printing and mailing cost of $500 to deliver the materials that will be available online and that will be required to be delivered in paper to investors upon request under the adopted amendments to rule 30e–1.[719] We are unable to quantify the number of shareholders who will request these materials or the amount of mailings that a fund will have to make each year under the final rules. However, based on our understanding of fund shareholders' internet usage, and of the prevalence of fund shareholders requesting paper documents upon request (for example, in the context of rule 498), we anticipate that very few shareholders will request these materials in paper and therefore that funds will have to make few paper mailings under the final rules.[720]

In addition to transmission-related costs, funds will experience other costs as a result of the rule amendments, including both transition costs and ongoing costs. These other costs will result from the required changes to the scope and contents of shareholder reports (including requiring separate reports for each fund series, and for each share class of a fund), new Form N–CSR items, new website availability requirements, and amendments to the scope of rule 30e–3. The compliance costs associated with the amendments to rule 30e–3 will only affect funds that rely on that rule. The other categories of compliance costs will affect all funds. These different categories of costs could be reflected in fund expenditures that funds could pass on to shareholders. The expenditures could be to procure the services of third parties for the purpose of implementing the changes to fund disclosure and shareholder report transmission practices under the rule amendments, as we understand some funds utilize outside providers for these compliance responsibilities.

Funds will experience transition costs to modify their current shareholder report disclosures. Specifically, funds will incur costs to modify their shareholder reports to comply with the scope and content requirements of the rule amendments. While the Commission did not receive comments on the proposed estimated costs associated with these amendments, it did receive comments suggesting that certain aspects of the new shareholder report requirements may be more burdensome than the Commission estimated at proposal.[721] We have adjusted our estimates to reflect these comments, as well as to reflect modifications to the proposal (for example, requiring multi-class funds to prepare separate shareholder reports for each class).

[716] As discussed below, funds that rely on rule 30e–3 or plan to rely on rule 30e–3 will also incur transition costs under the rule amendments; *see also supra* footnote 625 and accompanying text.

[717] *See* Proposing Release, *supra* footnote 8, at n.801 and accompanying text.

[718] *See, e.g.,* Broadridge Comment Letter (regarding transmission costs); *see also* John Hancock Comment Letter (suggesting that for funds not offered to retail investors, the funds would incur additional costs associated with preparing separate reports with no associated benefit).

[719] *See infra* section V.B. Because we do not have specific data regarding the cost of printing and mailing the materials that must be provided on request, or the number of requests for printed materials that funds will receive annually, for purposes of our analysis we estimate $500 per year for each fund to collectively print and mail such materials upon request. Investors could also request to receive these materials electronically. We estimate that there will be negligible external costs associated with emailing electronic copies of these documents.

[720] *See supra* footnote 37 and accompanying text.

[721] *See, e.g.,* Capital Group Comment Letter (suggesting that any additional length and complexity in reports resulting from multi-series presentations may be outweighed by the benefits to shareholders, such as target date fund shareholders, where it may be more beneficial to see multiple fund options and how each fund's asset mix will shift over time); Federated Hermes Comment Letter (suggesting that the proposal would significantly burden fund complexes without a corresponding proportional benefit to shareholders; and stating that the proposal would require significant costs to open-end funds, investment advisers, financial intermediaries, fund administrators, printers and other fund service providers to make all of the formatting, system programming, website development, and other changes that would be necessary to comply with the proposal); John Hancock Comment Letter.

We estimate that the initial aggregate costs to funds of modifying their annual report disclosure and complying with the new requirements for annual reports will be $324.8 million, and $45.1 million annually thereafter.[722] We estimate that the initial aggregate costs to funds of modifying their semi-annual report disclosure and complying with the new requirements for semi-annual reports will be $162.4 million, and $22.6 million annually thereafter.[723] Initial costs will include costs associated with designing the concise shareholder reports, amending the scope of shareholder reports to cover a single fund series and share class, implementing any operational changes needed to prepare and transmit separate shareholder reports for different fund series and share classes, revising existing disclosure practices for shareholder report items as required by the adopted rule amendments (*e.g.,* management's discussion of fund performance, including the definition of the term ''appropriate broad-based securities market index,'' as well as the expense presentation), and developing disclosures for the required new shareholder report items (*i.e.,* fund statistics and material fund changes). The ongoing costs will largely be attributable to the costs of preparing new shareholder report disclosure items under the rule amendments, since funds already incur the costs of preparing the other shareholder report disclosures today.

Funds also will incur costs from the requirement of the rule amendment to transmit a separate shareholder report for each series and share class of each fund. These costs will be borne by fund shareholders as a fund expense. The aggregate costs—which are incorporated in the estimates for complying with the new requirements for annual and semi-annual reports discussed above—will depend on the number of shareholders who currently hold shares of multiple series of a fund, and multiple share classes of a fund.[724] Because such shareholders will, under the final rules, receive a separate shareholder report for each series and share class, costs to provide shareholder reports to these shareholders will increase under the final rules compared to the baseline (under which they receive a single, combined shareholder report). We do not have information about how many fund shareholders currently hold shares of multiple series, or multiple share classes of a fund, and so we are not able to quantify these costs. Aggregate costs also will depend on the costs of updating processes of delivering fund materials to reflect that a shareholder will receive a series- and share-class-specific shareholder report. Because funds, intermediaries, and service providers already have processes in place to transmit series-specific regulatory materials (for example, summary prospectuses, which cover only one series), we believe that current processes may be modified and entirely new processes will not need to be developed. We do not, however, have the cost data associated with these current processes to be able to estimate what the incremental cost increase would be.

In addition, funds could incur costs from the final rules' changes to the definition of a ''broad-based'' index to one that represents the overall applicable domestic or international equity or debt markets, as appropriate. This aspect of the final rules would affect those funds that change the index that they include in their performance disclosure in response to this new definition. These costs will be borne by the fund shareholders. The cost per fund will include the cost of a licensing fee, paid to the index provider, and the cost of updating the disclosures. The aggregate cost of the licensing fees to fund shareholders will depend on the per-fund cost and on the number of funds that change their benchmarks in response to the final rules. In addition, funds will incur costs related to attaining any necessary board approvals and costs of updating their disclosures to reflect the change, in addition to costs of updating marketing and other materials where fund indexes are used.

We believe that the cost of the final rules' change to the definition of ''broad-based'' index could be significant for those funds that change their indexes in response to the final rules. This belief is based on comments we received on the proposal.[725] The cost is difficult to quantify. We did not provide a cost estimate in the proposal. The cost depends on the index licensing fees, which vary across funds, and on the number of funds that determine that a change in their benchmark is necessary as a result of the rule amendments. Commenters who expressed concerns about the cost of the requirement did not provide any estimates of the costs in their comments on the proposal. Some comments, however, expressed the view that the cost of the new licensing fee payments would be economically significant.[726] In

[722] The estimated initial cost for the final rules' annual reports is based on the following calculations: 72 hours × $381 (blended wage rate for compliance attorney and senior programmer) = $27,432 per fund. 11,840 funds × $27,432 = $324,794,880. The estimated annual cost for the final rules' annual reports is based on the following calculations: 10 hours × $381 (blended wage rate for compliance attorney and senior programmer) = $3,810 per fund. 11,840 funds × $3,810 = $45,110,400. *See infra* section V.B.

[723] The estimated initial cost of the final rules' semi-annual reports is based on the following calculation: 36 hours × $381 (blended wage rate for compliance attorney and senior programmer) = $13,716 per fund. 11,840 funds × $13,716 = $162,397,440. The estimated annual cost for the final rules' semi-annual reports is based on the following calculations: 5 hours × $381 (blended wage rate for compliance attorney and senior programmer) = $1,905 per fund. 11,840 funds × $1,905 = $22,555,200. *See infra* section V.B.

[724] The effect of the addition of the requirement to transmit a separate report for each class, in addition to for each series, is to increase the burden of the rule by an amount no greater than the increase in the overall burden that is estimated below at *infra* section V.B, table 8. Specifically, we assume that funds would incur costs of the requirement to transmit a separate report for each share class as initial costs rather than ongoing costs, and that the upper bound of these initial costs would be no greater than $20,574 per fund. This estimate is based on the increase in final rules' PRA burden hours estimates compared to estimates in the proposal. This increase recognizes that comments suggested that certain aspects of the new shareholder report requirements may be more burdensome than the Commission estimated at proposal, as well as to reflect changes from the proposal such as requiring class-specific shareholder reports. Because this estimate increase takes into account elements in addition to the requirement for class-specific shareholder reports, the estimate increase should be viewed as an upper bound estimate. The estimate is based on the following calculations: ($13,716 estimate for annual reports ((72 initial hours estimate in final rules—36 hours estimate in proposed rules) × $381 blended rate for compliance attorney and senior programmer)) + ($6,858 estimate for semi-annual reports ((36 initial hours estimate in final rules—18 hours estimate in proposed rules) × $381 blended rate for compliance attorney and senior programmer)) = $20,574.

[725] *See, e.g.,* SIFMA Comment Letter, regarding the non-trivial costs of the rule amendment; *see also infra* footnote 726.

[726] *See, e.g.,* Vanguard Comment Letter (the potential licensing cost increases, which would be borne by shareholders, outweigh the benefit to shareholders from requiring funds to utilize broad-based indexes in their disclosure documents), Dimensional Comment Letter (requirement would result in duplicative licensing fees from index providers and higher costs to fund shareholders); Fidelity Comment Letter (if all funds are required to benchmark against an index like the S&P Index, there would be an increase in licensing costs to the funds that use that index, which ultimately will be borne by the investors); ICI Comment Letter (if a new fund wishes to use as its broad-based index one that is not included in the fund complex's current licensing agreements, the fund typically will incur additional costs to do so. Smaller fund complexes with fewer (or more limited) licensing agreement in place may be more likely to incur costs when these events occur); SIFMA Comment Letter (the operational and index licensing costs to funds, and ultimately shareholders, to implement the required changes in order to comply with the changed definition would not be trivial. These costs may include licensing fees charged by index providers, the cost related to attaining any necessary board approvals, the cost of updating fund disclosure for these changes, and the cost of associated updates to marketing and other materials where fund indexes are used).

addition, some comments stated that more than half of funds may need to change the index that they include in their performance disclosures, and face new licensing fees.[727] The OIAD Benchmark Study found that there is a relatively large number of benchmarks in use among funds with all strategies, and that ''the definitions of broad and narrow benchmarks appear to be the subject of some interpretation.'' These comments indicate that the final rules' changes to the definition of ''broad-based'' index may affect the index choices and related performance disclosures of a significant number of funds.[728]

In addition, under the rule amendments, funds will incur costs associated with tagging the streamlined shareholder reports in Inline XBRL. Various XBRL and Inline XBRL preparation solutions have been developed and used by operating companies and investment companies to fulfill their structuring requirements, and some evidence suggests that, for smaller operating companies, XBRL compliance costs have decreased over time.[729] Based in part on our considerable experience with XBRL implementation in connection with the Commission's other XBRL requirements, we estimate that the initial aggregate costs to funds of tagging their streamlined shareholder reports will be $81.2 million.[730]

Funds also will incur costs of complying with the new Form N–CSR disclosure items. As funds already prepare the disclosure that the required N–CSR items will cover for purposes of current shareholder reports and disclose that information on Form N–CSR as part of their shareholder reports, we do not believe the costs of the new N–CSR disclosure will be significant. Commenters on the proposal suggested these costs could be significant if they were required to prepare separate financial statements for each series or portfolio of a trust when filing Form N–CSR, but the final rules do not prohibit funds from preparing and submitting multicolumn financial statements that include multiple series or portfolios, or that address multiple share classes of a fund in ways that would mitigate these costs.[731] However, we recognize that funds may face some costs of rearranging their disclosures within Form N–CSR. We estimate that the costs of the required new Form N–CSR items will initially be $162.4 million and $45.1 million annually thereafter.[732]

In addition, funds will be required to provide additional information online under the rule amendments to rule 30e–1, and deliver the additional information in paper or electronically upon request. With respect to rule 30e–1, this will include online availability (and delivery upon request) of the disclosure that the rule amendments will remove from shareholder reports, including financial statements and financial highlights, as well as quarterly portfolio holdings.

For instance, under the adopted amendments to rule 30e–1, funds will likely incur costs associated with providing online access to the new Form N–CSR disclosure items (*i.e.,* the information that the adopted rule amendments will remove from shareholder reports). Funds that do not currently rely on rule 30e–3 will also incur costs to provide their quarterly portfolio holdings online. We estimate that the initial costs of complying with the website availability requirements in rule 30e–1 will be $38.6 million, with ongoing annual costs of $12.9 million.[733] We also estimate that the ongoing annual cost of the rule's requirement to deliver these materials in paper or electronically to shareholders on request will be $5.9 million.[734]

Finally, to the extent that affected funds, including UITs that rely on rule 30e–3 to satisfy shareholder report transmission requirements under rule 30e–2, have changed their operations for the purpose of relying on rule 30e–3, those funds would bear the costs associated with the adopted rule amendment's prohibition on open-end funds relying on rule 30e–3. These costs could include, among others, changes to internal systems and adjustments to agreements with third-party vendors contracted to provide relevant services.[735] Moreover, funds may choose to take additional steps to inform their shareholders about the modified approach to delivering shareholder reports under the adopted rule amendment, and these funds would

[727] *See* Mary and Tom Comment Letter (a majority of funds may need to change their primary index in response).

[728] *See* Chin, *et al.* (2022).

[729] An AICPA survey of 1,032 public operating companies with $75 million or less in market capitalization in 2018 found an average cost of $5,850 per year, a median cost of $2,500 per year, and a maximum cost of $51,500 per year for fully outsourced XBRL creation and filing, representing a 45% decline in average cost and a 69% decline in median cost since 2014. *See* Michael Cohn, *AICPA Sees 45% Drop in XBRL Costs for Small Companies,* Acct. Today (Aug. 15, 2018), *available at https://www.accountingtoday.com/news/aicpa-sees-45-drop-iSn-xbrl-costs-for-small-reporting-companies* (retrieved from Factiva database). Note that this survey was limited to small operating companies; investment companies have substantively different tagging requirements, and may have different tagging processes as well. For example, compared to smaller operating companies, smaller investment companies are more likely to outsource their tagging infrastructure to large third-party service providers. As a result, it may be less likely that economies of scale arise with respect to Inline XBRL compliance costs for investment companies than for operating companies. Additionally, a NASDAQ survey of 151 listed issuers in 2018 found an average XBRL compliance cost of $20,000 per quarter, a median XBRL compliance cost of $7,500 per quarter, and a maximum XBRL compliance cost of $350,000 per quarter in XBRL costs per quarter. *See* Letter from Nasdaq, Inc. (Mar. 21, 2019), *available at https://listingcenter.nasdaq.com/assets/Letter%20from%20John%20Zecca%20to%20Ms.%20Vanessa%20Countryman%20re%20File%20No.%20S7-26-18%20(March%2021,%202019).pdf;* Request for Comment on Earnings Releases and Quarterly Reports, Release No. 33–10588 (Dec. 18, 2018) [83 FR 65601 (Dec. 21, 2018)]. Like the aforementioned AICPA survey, this survey was limited to operating companies.

[730] The estimated aggregate initial cost for the final rules' Inline XBRL requirements is based on the following calculations: 18 hours × $381 (blended wage rate for compliance attorney and senior programmer) = $6,858 per fund. 11,840 funds × $6,858 = $81,198,720. *See infra* section V.H. Consistent with similar Inline XBRL estimates for current XBRL filers, we estimate no ongoing burden, as this is already incorporated into the current burden estimate for funds that are complying with requirements to tag disclosures using Inline XBRL. *See id.; see also, e.g.,* Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social, and Governance Investment Practices, Investment Company Act Release No. 34594 (May 25, 2022) [87 FR 36654 (June 17, 2022)], at section IV.E. The Commission's prior experience with XBRL implementation includes its implementation of XBRL and Inline XBRL requirements for operating company financial statement disclosures and mutual fund prospectus risk/return summary disclosures. *See supra* footnotes 571–572 and accompanying text.

[731] *See supra* footnotes 408–409 and accompanying text.

[732] The initial costs of the final rules' new Form N–CSR requirements are based on the following calculations: 18 hours per filing × 2 filings per year per fund × $381 (blended wage rate for compliance attorney and senior programmer) = $13,716 per fund. 11,840 funds × $13,716 = $162,397,440. The annual cost of the final rules' new Form N–CSR requirements are based on the following calculations: 5 hours per filing × 2 filings per fund × $381 (blended wage rate for compliance attorney and senior programmer) = $3,810 per fund. 11,840 funds × $3,810 = $45,110,400. *See infra* section V.C. These PRA burden estimates do not account for the fact that funds are currently required to prepare the same general disclosure for purposes of their shareholder reports. Thus, these PRA-related estimates may over-estimate the costs of the final rules' Form N–CSR disclosure items, particularly the transition costs.

[733] *See infra* section V.B. The estimated initial cost of complying with rule 30e–1's website availability requirements is based on the following calculations: 12 hours × $272 (wage rate for webmaster) = $3,264 per fund. 11,840 funds × $3,264 = $38,645,760. The estimated ongoing annual cost is based on the following calculations: 4 hours × $272 (wage rate for webmaster) = $1,088 per fund. 11,840 funds × $1,088 = $12,881,920.

[734] *See id.* The estimated ongoing annual cost of complying with rule 30e–1's delivery upon request requirements is based on the following calculation: $500 per fund × 11,840 funds = $5,920,000.

[735] *See supra* footnotes 483–484 and accompanying text; *see also supra* footnote 625 and accompanying text.

likely incur additional transition costs. We lack data to quantify these costs because we do not have information about how many funds would choose to provide discretionary notices or other information to their shareholders to explain the required changes to shareholder report transmission.

3. Advertising Rule Amendments

a. Benefits

The rule amendments that require standardized fee and expense figures [736] will benefit investors by providing more consistent fee and expense presentations across investment company advertisements relative to the baseline and thereby facilitate investor comparisons of those fee and expense figures across advertisements.[737] The benefits to investors will depend on the extent to which funds' advertisements already reflect the requirements of FINRA for the presentation of fee and expense information in member communications with the public.[738]

By reducing the chance of misleading information being presented to investors—*e.g.,* so that useful information faces less competition for investor attention from other information—the rule amendments may increase the salience of relevant fee and expense figures to investors and reduce the chance of a mismatch between the investors' preferences and their choices of investment products among the various alternatives, thereby increasing the efficiency of investors' investment decisions. The extent to which increasing the salience of fee and expense information in advertisements benefits an investor considering an investment in a fund depends on the importance of the information contained in fund advertising materials relative to the other information that is available to the investor for the purpose of monitoring fund investments and choosing between the fund and other financial products.

The rule amendments may reduce the likelihood of investors misinterpreting investment company advertisements. For example, the recent experience of the Commission is that funds sometimes market themselves as ''zero expense'' or ''no expense'' funds based solely on information in their prospectus fee tables.[739] In some cases a fund's prospectus fee table may show no transaction costs and no ongoing charges only because the fund adviser, the adviser's affiliates, or others are collecting fees elsewhere from these investors. An advertisement for such a ''zero expense'' fund that shows only fund costs, based on the prospectus fee table, could be materially misleading if it omitted material facts regarding other costs that investor would incur when investing in the fund.[740] Absent appropriate explanations or limitations, referring to such a fund as a ''zero expense'' fund can materially mislead investors and cause them to believe incorrectly that there are no expenses associated with investing in the fund.[741]

To the extent that the advertising rule amendments reduce fund incentives to understate or obscure their fees, the rule amendments may enable investors more easily to distinguish funds according to their actual fees, enabling some investors to obtain lower fees, such as by altering their choices among available investment alternatives.[742] In addition, funds may respond to the greater ability of investors to distinguish among funds according to their actual fees by lowering their fees, thereby further benefiting investors. We also discuss this effect on the incentives of funds to compete based on fees and implications for capital formation in section IV.D below.

b. Costs

Investment companies and third parties involved in preparing or disseminating investment company advertisements will incur costs to comply with the final advertising rule amendments. The expenses that funds incur to implement the rule amendments will be a cost to investors. We discuss those expenses below.

i. Modifying Advertising Materials

The cost of our amendments to the advertising rules will include the direct cost of modifying advertising materials to bring them into compliance with the final advertising rule amendments. This may require internal review and approval of advertisements beyond what occurs under the current rule, particularly where an advertisement is not already required to present certain fee and expense figures under existing FINRA rules (for example, advertisements by funds other than open-end funds, advertisements intended for non-retail audiences, or advertisements where a broker-dealer is not involved in disseminating the particular communication).[743] For example, while many investment company advertisements are subject to timeliness requirements related to the presentation of performance information, they currently are not subject to similar timeliness requirements for fee and expense information. With respect to advertisements that are currently subject to FINRA requirements addressing the presentation of fee and expense information, funds and their intermediaries may incur costs to assess compliance with, and any overlap between, the requirements we are adopting and existing FINRA rules. We expect some of these costs to be borne in the first year after the rule amendments go into effect. That is, they will be transition costs and not sustained beyond the first year. We estimate that the initial costs associated with the final advertising rule amendments will be $274.3 million.[744] These costs will be borne by funds and thus by their shareholders.

The ongoing costs of the advertising rule amendments will be greater for some types of fund advertisements than others. For example, the amendments will require the fee and expense figures in advertisements to be calculated in the

[736] *See supra* section II.G.1.

[737] Several commenters indicated that the proposed advertising rule amendments would enable investors to make more informed investment decisions by more easily comparing costs across various funds in response to the proposed rule. *See, e.g.,* Better Markets Comment Letter; Consumer Federation of America II Comment Letter; John Hancock Comment Letter (all as discussed in section II.G.1.a, *supra*).

[738] *See supra* text following footnote 666.

[739] The Commission received comments on the trend for some funds to market their investment products based on claims of low costs or no fees. *See, e.g.,* CFA Institute Comment Letter; *see also* Consumer Federation of America II Comment Letter.

[740] *See* section I.A.4 for discussion of the Commission's experience and related concerns regarding practices in which investors may believe incorrectly that there are no expenses associated with investing in the fund.

[741] *See id.*

[742] Some comments on the Proposing Release stated that the proposed investment company advertising rule amendments would help investors make more informed investment decisions by more easily comparing costs among various funds. *See* Better Markets Comment Letter; Consumer Federation of America II Comment Letter; John Hancock Comment Letter.

[743] *See supra* sections I.A.4, II.G.

[744] *See infra* sections V.D through V.F. We estimate that approximately 48,000 investment company advertisements (including supplemental sales literature) each year would be subject to the final amendments to rules 482, 34b–1, and 433. This includes 36,492 communications that are advertisements subject to rule 482, 7,209 communications that are supplemental sales literature subject to rule 34b–1, and 4,300 communications that are registered closed-end fund or BDC free writing prospectuses under rule 433. We estimate an initial burden of 15 hours per communication associated with the amendments to each of these rules. The estimated initial costs of the final advertising rule amendments is based on the following calculation: 15 hours × $381 (blended wage rate for compliance attorney and senior programmer) × 48,000 communications = $274,320,000.

manner the registrant's Investment Company Act or Securities Act registration form prescribes for a prospectus. This requirement could make it more burdensome to prepare advertisements for some types of registrants, such as closed-end funds that do not maintain updated prospectuses and, thus, may not calculate current fees and expenses in the manner the amendments will require. It will be more costly to prepare these advertisements (if they include fee and expense information) because of the need to develop new procedures for annually calculating these registrants' fees and expenses in accordance with prospectus fee table requirements. In addition, the cost of compliance will be relatively greater for funds that react to the advertising rule amendments by initiating or enhancing a compliance program after previously having no such program or only a very limited program in place. We estimate that the ongoing annual costs of the advertising rule amendments will be $91.4 million.[745] The costs of the advertising rule amendments will be smaller for some types of fund advertisements than others. For example, the advertising rule amendments requiring standardized fee and expense figures will affect only those fund advertisements that include fee and expense figures. As another example, if an investment company does not present total annual expense figures in its prospectus, the final amendments addressing the required fee and expense figures would be inapplicable.

ii. Potential for Loss of Information

Finally, some investors could experience the loss of information about fees and expenses as a cost of the advertising rule amendments. Specifically, some funds might cease advertising (or cease including fee and expense figures or total annual expense figures in their advertising) rather than incur the extra compliance costs. In such instance, investors who rely on the advertisements to make investment decisions or to compare funds might have less complete information for these purposes under the rule amendments than they do currently. Anticipating that investors have less complete information, funds might then have weaker incentives to differentiate themselves from other funds in ways that are designed to attract and benefit informed investors. However, we believe this is unlikely because we do not anticipate that the compliance costs will be great enough to cause funds to cease advertising (or to cease including fee and expense figures or total annual expense figures in their advertising). Moreover, such loss of information would be mitigated to the extent that the information that investors receive is more accurate and salient than they would receive in the absence of the rule, and because other avenues exist for investors to obtain information about funds (for example, fund prospectuses or information provided by third parties that analyze fund information).

D. Effects on Efficiency, Competition, and Capital Formation

This section describes the effects we expect the rule amendments to have on efficiency, competition, and capital formation.

Efficiency. Key to this analysis are the concepts of efficiency in the use of investor time and attention and in the use of fund resources from the real economy to meet shareholder report transmission obligations. We regard changes and amendments that reduce these costs as increasing economic efficiency, with changes and amendments that increase these costs having the opposite effect. Also key is the concept of ''information asymmetry''—in this case, the lack of information that investors may have about funds and other investment products and the related difficulties that some investors may face in understanding and using the information that is available to them.

The rule amendments will enable investors to use their time and attention more efficiently. To investors, the costs of investing in a fund are more than just the dollar cost, and include the value of an individual's time and attention that is spent gaining an understanding of the fund. Further, for those investors who do not gain a full understanding of the fund, there could be a cost stemming from a potential mismatch between the investor's goals and the fund risk profile and fee structure. Depending on the size of an individual's position in a fund, certain of these additional costs could be considerable in comparison to the monetary costs associated with the investment and could discourage investors from gathering information about different investment alternatives and evaluating existing investments even in circumstances where reviewing available shareholder reports could be beneficial.

The overall efficiency gains from the effect of the rule amendments on how investors allocate their time and attention will depend on the ease with which investors are able to transition to the new approach to fund shareholder reports and find the disclosures and other materials of that new approach easier to use. Some individuals may prefer the current approach. Their time and attention may be used less efficiently under the rule amendments, which will require them to go to the trouble of requesting their preferred materials rather than receiving them automatically as will occur in the current approach. However, despite these potential limitations, we expect the efficiency gain and cost reduction from changes in the use of investor time and attention resulting from the rule amendments will tend to be positive, because the new approach under the amendments is specifically designed to make the disclosures easier for retail investors to use while continuing to provide access to more detailed information for the market professionals and other investors who wish to access them.[746]

In addition, the rule amendments may affect economic efficiency through changes in disclosure and advertising content. The rule amendments to the content of shareholder report disclosure and the presentation of advertising materials will increase the consistency of the presentation of their contents across funds (and, in the advertising rule amendment, across a wider range of investment opportunities) and thereby promote their comparability. This may make it easier for investors to make comparisons across funds, and between funds and other investment products. As a result, investors may face lower search costs in choosing among funds, and among investment opportunities more generally. In addition, investors and other market participants may be more easily able to monitor their fund and other investments.

Some of the rule amendments would unbundle the provision of information on funds and across classes and series of a fund. Apart from other effects of those rule amendments, the effect of unbundling could increase the cost to some investors of accessing information or of using information to compare their current fund investments with alternatives. Under rule 30e–1, funds

[745] *See infra* sections V.D through V.F; *see also supra* footnote 744. We estimate an annual burden of 5 hours per communication associated with the final amendments to rules 482, 34b–1, and 433. The estimated annual costs of the final advertising rule amendments is based on the following calculation: 5 hours × $381 (blended wage rate for compliance attorney and senior programmer) × 48,000 communications = $91,440,000.

[746] These provisions would thus not have efficiency effects for financial professionals and other investors who currently rely on more detailed information online that will continue to be accessible.

would make information available online that is currently provided in the shareholder report. To the extent that some investors who would have used this information under the current rules respond to the rule amendment by no longer using this information, the effect may be to reduce the efficiency of their search across investments. Under the rule amendment requiring separate transmission of information about fund series and reports, funds would no longer make information about fund series and funds available on a single transmission. Investors who would have relied on that information to make comparisons between their current investment and investments in other classes and series of the fund will likely face greater difficulty accessing this information under the rule amendments than currently. In each instance, the effect would be to reduce the efficiency of search across alternative investments on the part of those investors.

The rule amendments that reduce information asymmetry and search costs may reduce barriers that funds and intermediaries face in supplying investment opportunities to investors, and that investors may face in comparing and evaluating the suitability of the investments initially and, as fund shareholders, over the period of the investment.[747] These effects of the rule amendments may be reduced to the extent that shareholders currently rely on the bundled transmission of reports on fund series and classes that would be transmitted separately under the rule amendments.

These increases in efficiency and related cost reductions could manifest as a higher likelihood that investors make use of the disclosures that funds provide through their shareholder reports and advertising materials, and thus lead to investment decisions that are more informationally efficient. First, these efficiencies may increase the likelihood that investors choose a mix and level of fund investments that are consistent with their overall financial preferences and objectives—a level that may be higher or lower than will occur presently. Second, making it easier for investors to use the information that is disclosed under the rule amendments that require concise, tailored shareholder report disclosures and more consistent fee and expense presentations across investment company advertisements relative to the baseline could facilitate more efficient investor allocation of assets across funds. These effects on efficiency will be limited, however, to the extent that investors rely on third parties for advice in selecting among financial products and those third parties use more information than what shareholders receive under the rule amendments.[748]

Competition. The rule amendments that affect information asymmetry between investors and funds may, by reducing investor search costs, affect competition. Specifically, the rule amendments that require changes to shareholder reports (including the newly required tagging of shareholder reports in Inline XBRL) and fund advertising will enable investors to compare fees and expenses and other information more easily across funds, and between funds and other financial products, and could therefore affect competition among funds by making it easier for lower-fee funds to distinguish themselves from other funds.[749] This could lead investors to shift their assets from higher-fee funds to lower-fee funds. It also could lead funds, in anticipation of this, to lower their fees or otherwise take steps to draw investor flows away from competing funds or avoid outflows to competing funds under the new approach to funds' shareholder reports. It could lead funds to exit that are not as easily able to compete on the basis of fees and expenses as a result of the new approach, and other funds to enter and compete for investor assets more efficiently than is currently occurring. The effect on competition among funds may be limited, however, to the extent that investors rely on third parties who are not affected by the rule amendments for advice in selecting among financial products.[750]

In addition, the rule amendments that affect the definition of a ''broad-based'' index will affect competition among providers of the index information that funds include in their performance disclosure. Specifically, the amendments will define a ''broad-based'' index in a way that will likely reduce the number of indexes that qualify as an ''appropriate broad-based securities market index'' (and reduce the number of suppliers of qualifying index licenses to funds) for disclosure purposes. To the extent that the final rules' change to the definition affects the index choices of funds, the final rules will increase the demand for qualifying index licenses. Funds incur costs of the use of indexes under their licensing agreements with index providers and a new fund that wishes to use as its broad-based index one that is not included in the fund complex's current licensing agreements, or that wishes to change indexes, would incur additional costs under the licensing agreement.[751] The amount of these costs will depend, among other things, on market competition among index providers.

Index-licensing fees could increase if the rule amendment results in a reduction in the number of index providers producing indexes that are ''appropriate broad-based securities market indexes'' that is large enough to permit those index providers to increase their fees or, alternatively, if the change increases demand by funds to license indexes and there is limited competition among index providers producing indexes that are ''appropriate broad-based securities market indexes.'' For example, one commenter suggested that the market for indexes is concentrated and that a definition that strongly favors existing and widely recognized indexes could inhibit entry into the market for indexes that are acceptable under the regulations, thereby limiting competition in ways that may lead funds to incur higher index costs.[752]

[747] As noted above, there may be investors who would prefer the approach to disclosure that is now in place and who would under the approach under the final rule amendments need to take extra steps to continue to use the disclosures that they use in making investment decisions currently. To the extent this occurs, the final rule amendments could lead to additional costs and reduced efficiency for such investors in their evaluation of fund investments.

[749] With respect to Inline XBRL tagging, this anticipated effect would be analogous to the observed effect whereby XBRL requirements for public operating company financial statements have infused company-specific financial characteristics into competitive public markets. *See* Yu Cong, et al., *The Impact of XBRL Reporting on Market Efficiency,* 28 J. Info Sys. 181 (2014) (finding ''XBRL reporting facilitates the generation and infusion of idiosyncratic information into the market'').

[750] For example, one investor survey found that 24% of surveyed mutual fund investors agreed with the statement, ''I rely on a financial adviser or broker to look at these sorts of [fund] documents.'' *See* Inv. Co. Inst., *Mutual Fund Investors' Views on Shareholder Reports: Reactions to a Summary Shareholder Report Prototype* (Oct. 2018), *available at https://www.ici.org/pdf/ppr_18_summary_shareholder.pdf,* at 20. Within subsets of the surveyed investors, 57% of mutual fund investors aged 65 and older, and 58% of mutual fund investors with household incomes less than $50,000, agreed with this statement. *See id.* at nn.19 and 20. A third party adviser, for example, may prefer to access all information that is available about a fund online rather than rely solely on the information in the prospectus and shareholder report that is the subject of the proposal. Such an adviser would not change its information or advice under the proposal. Funds would not anticipate such a change, and there would be a lesser effect on competition among funds accordingly.

[751] *See, e.g.,* ICI Comment Letter (discussing competition among index providers in relation to the fund index licensing agreement). According to this commenter, smaller fund complexes with fewer (or more limited) licensing agreements in place may be more likely to incur costs of changing indexes or adding an index.

[752] S*ee, e.g., supra* footnote 751. According to this commenter, the index market is concentrated, and

However, we believe there will be many providers of indexes that qualify as ''broad-based'' under the final rules, which will prevent funds from incurring such higher index costs.[753]

Finally, we noted earlier in section IV.C.3.b that certain funds may respond to the final advertising rule amendments by limiting their advertising of certain fee and expense information. Reduced advertising of fees and expenses could affect the way in which funds compete for investor assets, causing funds to focus competition on other dimensions. At the same time, a reduction in fund advertising could limit the benefit of competition to investors by reducing the efficiency with which they are able to make comparisons across funds and identify the funds that best match their preferences.

Capital Formation. The rule amendments could lead to an increase in capital formation. First, to the extent they increase the efficiency of exchange in markets for funds and other financial products, the rule amendments could lead to changes in fund investment in these products. Greater investment in ETFs, mutual funds, and other products, for example, could lead to increased demand for their underlying securities. The increased demand for those securities could, in turn, facilitate capital formation.

We further note that, to the extent that increased or decreased investment in these financial products reflects substitution from other investment vehicles, the effect on capital formation will be attenuated because this will reduce the net change in the overall amount of investment in the capital markets.

The rule amendments may, by lowering the cost of delivering disclosures to fund shareholders, attract new investors to funds and increase the amount of capital that is invested through those funds. If so, the rule amendments could promote capital formation. We are unable to estimate precisely the magnitude of capital formation effects that may result from our projected cost savings under the rule amendments because the magnitude of such effects may be affected by the extent of pass-through cost savings and by other factors that affect the flow of investor capital into mutual funds and ETFs, including other components of fund returns, overall market returns, and returns on investments other than funds. To the extent that any rule amendments will increase the transmission cost, we expect the opposite effect to occur.

The rule amendments are designed to make shareholder reports easier for shareholders to use and to help investors better understand fees and expenses through fund advertisements. To the extent that it becomes easier for investors to use fund disclosures or to understand investment fees and expenses, the effect may improve retail investors' understanding about, and confidence in, the market for funds and other investment products, which may increase participation in this market by investors that previously avoided it. Such additional entry by new investors could increase the level of total capital across markets and increase the demand for new investment products and securities, which could lower the cost of capital for operating companies, precipitate capital formation in aggregate across the economy, and facilitate economic growth. These effects on capital formation will be limited, however, to the extent that investors rely on sources that are not affected by the rule amendments for advice in selecting among financial products. [754] To the extent that there are any effects on capital formation, we do not have reason to believe that they will be significant.

E. Reasonable Alternatives

1. More or Less Frequent Disclosure

The rule amendments will maintain a fund's obligation to transmit an annual and a semi-annual report to shareholders without affecting their frequency. Alternatively, we could have required an increase or reduction in the frequency of reports that funds are required to transmit to shareholders.

As one alternative, the Commission could have increased the required frequency of transmission of reports to shareholders beyond what will occur under the rule amendments. For example, the Commission could have required funds to transmit shareholder reports on a quarterly basis, rather than on a semi-annual basis as would continue to be the case under the rule amendments. To the extent shareholders review these additional reports, receiving the reports more frequently could have kept shareholders better informed about their fund investments and could have enhanced shareholders' familiarity and comfort with reviewing shareholder report disclosures, since they would have encountered such disclosures more frequently. As a result, investors may have made more informed investment decisions. However, increasing the frequency of reports would have required greater allocation of fund resources to preparing and delivering shareholder reports, which would have increased fund (and shareholder) costs. In addition, receiving more frequent shareholder reports would have placed greater demands on shareholder time and attention compared to the proposal, which could have decreased the likelihood of shareholders reviewing the reports and relying on them to inform their investment decisions.[755]

The Commission could also have adopted rule amendments that provide funds with alternatives to transmitting the semi-annual report, such as by permitting the requirement to transmit semi-annual reports to be satisfied by a fund filing certain information on Form N–CSR or by making information available on a website (either semi-annually or more frequently). Relative to the rule amendments, funds would have benefitted from the cost savings associated with no longer being required to transmit the semi-annual report. Funds also could have experienced lower costs associated with preparing disclosures, particularly if the information they were required to provide on websites largely replicated information that many funds already provide online in monthly or quarterly fact sheets.[756] Shareholders could have benefitted from these cost savings to the extent funds pass them through. However, shareholders who prefer to receive information more frequently than annually, as they currently do, would have incurred costs associated with the reduced frequency of transmission, such as costs of locating information online instead of in the delivered semi-annual report. In addition, to the extent we permitted this approach to be optional for the fund (*e.g.,* funds could either provide certain information online or transmit semi-annual reports), the alternative may have led to shareholders in some funds

the top three players are estimated to have a 71 percent share.

[753] *See supra* paragraphs accompanying footnotes 230–232. Under the definition of a ''broad-based'' index in the final rules, we anticipate that funds could use multiple currently extant indexes as the appropriate broad-based securities market index that appears in their performance disclosure. *See also supra* footnotes 725–727 and accompanying text (discussing the costs that will be incurred by funds that will be required to change their indexes in response to the final rules).

[754] *See also supra* footnote 748.

[755] Existing research notes that individuals exhibit limited ability to absorb and process information. *See supra* section IV.C.1; Richard E. Nisbett & Lee Ross, *Human Inference: Strategies and Shortcomings of Social,* Nisbett & Ross (Prentice Hall 1980); Hirshleifer and Teoh Study, *supra* footnote 640.

[756] *See generally supra* section *II.E.3.*

receiving less direct information than those in other funds.

2. More or Less Information in Shareholder Reports

The rule amendments will make the disclosures that funds transmit to shareholders more concise, without materially changing the overall amount or scope of information that funds provide to their shareholders (either in shareholder reports or separately online). The Commission could have required more (or less) information in fund shareholder reports and less (or more) information online or upon request only than under the amendments. We could have further reduced the overall amount of disclosure that funds are required to prepare and provide, *e.g.,* by no longer requiring funds to provide disclosure regarding the basis for the board's approval of investment advisory contracts.

The benefits of requiring more information to be included in shareholder reports (with less information online or upon request only) would have been that fewer investors would need to take any additional steps needed to access the information online, which would have reduced the burdens on those investors. However, this alternative also would have had certain costs. For example, requiring more information in shareholder reports may have reduced the likelihood that shareholders review the reports because they may have been more likely to feel overwhelmed by the length of the reports. Shareholder reports that include more information than under the rule amendments may also have made it harder for shareholders to find key information within the report. Moreover, increasing the length of shareholder reports by requiring additional content could also have increased the transmission costs for funds (which could also be passed on to shareholders), particularly with respect to printing and mailing costs.

As another alternative, we could have further limited the content of shareholder reports. This alternative could have resulted in shareholder reports that are easier for shareholders to review and could have reduced costs associated with the preparation and transmission of shareholder reports. However, this alternative may have reduced the utility of shareholder reports for many if not most shareholders if the reports did not include the key information those shareholders have tended to use for the purpose of monitoring their fund investments or making portfolio decisions. If, as part of this alternative, we had required funds to provide the information removed from shareholder reports to shareholders upon request or online, those shareholders would have faced the burden of requesting the information or locating it online. If we had instead removed certain disclosure requirements entirely, the costs to funds of preparing disclosure would have declined. This approach would, however, have reduced access to information for all market participants, which may have resulted in less informed monitoring or investment decisions by shareholders or by the market professionals they rely on for investment advice.

3. Retaining Rule 30e–3 Flexibility or Implementing Access Equals Delivery for Open-End Funds Registered on Form N–1A

The rule amendments will exclude funds registered on Form N–1A from current rule 30e–3. Under the rule amendments, affected funds will be required to transmit concise shareholder reports directly to shareholders in order to meet their transmission obligations. Funds will not have the flexibility instead to send a notice with information about the online location of the shareholder report, as is the case under current rule 30e–3.

As an alternative, the Commission could have continued to permit the affected funds to rely on rule 30e–3 to satisfy their shareholder report transmission obligations (whether by retaining rule 30e–3 or allowing a fund to choose either to send a rule 30e–3 notice or streamlined shareholder report). This alternative would have provided optionality to funds to determine their preferred method for delivering shareholder reports where shareholders have not expressed a clear preference for electronic delivery or paper delivery of the report and could have reduced costs of delivery for some funds compared to the proposal, such as for those funds that have already begun to prepare to rely on rule 30e–3. It also could have reduced any shareholder confusion where funds have notified shareholders of their intent to rely on rule 30e–3 and of the associated upcoming changes to shareholder report transmission. However, given that we do not expect the shareholder reports under the rule amendments to be of a length that would result in significant delivery cost disparities compared to the notice that funds must deliver under rule 30e–3, we do not believe that excluding relevant funds from rule 30e–3 would have significantly changed the costs of delivery relative to the baseline.[757] For instance, the amendments may reduce processing fees associated with delivering shareholder reports through intermediaries and should not significantly increase printing and mailing costs. Moreover, we believe that delivering a concise shareholder report to shareholders may help them more efficiently monitor their fund investments. This is because the rule amendments will enable shareholders who would otherwise have received paper notices under rule 30e–3 (those who have not elected electronic delivery) to avoid the additional step of finding the report online.

In addition, the Commission could have adopted an access equals delivery approach as an alternative to the shareholder report delivery approach we are adopting.[758] The effect of an access equals delivery approach would be that funds would post their streamlined shareholder reports online, without the notice that rule 30e–3 currently requires, rather than delivering them by email or postal mail to fund shareholders and their households. One benefit of this approach that commenters raised involved the potential for a cost reduction (which would be passed on to fund shareholders).[759] As discussed above, commenters discussing this approach raise considerations for any future initiative on the delivery of fund regulatory materials.[760] We anticipate that any further initiative on the delivery of fund regulatory materials would address these considerations.[761]

4. Limiting the Advertising Rule Amendments to ETFs and Mutual Funds

The final amendments to the advertising rule will apply to all registered investment companies and BDCs. The scope of entities affected by these amendments will therefore be broader than affected by the other rule

[757] *See supra* sections IV.C.2.a.ii and IV.C.2.b.iii (discussing our belief that the proposed shareholder reports could be trifold self-mailers).

[758] *See, e.g.,* Capital Group Comment Letter (urging adoption of an access equals delivery approach for shareholder reports and annual prospectus updates); TIAA Comment Letter (urging an incremental approach, focusing first on the format and substance of shareholder reports, urging the adoption of access equals delivery with respect to all disclosure documents); T. Rowe Price Comment Letter (recommending access equals delivery for semi-annual shareholder reports).

[759] *See, e.g.,* Capital Group Comment Letter, Federated Hermes Comment Letter, TIAA Comment Letter, T. Rowe Price Comment Letter.

[760] *See supra* section II.E.2.

[761] *See, e.g.,* Marlboro Comment Letter and CFA Comment Letter (discussing considerations regarding an access equals delivery approach).

amendments, which apply only to open-end funds, such as mutual funds, and to ETFs. As an alternative, we could also have limited the scope of the advertising rule amendments to apply only to open-end funds.

Under this alternative, the advertising rule amendments would have applied to a narrower class of entities than under the amendments being adopted. The effect would have been to reduce both the cost and benefits of the advertising amendments that are discussed in section IV.C.3, as these costs and benefits would then accrue only to shareholders and issuers of the narrowed class of entities, and not to shareholders and issuers of any entities that would be excluded under the alternative. In addition, the alternative could have led to a disparity in the quality of the information that is available to market participants about funds that would be covered by the advertising rule amendments under the alternative and the entities that would be outside its scope. This could have led to reduced comparability and distortions in investor choice across registered investment companies and BDCs, relative to the approach the Commission is adopting, which would apply the standards across all of these entities evenly.

5. Amending Shareholder Report Requirements To Include Variable Insurance Contracts or Registered Closed-End Funds

The new approach to funds' shareholder reports under the rule amendments applies only to funds registered on Form N–1A. Those rule amendments do not apply to other registered management investment companies that transmit annual and semi-annual reports under rule 30e–1.[762] Alternatively, we could have extended the new approach to shareholder reports and related rule amendments to other registered management investment companies, including closed-end funds that register on Form N–2 and variable annuity separate accounts that register on Form N–3. Like shareholders in open-end funds registered on Form N–1A, shareholders in these other funds could have benefitted from more concise shareholder reports. Several comments on the Proposing Release suggested that the shareholders of these other funds would benefit from the layered approach to disclosure under the rule amendments.[763] However, the Commission has recently amended the disclosures that shareholders in these funds receive, as we explained above and in the proposing release. Specifically, for example, the recently adopted changes to closed-end fund disclosures include multiple changes to these funds' shareholder report disclosure.[764] In addition, while the recently-adopted changes to the variable contract disclosure framework are focused more on prospectus disclosure and not shareholder report disclosure, we anticipate that these amendments would significantly change investors' experience with variable contract disclosure.[765] Before considering any additional or different disclosure amendments for closed-end funds and variable contracts, we believe it is necessary to understand funds' and investors' experience with these new disclosure frameworks for closed-end funds and variable contracts and assess their impact.

6. Requiring All Form N–CSR Disclosures To Be Tagged in Inline XBRL

Under the rule amendments, the shareholder reports will be required to be tagged in Inline XBRL, but the remainder of Form N–CSR will not. Alternatively, we could have required all of Form N–CSR to be tagged in Inline XBRL. Some of the comments on the Proposing Release that discussed Inline XBRL advocated for this more expansive approach.[766] Requiring funds to also tag the remaining disclosures on Form N–CSR would enable more efficient retrieval, aggregation, and analysis of those disclosures compared to the final rule amendments, under which the disclosures will remain untagged.[767] Such a requirement would also have imposed additional filing preparation costs (specifically, the costs of applying additional Inline XBRL tags to Form N–CSR) on funds compared to the final rule amendments.[768] Because Form N–CSR is used by both open and closed-end management investment companies to file shareholder reports, as well as other information, we have determined to limit the tagging requirements under the final rule amendments to the content that is the focus of the final rule amendments (namely, the shareholder reports filed by open-end management investment companies). We believe the information in these reports is particularly salient to funds' largely retail shareholder base, and the benefits of tagging this information likewise will be beneficial in helping these investors, as well as other market participants, understand funds' performance and operations. We believe adding requirements to tag other content filed on Form N–CSR, including content filed by closed-end management investment companies, merits further consideration.

V. Paperwork Reduction Act Analysis

A. Introduction

Certain provisions of the final rules contain ''collection of information'' requirements within the meaning of the Paperwork Reduction Act of 1995 (''PRA'').[769] We are submitting the proposed collections of information to the Office of Management and Budget (''OMB'') for review in accordance with the PRA.[770] The titles for the existing collections of information are: (1) ''Rule 30e–1 under the Investment Company Act, Reports to Stockholders of Management Companies'' (OMB Control No. 3235–0025) (2) ''Form N–CSR, Certified Shareholder Report under the Exchange Act and under the Investment Company Act for Registered Management Investment Companies''(OMB Control No. 3235–0570); (3) ''Rule 482 under the Securities Act of 1933 Advertising by an Investment Company as Satisfying Requirements of Section 10'' (OMB Control No. 3235–0565); (4) ''Rule 34b–1 under the Investment Company Act, Sales Literature Deemed to be Misleading'' (OMB Control No. 3235–0346); (5) ''Rule 433 under the Securities Act of 1933'' (OMB Control No. 3235–0617); (6) ''Rule 30e–3 under the Investment Company Act, internet Availability of Reports to Shareholders''

[762] Although all registered management investment companies are subject to rule 30e–1, the information a registered management investment company must include in its shareholder report is specified in the relevant Investment Company Act registration statement form (*i.e.,* Form N–1A, Form N–2, or Form N–3).

[763] Several commenters suggested that shareholders across fund types (*e.g.,* closed-end funds and UITs, as well as open-end funds) have similar informational needs and thus would all likely benefit from the layered approach to disclosure of the rule amendments. *See, e.g.,* Tom and Mary Comment Letter; Dechert Comment Letter; CFA Institute Comment Letter; Donald Comment Letter.

[764] *See* Closed-End Fund Offering Reform Adopting Release, *supra* footnote 143, at section II.I.2.a (discussing new annual report requirements for funds that file a short-form registration statement), section II.I.2.b (discussing MDFP disclosure that would appear in registered closed-end funds' annual reports), and section II.I.5 (discussing enhancements to certain registered closed-end funds' annual report disclosure).

[765] *See* Variable Contract Summary Prospectus Adopting Release, *supra* footnote 9.

[766] *See, e.g.,* Better Markets Comment Letter; Consumer Federation of America II Comment Letter; Morningstar Comment Letter; XBRL US Comment Letter.

[767] *See supra* section IV.C.2.a.i.

[768] *See supra* section IV.C.2.b.iii.

[769] 44 U.S.C. 3501 through 3521.

[770] 44 U.S.C. 3507(d); 5 CFR 1320.11.

(OMB Control No. 3235–0758); and (7) ''Investment Company Interactive Data'' (OMB Control No. 3235–0642). An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB control number.

The Commission published notice soliciting comments on the collection of information requirements in the Proposing Release and submitted the proposed collections of information to OMB for review in accordance with 44 U.S.C. 3507(d) and 5 CFR 1320.11. While the Commission received no comments specifically addressing the estimated PRA burdens and costs that the Proposing Release described, it did receive comments discussing the burdens of implementing certain aspects of the proposal, including the associated collections of information as defined in the PRA. We discuss these comments below, along with discussing updated estimates of the collection of information burdens associated with the amendments to rule 30e–1 under the Investment Company Act and Form N–CSR. We also discuss the amendments to rule 482 under the Securities Act, rule 34b–1 under the Investment Company Act, rule 433 under the Securities Act, and rule 30e–3 under the Investment Company Act, as well as amendments that would affect the existing Investment Company Interactive Data collection of information.[771]

B. New Shareholder Report Requirements Under Rule 30e–1

We have previously estimated that it takes a total of 1,039,868 hours, and involves a total external cost burden of $149,244,791 to comply with the collection of information associated with rule 30e–1.[772] Compliance with the disclosure requirements of rule 30e–1 is mandatory. Responses to the disclosure requirements are not kept confidential.

The Commission did not receive public comment regarding the PRA estimates for rule 30e–1 in the Proposing Release, although it did receive comments suggesting that certain aspects of the new shareholder report requirements may be more burdensome than the Commission estimated at proposal. We have adjusted the proposal's estimated annual burden hours and total time costs to reflect these comments, to reflect changes from the proposal (for example, requiring class-specific shareholder reports), as well as to reflect updated wage rates.

The table below summarizes our PRA initial and ongoing annual burden estimates associated with the amendments to rule 30e–1.

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[771] In the Proposing Release, we included estimated PRA burdens and costs associated with the proposed amendments to Form N–1A. Those proposed amendments addressed fee and risk disclosure as well as removing a rule 30e–3 legend, which since has been removed from Form N–1A. *See supra* section I.B. Because we are not adopting our proposed amendments to Form N–1A, we have not included PRA burdens and costs associated with that registration form.

[772] This estimate is based on the last time the rule's information collection was submitted for PRA renewal in 2020. The estimates in the Proposing Release were based on earlier approved estimates (1,028,658 hours and $147,750,391 external cost burden), and these earlier approved estimates are reflected in the ''Proposed Estimates'' section of Table 9 below.

TABLE 8: RULE 30E-1 PRA ESTIMATES

PROPOSED ESTIMATES						
	Internal initial burden hours	Internal annual burden hours[1]		Wage rate[2]	Internal time costs	Annual external cost burden
Prepare annual report pursuant to Item 27A of amended Form N-1A	36 hours	22 hours[3]	×	$336 (blended rate for compliance attorney and senior programmer)	$7,392	
Prepare semi-annual report pursuant to Item 27A of amended Form N-1A	18 hours	11 hours[4]		$336 (blended rate for compliance attorney and senior programmer)	$3,696	
Website availability requirements	12	8 hours[5]		$239 (webmaster)	$1,912	
Delivery upon request requirements						$500
Total additional burden per fund		41 hours			$13,000	
Number of funds		× 12,410 funds[6]			× 12,410 funds	× 12,410 funds
Total annual burden		508,810 hours			$161,330,000	$6,205,000
TOTAL PROPOSED ESTIMATED BURDENS INCLUDING AMENDMENTS						
Current burden estimates		+1,028,658				+$147,750,391
Revised burden estimates		1,537,468				$153,955,391
FINAL ESTIMATED BURDENS						
Prepare annual report pursuant to Item 27A of amended Form N-1A	72 hours	34 hours[7]	×	$381 (blended rate for compliance attorney and senior programmer)	$12,954	
Prepare semi-annual report pursuant to Item 27A of amended Form N-1A	36 hours	17 hours[8]		$381 (blended rate for compliance attorney and senior programmer)	$6,477	
Website availability requirements	12	8 hours[9]		$272 (webmaster)	$2,176	
Delivery upon request requirements						$500
Total additional burden per fund		59 hours			$21,607	
Number of funds		× 11,840 funds[10]			× 11,840 funds	× 11,840 funds
Total annual burden		698,560 hours			$255,826,880	$5,920,000
TOTAL FINAL ESTIMATED BURDENS INCLUDING AMENDMENTS						
Current burden estimates		1,039,868				$149,244,791
Revised burden estimates		1,738,428				$155,164,791

Notes:
1. Includes initial burden estimates annualized over a 3-year period.
2. These PRA estimates assume that the same types of professionals would be involved in satisfying the proposed and final reporting requirements that we believe otherwise would be involved in preparing and filing shareholder reports. The Commission's estimates of the relevant wage rates are based on salary information for the securities industry compiled by the Securities Industry and Financial Markets Association's *Office Salaries in the Securities Industry 2013*. The estimated figures are modified by firm size, employee benefits, overhead, and adjusted to account for the effects of inflation. *See* Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013.
3. This estimate assumed that, after the initial 36 hours that a fund would spend preparing an annual report, which the Commission annualized over a 3-year period, the fund would incur 10 additional burden hours associated with ongoing preparation of the annual report per year. The estimate of 22 hours was based on the following calculation: ((36 initial hours /3) + 10 hours of additional ongoing burden hours) = 22 hours.
4. This estimate assumed that, after the initial 18 hours that a fund would spend preparing a semi-annual report, which the Commission annualized over a 3-year period, the fund would incur 5 additional burden hours associated with ongoing preparation of the semi-annual report per year. The estimate of 11 hours was based on the following calculation: ((18 initial hours /3) + 5 hours of additional ongoing burden hours) = 11 hours.
5. This estimate assumed that, after the initial 12 hours that a fund would spend complying with these website availability requirements, which the Commission annualized over a 3-year period, the fund would incur 4 additional burden hours associated with ongoing compliance with these website availability requirements per year. The estimate of 8 hours was based on the following calculation: ((12 initial hours /3) + 4 hours of additional ongoing burden hours) = 8 hours.
6. Includes all open-end funds, including ETFs, registered on Form N-1A (estimated at proposal).
7. This estimate assumes that, after the initial 72 hours that a fund would spend preparing an annual report, which we annualize over a 3-year period, the fund would incur 10 additional burden hours associated with ongoing preparation of the annual report per year. The estimate of 34 hours is based on the following calculation: ((72 initial hours /3) + 10 hours of additional ongoing burden hours) = 34 hours.
8. This estimate assumes that, after the initial 36 hours that a fund would spend preparing a semi-annual report, which we annualize over a 3-year period, the fund would incur 5 additional burden hours associated with ongoing preparation of the semi-annual report per year. The estimate of 17 hours is based on the following calculation: ((36 initial hours /3) + 5 hours of additional ongoing burden hours) = 17 hours.
9. This estimate assumes that, after the initial 12 hours that a fund would spend complying with these website availability requirements, which we annualize over a 3-year period, the fund would incur 4 additional burden hours associated with ongoing compliance with these website availability requirements per year. The estimate of 8 hours is based on the following calculation: ((12 initial hours /3) + 4 hours of additional ongoing burden hours) = 8 hours.
10. Includes all open-end funds, including ETFs, registered on Form N-1A (updated estimate).

C. Form N–CSR

In our most recent PRA submission for Form N–CSR, we estimated the annual compliance burden to comply with the collection of information requirement of Form N–CSR is 227,137 burden hours with an internal cost burden of $80,860,772, and an external cost burden estimate of $5,949,924.[773] Compliance with the disclosure requirements of Form N–CSR is mandatory, and the responses to the disclosure requirements are not kept confidential.

The Commission did not receive public comment regarding the PRA estimates for Form N–CSR in the Proposing Release. We have adjusted the proposal's estimated annual burden hours and total time costs, however, to reflect updated wage rates.

The table below summarizes our PRA initial and ongoing annual burden estimates associated with the amendments to Form N–CSR.

[773] This estimate is based on the last time the rule's information collection was submitted for PRA renewal in 2022. The estimates in the Proposing Release were based on earlier approved estimates (179,443 hours and $3,129,984 external cost burden), and these earlier approved estimates are reflected in the ''Proposed Estimates'' section of Table 10 below.

TABLE 9: FORM N-CSR PRA ESTIMATES

	Internal initial burden hours	Internal annual burden hours[1]		Wage Rate[2]	Internal Time Costs	Annual external cost burden
PROPOSED ESTIMATES FOR INITIAL N-CSR FILINGS						
Total additional burden per filing (proposed new Items 7-11 of Form N-CSR)	18 hours	11 hours[3]	×	$336 (blended rate for compliance attorney and senior programmer)	$3,696	–
Number of filings		×24,820[4]			× 24,820	
Total additional burden for Form N-CSR		273,020 hours			$91,743,720	–
TOTAL PROPOSED ESTIMATED BURDENS INCLUDING AMENDMENTS						
Current burden estimates		+179,443 hours				$3,129,984
Revised burden estimates		452,463 hours				$3,129,984
FINAL ESTIMATES FOR INITIAL N-CSR FILINGS						
Total additional burden per filing (new Items 7-11 of Form N-CSR)	18 hours	11 hours[5]	×	$381 (blended rate for compliance attorney and senior programmer)	$4,191	–
Number of filings		×23,680[6]			× 23,680	
Total additional burden for Form N-CSR		260,480 hours			$99,242,880	–
TOTAL FINAL ESTIMATED BURDENS INCLUDING AMENDMENTS						
Current burden estimates		227,137 hours				$5,949,924
Revised burden estimates		487,617 hours				$5,949,924

Notes:

1. Includes initial burden estimates annualized over a 3-year period.

2. These PRA estimates assume that the same types of professionals would be involved in satisfying the proposed and final reporting requirements that we believe otherwise would be involved in preparing and filing Form N-CSR. The Commission's estimates of the relevant wage rates are based on salary information for the securities industry compiled by the Securities Industry and Financial Markets Association's *Office Salaries in the Securities Industry 2013*. The estimated figures are modified by firm size, employee benefits, overhead, and adjusted to account for the effects of inflation. *See* Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013.

3. This estimate assumed that, after the initial 18 hours that a fund would spend preparing the new items on Form N-CSR, which the Commission annualized over a 3-year period, the fund would incur 5 additional burden hours associated with ongoing preparation of these items per year. The estimate of 11 hours was based on the following calculation: ((18 initial hours / 3) + 5 hours of additional ongoing burden hours) = 11 hours.

4. Funds make two filings on Form N-CSR annually. Therefore, this proposed estimate was based on the following calculation: 12,410 funds x 2 = 24,820 filings.

5. This estimate assumes that, after the initial 18 hours that a fund would spend preparing the new items on Form N-CSR, which we annualize over a 3-year period, the fund would incur 5 additional burden hours associated with ongoing preparation of these items per year. The estimate of 11 hours is based on the following calculation: ((18 initial hours / 3) + 5 hours of additional ongoing burden hours) = 11 hours.

6. Funds make two filings on Form N-CSR annually. Therefore, this updated estimate is based on the following calculation: 11,840 funds x 2 = 23,680 filings.

D. Rule 482

In our most recent Paperwork Reduction Act submission for rule 482, the Commission estimated the annual burden to comply with rule 482's information collection requirements to be 212,927 hours, with a time cost of $74,098,735, and with no annual

external cost burden.[774] Compliance with the requirements of rule 482 is mandatory, and responses to the information collections are not kept confidential.

For purposes of estimating the burden of the final rules amendments, we estimate that 38,013 responses to rule 482 are filed annually.[775] We estimate that approximately 96% of these rule 482 responses provide fee and expense figures in qualifying advertisements and would, therefore, be required to comply with the final rule amendments regarding such information (for example, ensuring that the fee and expense figures are presented in accordance with the prominence and timeliness requirements in the amendments to rule 482). Similarly, we estimate that 96% of the responses to rule 482 (*i.e.,* 36,492 responses) provide advertisements that include information regarding a fund's total annual expenses and would, therefore, have to comply with the final rule amendments regarding such information.

The Commission did not receive public comment regarding the PRA estimates for rule 482 in the Proposing Release. We have adjusted the proposal's estimated annual burden hours and total time costs, however, to reflect updated wage rates and adjustments to our estimates of the number of responses that would be affected by the final rule amendments.

The table below summarizes our PRA initial and ongoing estimates for the internal burdens associated with the amendments to rule 482:

[774] This estimate is based on the last time the rule's information collection was submitted for PRA renewal in 2020. The estimates in the Proposing Release were based on earlier approved estimates (278,161 hours, with internal time costs of $76,702,896 and no external cost burden), and these earlier approved estimates are reflected in the ''Proposed Estimates'' section of Table 11 below.

[775] The Commission estimates that there was a total of 41,953 responses to rule 482 that either were filed with FINRA or with the Commission in 2021. Of those, the Commission estimates that 1,124 were responses from closed-end funds and BDCs, and that 2,816 were responses from variable insurance contracts. The number of responses filed with the SEC is based on the average number of responses filed with the Commission from 2019–2021. The Commission assumes that, moving forward, closed-end funds and BDCs will choose to use free writing prospectuses under rule 433, and also that variable insurance contracts will not be subject to the amendments to rule 482. Therefore, we exclude closed-end funds, BDCs, and variable insurance contracts from the total responses to rule 482 for purposes of this estimate. The exclusion of variable insurance contracts represents a change from the PRA estimate at proposal.

TABLE 10: RULE 482 PRA ESTIMATES

	Internal initial hour burdens	Internal annual burden[1]	Wage Rate[2]	Internal Time Costs
PROPOSED ESTIMATES FOR RULE 482				
New general requirements re: fee and expense figure disclosure	9 hours	6 hours[3]	$336 (blended rate for compliance attorney and senior programmer)	$2,016
Number of responses to rule 482 that include fee/expense figure disclosure		x 35,514 responses		x 35,514 responses
Total burden of new requirements for fee and expense disclosure		213,084 hours		$71,596,224
New requirements for disclosure of fee waivers/expense reimbursement arrangements	6 hours	4 hours[4]	$336 (blended rate for compliance attorney and senior programmer) -	$1,344
Number of responses to rule 482 that disclose fee waivers/expense reimbursement arrangements		x 35,514 responses		x 35,514 responses
Total burden of annual requirements for disclosure of fee waivers/expense reimbursement arrangements		142,056 hours		$47,730,816
Total annual burden		355,140 hours		$119,327,040
TOTAL PROPOSED ESTIMATED BURDENS INCLUDING AMENDMENTS				
Current burden estimates		278,161 hours		$76,702,896
Revised burden estimate		633,301 hours		$196,029,936

FINAL ESTIMATES FOR RULE 482				
New general requirements re: fee and expense figure disclosure	9 hours	6 hours	$381 (blended rate for compliance attorney and senior programmer)	$2,286
Number of responses to rule 482 that include fee/expense figure disclosure		x 36,492 responses		x 36,492 responses
Total burden of new requirements for fee and expense disclosure		218,952 hours		$83,420,712
New requirements for disclosure of fee waivers/expense reimbursement arrangements	6 hours	4 hours	$381 (blended rate for compliance attorney and senior programmer) -	$1,524
Number of responses to rule 482 that disclose fee waivers/expense reimbursement arrangements		x 36,492 responses		x36,492 responses
Total burden of annual requirements for disclosure of fee waivers/expense reimbursement arrangements		145,968 hours		$55,613,808
Total annual burden		364,920 hours		$139,034,520
TOTAL FINAL ESTIMATED BURDENS INCLUDING AMENDMENTS				
Current burden estimates		212,927 hours		$74,098,735
Revised burden estimate		577,847 hours		$213,133,255

Notes:
1. Includes initial burden estimates annualized over a 3-year period.
2. These PRA estimates assume that the same types of professionals would be involved in preparing advertisements (reflecting the proposed and final amendments to rule 482) that we believe otherwise would be involved in preparing a fund's advertisements. The Commission's estimates of the relevant wage rates are based on salary information for the securities industry compiled by the Securities Industry and Financial Markets Association's *Office Salaries in the Securities Industry 2013*. The estimated figures are modified by firm size, employee benefits, overhead, and adjusted to account for the effects of inflation. See Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013.
3. This estimate assumed that, after the initial 9 hours that an entity would spend on the proposed fee and expense disclosure, which we annualize over a 3-year period, the entity would incur 3 additional burden hours associated with ongoing compliance with these requirements per year. The estimate of 6 hours is based on the following calculation: ((9 initial hours /3) + 3 hours of additional ongoing burden hours) = 6 hours.
4. This estimate assumed that, after the initial 6 hours that an entity would spend on the proposed fee waiver and expense reimbursement requirements, which we annualized over a 3-year period, the entity would incur 2 additional burden hours associated with ongoing compliance with these requirements per year. The estimate of 4 hours is based on the following calculation ((6 initial hours/ 3) + 2 hours of additional ongoing burden hours) = 4 hours.

E. Rule 34b–1

To apply the same fee and expense-related requirements consistently across all registered investment company and BDC advertisements and supplemental sales literature, we are amending rule 34b–1 in a manner that mirrors our amendments to rule 482.[776]

For purposes of estimating the burden of the final rules amendments, we estimate that 7,509 responses to rule 34b–1 are filed annually.[777] We estimate that approximately 96% of the rule 34b–1 responses provide fee and expense figures in qualifying advertisements and would, therefore, be required to comply with the final rule amendments regarding such information. Similarly, we estimate that 96% of the responses to rule 34b–1 (*i.e.,* 7,209 responses) provide advertisements that include information regarding a fund's total annual expenses and would, therefore, have to comply with the final rule amendments regarding such information. Compliance with the requirements of rule 34b–1 is mandatory, and the responses to the information collections are not kept confidential.

In our most recent Paperwork Reduction Act submission for rule 34b–1, we estimated the annual compliance burden to comply with the collection of information requirement in rule 34b–1 is 46,278 hours, with an internal cost burden of $13.8 million.[778] There is no annual external cost burden attributed to rule 34b–1.

The Commission did not receive public comment regarding the PRA estimates for rule 34b–1 in the Proposing Release. We have adjusted the proposal's estimated annual burden hours and total time costs, however, to reflect updated wage rates and adjustments to our estimates of the number of responses that would be affected by the final rule amendments.

The table below summarizes the estimates for internal burdens associated with the new requirements under the final amendments to rule 34b–1.

[776] *See supra* section II.G.

[777] The Commission estimates that there was a total of 8,227 total responses to rule 34b–1 that either were filed with FINRA or with the Commission in 2021. (The estimated number of responses in the Proposing Release was significantly lower because the responses filed with FINRA were inadvertently omitted.) Of those, the Commission estimates that 718 were responses from variable insurance contracts. The number of responses filed with the SEC is based on the average number of responses filed with the Commission from 2019–2021. The Commission assumes that variable insurance contracts will not be subject to the amendments to rule 34b–1. Therefore, we exclude variable insurance contracts from the total responses to rule 34b–1 for purposes of this estimate. We have subtracted these 718 responses from the estimate of 8,227 total responses to estimate the responses to rule 34b–1 for purposes of calculating the burden estimate of the final rule amendments (8,227 − 718 = 7,509). The exclusion of variable insurance contracts also represents a change from the PRA estimate at proposal.

[778] This estimate is based on the last time the rule's information collection was submitted for PRA renewal in 2021. The estimates in the Proposing Release were based on earlier approved estimates (26,008 hours, with internal time costs of $73,000,000 and no external cost burden), and these earlier approved estimates are reflected in the ''Proposed Estimates'' section of Table 12 below.

TABLE 11: RULE 34B-1 PRA ESTIMATES

	Internal initial burden hours	Internal annual hour burden[1]	Wage Rate[2]	Internal Time Costs
PROPOSED ESTIMATES FOR RULE 34B-1				
New general requirements re: fee and expense figure disclosure	9 hours	6 hours[3]		$2,016
Number of responses to rule 34b-1 that include fee/expense figure disclosure		x 337 responses	$336 (blended rate for compliance attorney and senior programmer)	x 337 responses
Total annual burden of new requirements for fee and expense disclosure		2,022 hours		$679,392
New requirements for disclosure of fee waivers/expense reimbursement arrangements	6 hours	4 hours[4]	$336 (blended rate for compliance attorney and senior programmer)	$1,344
Number of responses to rule 34b-1 that disclose fee waivers/expense reimbursement arrangements		x 337 responses		x 337 responses
Total annual burden of requirements for disclosure of fee waivers/expense reimbursement arrangements		1,348 hours		$452,928
Total annual burden		3,370 hours		$1,132,320
TOTAL PROPOSED ESTIMATED BURDENS INCLUDING AMENDMENTS				
Current burden estimates		26,008 hours		$7,300,000
Revised burden estimate		29,378		$8,432,320
FINAL ESTIMATES FOR RULE 34B-1				
New general requirements re: fee and expense figure disclosure	9 hours	6 hours		$2,286
Number of responses to rule 34b-1 that include fee/expense figure disclosure		x 7,209 responses	$381 (blended rate for compliance attorney and senior programmer)	x 7,209 responses
Total annual burden of new requirements for fee and expense disclosure		43,254 hours		$16,479,774
New requirements for disclosure of fee waivers/expense reimbursement arrangements	6 hours	4 hours	$381 (blended rate for compliance attorney and senior programmer)	$1,524
Number of responses to rule 34b-1 that disclose fee waivers/expense reimbursement arrangements		x 7,209 responses		x 7,209 responses
Total annual burden of requirements for disclosure of fee waivers/expense reimbursement arrangements		28,836 hours		$10,986,516
Total annual burden		72,090 hours		$27,466,290
TOTAL FINAL ESTIMATED BURDENS INCLUDING AMENDMENTS				
Current burden estimates		46,278 hours		$13,813,983
Revised burden estimate		118,368 hours		$41,280,273

Notes:
1. Includes initial burden estimates annualized over a 3-year period.
2. These PRA estimates assume that the same types of professionals would be involved in supplemental sales literature (reflecting the proposed and final amendments to rule 34b-1) that we believe otherwise would be involved in preparing a fund's advertisements. The Commission's estimates of the relevant wage rates are based on salary information for the securities industry compiled by the Securities Industry and Financial Markets Association's Office Salaries in the Securities Industry 2013. The estimated figures are modified by firm size, employee benefits, overhead, and adjusted to account for the effects of inflation. See Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013.
3. This estimate assumed that, after the initial 9 hours that an entity would spend on the proposed fee and expense disclosure, which we annualize over a 3-year period, the entity would incur 3 additional burden hours associated with ongoing compliance with these requirements per year. The estimate of 6 hours is based on the following calculation: ((9 initial hours /3) + 3 hours of additional ongoing burden hours) = 6 hours.
4. This estimate assumed that, after the initial 6 hours that an entity would spend on the proposed fee waiver and expense reimbursement requirements, which we annualized over a 3-year period, the entity would incur 2 additional burden hours associated with ongoing compliance with these requirements per year. The estimate of 4 hours is based on the following calculation ((6 initial hours/ 3) + 2 hours of additional ongoing burden hours) = 4 hours.

F. Rule 433

We are amending rule 433 to require a registered closed-end fund or BDC free writing prospectus to comply with the content, presentation, and timeliness requirements of the final amendments to rule 482, as applicable, if the free writing prospectus includes fee and expense information.[779] As a result, regardless of whether a registered closed-end fund or BDC advertisement uses rule 482 or rule 433, the advertisement will be subject to the same requirements regarding fee and expense information.[780] Compliance with the requirements of rule 433 is mandatory, and the responses to the information collections are not kept confidential.

In our most recent Paperwork Reduction Act submission for rule 433, we estimated the annual compliance burden to comply with the collection of information requirement rule 433 is 6,391 hours, at a time cost of $7,668,800, and an external cost burden estimate of $7,669,017. As part of the rulemaking that accompanied that Paperwork Reduction Act submission, we also estimated that there will be 791 closed-end funds and BDCs filing approximately 4,271 free writing prospectuses.

For purposes of this PRA analysis, we estimate that there will be 791 closed-end funds and BDCs filing approximately 4,479 free writing prospectuses annually. We estimate that approximately 96% of the 4,479 responses provide fee and expense figures in free writing prospectuses and will, therefore, be required to comply with the final rule amendments regarding such information.[781] Similarly, we estimate that 96% of these responses (*i.e.,* 4,300 responses) will include information regarding a fund's total annual expenses and will, therefore, have to comply with the final rule amendments regarding such information.

The Commission did not receive public comment regarding the PRA estimates for rule 433 in the Proposing Release. We have adjusted the proposal's estimated annual burden hours and total time costs, however, to reflect updated wage rates and adjustments to our estimates of the number of responses that would be affected by the final rule amendments.

The table below summarizes the estimated ongoing internal burdens associated with this new requirement under rule 433:

[779] *See supra* section II.G.

[780] *See supra* footnote 775 (noting that, for purposes of the PRA for rule 482, we excluded responses from closed-end funds, BDCs, and variable contracts).

[781] Our estimate of the internal ongoing burdens is based on our most recent PRA submission. *See* Closed-End Fund Offering Reform Adopting Release, *supra* footnote 143. We are assuming, however, that the rule and rule and form amendments that the Commission adopted in that release will increase the prevalence of the use of free writing prospectuses by BDCs and registered closed-end funds. The transition to the rule and rule and forms amendments adopted in that release is continuing to occur because although certain of the closed-end fund offering reform rule and rule and form amendments became effective on August 1, 2021, their compliance dates are not until 2023.

TABLE 12: RULE 433 PRA ESTIMATES

	Internal initial burden hours[1]	Internal annual hour burden	Wage rate[2]	Internal time costs	External costs
PROPOSED ESTIMATES FOR RULE 433					
New general requirements re: fee and expense figure disclosure	9 hours	6 hours[3]	$336 (blended rate for compliance attorney and senior programmer)	$2,016	
Number of responses to rule 433 that include fee/expense figure disclosure		x 4,100 responses		x 4,100 responses	
Total burden of new requirements for fee and expense disclosure		24,600 hours		.$8,265,600	
New requirements for disclosure of fee waivers/expense reimbursement arrangements	6 hours	4 hours[4]	$336 (blended rate for compliance attorney and senior programmer)	$1,344	
Number of responses to rule 433 that disclose fee waivers/expense reimbursement arrangements		x 4,100 responses	-	x 4,100 responses	
Total burden of annual requirements for disclosure of fee waivers/expense reimbursement arrangements		16,400 hours		$5,510,400	
Total annual burden		41,000 hours		$13,776,000	
TOTAL ESTIMATED BURDENS INCLUDING AMENDMENTS					
Current burden estimates		6,391 hours		$7,668,800[5]	$7,668,800[5]
Revised burden estimate		47,391 hours		$21,444,800	$7,668,800
FINAL ESTIMATES FOR RULE 433					
New general requirements re: fee and expense figure disclosure	9 hours	6 hours[3]	$381 (blended rate for compliance attorney and senior programmer)	$2,286	
Number of responses to rule 433 that include fee/expense figure disclosure		x 4,300 responses		x 4,300 responses	
Total burden of new requirements for fee and expense disclosure		25,800 hours		$9,829,800	
New requirements for disclosure of fee waivers/expense reimbursement arrangements	6 hours	4 hours[4]	$381 (blended rate for compliance attorney and senior programmer)	$1,524	
Number of responses to rule 433 that disclose fee waivers/expense reimbursement arrangements		x 4,300 responses	-	x 4,300 responses	
Total burden of annual requirements for disclosure of fee waivers/expense reimbursement arrangements		17,200 hours		$6,553,200	
Total annual burden		43,000 hours		$16,383,000	
TOTAL FINAL ESTIMATED BURDENS INCLUDING AMENDMENTS					
Current burden estimates		6,391 hours		$7,668,800	$7,668,800
Revised burden estimate		49,391 hours		$24,051,800	$7,668,800

Notes:
1. Includes initial burden estimates annualized over a 3-year period.
2. These PRA estimates assume that the same types of professionals would be involved in preparing free writing prospectuses that we believe otherwise would be involved in preparing a fund's advertisements. The Commission's estimates of the relevant wage rates are based on salary information for the securities industry compiled by the Securities Industry and Financial Markets Association's *Office Salaries in the Securities Industry 2013*. The estimated figures are modified by firm size, employee benefits, overhead, and adjusted to account for the effects of inflation. *See* Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013.
3. This estimate assumed that, after the initial 9 hours that an entity would spend on the proposed fee and expense disclosure, which we annualize over a 3-year period, the entity would incur 3 additional burden hours associated with ongoing compliance with these requirements per year. The estimate of 6 hours is based on the following calculation: ((9 initial hours /3) + 3 hours of additional ongoing burden hours) = 6 hours.
4. This estimate assumed that, after the initial 6 hours that an entity would spend on the proposed fee waiver and expense reimbursement requirements, which we annualized over a 3-year period, the entity would incur 2 additional burden hours associated with ongoing compliance with these requirements per year. The estimate of 4 hours is based on the following calculation ((6 initial hours/ 3) + 2 hour of additional ongoing burden hours) = 4 hours.
5. We understand that the entirety of the internal burden costs are external burden costs.

G. Rule 30e–3

We are amending the scope of rule 30e–3 to exclude investment companies registered on Form N–1A.[782] Because this amendment would decrease the number of funds that would be able to rely on rule 30e–3, we are updating the PRA analysis for rule 30e–3 to account for any burden decrease that would result from this decrease in respondents. We are not updating the rule 30e–3 PRA analysis in any other respect. Reliance on the rule is voluntary; however, compliance with the rule's conditions is mandatory for funds relying on the rule. Responses to the information collections are not kept confidential.

In our most recent PRA submission for rule 30e–3, we estimated for this rule a total hour burden of 24,719 hours, with a total annual external cost burden of $81,926,160.[783] The table below summarizes our PRA estimates associated with the final amendments to the scope of rule 30e–3. The Commission did not receive public comment regarding the PRA estimates for the proposed amendments to rule 30e–3 in the Proposing Release. We have adjusted the proposal's estimated annual burden hours and total time costs, however, to reflect updated wage rates.

TABLE 13: RULE 30E-3 PRA ESTIMATES

	Currently approved annual internal hour burden[1]	Updated estimated annual internal hour burden	Previously estimated annual internal burden time cost	Updated estimated annual internal time burden cost	Previously estimated annual external cost burden	Updated estimated annual external cost burden
Total annual burden	24,719 hours	1,298 hours[2]	approx. $8.9 million	approx. $452,145[3]	approx. $82 million	approx. $4.2 million[4]

Notes:
1. The estimated current burdens and costs in this table are based on the PRA renewal submitted in 2022. This PRA renewal includes an estimate of 11,771 funds relying on rule 30e-3, of which approximately 10,547 are open-end investment companies registered on Form N-1A and 626 UITs.
2. This estimate is calculated as follows: ((11,771 funds relying on rule 30e-3 - 10,547 open-end funds relying on rule 30e-3 – 626 UITs relying on 30e-3= 618) / 11,771) x 24,719 hours = approximately 1,298 hours.
3. This estimate is calculated as follows: ((11,771 - 11,173= 598) / 11,771) x $8.9 million = approximately $452,145.
4. This estimate is calculated as follows: ((11,771 – 11,173 = 598) / 11,771) x $82 million = approximately $4.2 million.

H. Investment Company Interactive Data

We are adopting new requirements for funds to tag shareholder report contents required by Item 27A of amended Form N–1A in Inline XBRL. While the requirement to tag the contents of a fund's shareholder report is new, funds subject to this new requirement are otherwise currently required to tag certain disclosures in Inline XBRL.[784] Our PRA estimates reflect the fact that the funds affected by this amendment are familiar with Inline XBRL and will have more limited implementation costs than would be estimated for funds tagging disclosure for the first time.

In our most recent PRA submission for Investment Company Interactive Data, we estimated a total aggregate annual hour burden of 252,684 hours, and a total aggregate annual external cost burden of $15,449,450.[785] Compliance with the interactive data requirements is mandatory, and the responses will not be kept confidential.

The table below summarizes our PRA estimates for the initial and ongoing annual burdens associated with the amendments to require tagging shareholder reports, as well as Regulation S–T.

[782] *See supra* section II.E.

[783] This estimate is based on the last time the rule's information collection was submitted for PRA renewal in 2022. The estimates in the Proposing Release were based on earlier approved estimates (28,758 hours and $79,031,220 external cost burden). Of those costs, at proposal the Commission estimated that 24,459.4 hours, at a time cost of $8,674,306, and an external cost of $69,965,020, were attributed to the compliance costs of open-end funds registered on Form N–1A.

[784] *See supra* footnotes 571 and 572 and accompanying text discussing current Inline XBRL requirements for funds.

[785] This estimate is based on the last time this information collection was approved in 2022.

TABLE 14: INVESTMENT COMPANY INTERACTIVE DATA

	Internal initial burden hours	Internal annual burden hours[1]	Wage rate[2]	Internal time costs	Annual external cost burden
Shareholder report pursuant to Item 27A of amended Form N-1A for current XBRL filers	18 hours	6 hours[3]	$381 (blended rate for compliance attorney and senior programmer)	$2,286	$50[4]
Number of funds		× 11,840 funds[5]		× 11,840 funds	× 11,840 funds
Total new aggregate annual burden		71,040 hours[6]		$27,066,240[7]	$592,000[8]
TOTAL ESTIMATED BURDENS INCLUDING AMENDMENTS					
Current aggregate annual burden estimates		+ 252,684 hours			+ $15,449,450
Revised aggregate annual burden estimates		323,724 hours			$16,041,450

Notes:
1. Includes initial burden estimates annualized over a 3-year period.
2. These PRA estimates assume the same types of professionals would be involved in satisfying the final rules' interactive data requirements that we believe otherwise would be involved in complying with similar requirements. The Commission's estimates of the relevant wage rates are based on salary information for the securities industry compiled by the Securities Industry and Financial Markets Association's Office Salaries in the Securities Industry 2013. The estimated figures are modified by firm size, employee benefits, overhead, and adjusted to account for the effects of inflation. *See* Securities Industry and Financial Markets Association, Report on Management & Professional Earnings in the Securities Industry 2013.
3. Includes initial burden estimates annualized over a three-year period. The estimate is based on 18 initial hours (12 hours for the annual report + 6 hours for the semi-annual report) The estimate of 6 hours is based on the following calculation: ((18 initial hours /3) = 6 hours.
4. We estimate an incremental external cost for filers on Form N-1A, as they already submit certain information using Inline XBRL.
5. Includes all open-end funds, including ETFs, registered on Form N-1A.
6. 71,040 hours = (11,840 funds x 6 hours). We estimate no ongoing burden, as this is already incorporated into the current burden estimate for funds that are complying with requirements to tag disclosures using Inline XBRL, and this estimation approach is consistent with other similar PRA estimates. *See supra* footnote 730.
7. $27,066,240 internal time cost = (11,840 funds x $2,286).
8. $592,000 annual external cost = (11,840 funds x $50).

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VI. Final Regulatory Flexibility Act Analysis

The Commission has prepared the following Final Regulatory Flexibility Analysis (''FRFA'') in accordance with section 604 of the Regulatory Flexibility Act (''RFA'').[786] It relates to: the final amendments to funds' annual and semi-annual report requirements, new Form N–CSR requirements, and new website availability requirements; the final investment company advertising rule amendments; final amendments to require that funds tag their shareholder reports in Inline XBRL; and the final technical and conforming amendments. An Initial Regulatory Flexibility Analysis (''IRFA'') was prepared in accordance with the RFA and included in the Proposing Release.[787]

A. Need for and Objectives of the Rule and Form Amendments

The Commission is adopting new rule, rule amendments, and form amendments that create a simplified disclosure framework for mutual funds and exchange-traded funds to highlight key information for investors. Under the final rules, fund investors will continue to receive fund prospectuses in connection with their initial investment in a fund, as they do today. On an ongoing basis thereafter, the investors will receive more concise and visually engaging annual and semi-annual reports designed to highlight information that we believe is particularly important for retail shareholders to assess and monitor their ongoing fund investments. The final rule amendments promotes a layered disclosure framework that complements the shareholder report by continuing to make available additional information that may be of interest to some investors, including the fund's financial statements. The information will be available online, reported on Form N–CSR, and delivered to an investor on request, free of charge. The final rules would also provide funds the flexibility to make electronic versions of their shareholder reports more user-friendly and interactive. We are also requiring that funds tag their reports to shareholders using Inline XBRL to provide machine-readable data that retail investors could use to more efficiently access and evaluate their investments.

We are also adopting rule amendments that no longer permit mutual funds and exchange-traded funds required to register on Form N–1A to rely on rule 30e–3 to satisfy shareholder report transmittal requirements, in order to promote the provision of consistent disclosure that we believe is best tailored to investors' informational needs. To improve fee- and expense-related information more broadly, we are amending investment company advertising rules to promote more transparent and balanced statements about investment costs. The advertising rule amendments affect all

[786] 5 U.S.C. 604.

[787] *See* Proposing Release, *supra* footnote 8, at section V.

registered investment companies and BDCs.

B. Significant Issues Raised by Public Comments

In the Proposing Release, we requested comment on every aspect of the IRFA, including the number of small entities that would be affected by the proposed rule and form amendments, the existence or nature of the potential impact of the proposals on small entities discussed in the analysis, and how to quantify the impact of the proposed amendments. We also requested comment on the proposed compliance burdens and the effect these burdens would have on smaller entities.

Although we did not receive comments specifically addressing the IRFA, one commenter noted the potential impact of an aspect of proposed rule where funds would be required to include in their annual reports comparing performance of $10,000 in investment in the fund and in an appropriate broad-based securities market index over a 10 year period. The commenter stated that the cost for smaller fund complexes to change or add an additional index may be higher than for other funds.[788] Smaller funds may have fewer licensing agreements and thus may incur costs associated with this requirement, which may hinder competition for smaller funds.[789] As discussed above, the definition of the term ''appropriate broad-based securities market index'' in the management's discussion of fund performance section of the shareholder report could result in additional costs to funds, in the form of index-licensing fees and the costs of updating disclosure for funds that change the broad-based index they include in their performance disclosure in response to this requirement.

C. Small Entities Subject to the Rule

For purposes of Commission rulemaking in connection with the Regulatory Flexibility Act, an investment company is a small entity if, together with other investment companies in the same group of related investment companies, it has net assets of $50 million or less as of the end of its most recent fiscal year.[790] Commission staff estimates that, as of June 2022, approximately 43 open-end funds (including 11 ETFs), 31 closed-end funds, and 11 BDCs are small entities.

D. Projected Reporting, Recordkeeping, and Other Compliance Requirements

The new rule and form amendments will impact current reporting, recordkeeping, and other compliance requirements for funds, including those considered to be small entities.

1. Annual and Semi-Annual Reports

We are adopting tailored disclosure requirements for funds' annual and semi-annual reports to help shareholders focus on key information that we believe is most useful for assessing and monitoring fund investments on an ongoing basis, including information about a fund's expenses, portfolio holdings, and performance. Among other things, shareholder reports will be revised to include new disclosures (such as material changes and fund statistics in annual reports), simplify certain disclosures (such as MDFP in annual reports), and remove certain disclosures (such as financial statements currently found in semi-annual and annual reports).[791] We also are adopting amendments to improve the design of funds' shareholder reports by encouraging funds to use features that promote effective communications (*e.g.,* tables, charts, bullet lists, question-and-answer formats) and permitting funds to use technology to enhance an investor's understanding of material in electronic versions of shareholder reports.

We estimate that approximately 43 funds are small entities that are required to prepare and transmit shareholder reports under the final rules.[792] We expect the final rules to result in some initial implementation costs but, going forward, will reduce the burdens associated with these existing disclosure requirements related to shareholder reports. We estimate that preparing amended annual report disclosure will cost $27,432 for each fund, including small entities in its first year of compliance, and $3,810 for each subsequent year.[793] We further estimate that preparing amended semi-annual report disclosure will cost $13,716 for each fund, including small entities, in its first year of compliance, and $1,905 for each subsequent year.[794]

2. New Form N–CSR and Website Availability Requirements

We are adopting a layered disclosure framework that complements the amended shareholder report requirements by continuing to make available to investors' additional, less retail-focused information, including the fund's financial statements. This additional information, which we believe will primarily benefit financial professionals and other investors who desire more in-depth information, will be available online, reported on Form N–CSR, and delivered to an investor on request, free of charge.[795] This new Form N–CSR disclosure also will need to be available on the website specified on the cover page or at the beginning of the fund's annual report and delivered in paper or electronically upon request, free of charge.[796]

We estimate that approximately 43 funds are small entities will be required to comply with the new Form N–CSR and website availability requirements.[797] We further estimate that complying with the new Form N–CSR and website availability requirements will cost $6,858 for each fund, including small entities, in its first year of compliance, and $1,905 for each subsequent year.[798]

3. Amendments to Scope of Rule 30e–3

Subject to conditions, rule 30e–3 generally permits investment companies to satisfy shareholder report transmission requirements by making these reports and other materials available online and providing a notice of the reports' online availability instead of directly mailing the report (or emailing an electronic version of the report) to shareholders. We are amending the scope of rule 30e–3 to exclude investment companies registered on Form N–1A, which will be transmitting tailored shareholder reports under the final rules. This amendment to the scope of the rule is designed to help ensure that all investors in these funds experience the anticipated benefits of the new disclosure framework.[799]

[788] *See* ICI Comment Letter.

[789] *See supra* footnote 215 (discussing commenters arguing that the proposed broad-based index requirement would impose additional licensing fees on funds, with one commenter (ICI) stating that smaller funds with fewer (or more limited) licensing agreements in place may be more likely to incur these costs).

[790] 17 CFR 270.0–10(a). Recognizing the growth in assets under management in investment companies since rule 0–10(a) was adopted, the Commission plans to revisit the definition of a small entity in rule 0–10(a).

[791] *See supra* section II.A.2.

[792] *See* text following *supra* footnote 790.

[793] *See supra* footnote 722 and accompanying text.

[794] *See supra* footnote 723 and accompanying text.

[795] *See supra* section II.C.3.

[796] *See supra* section II.C.3.

[797] *See supra* footnote 790 and accompanying text.

[798] *See supra* footnote 732 and accompanying text.

[799] *See supra* section II.E.

4. Investment Company Advertising Rules

We are amending the Commission's investment company advertising rules (for purposes of this release, Securities Act rules 482, 156, and 433 and Investment Company Act rule 34b–1) to promote transparent and balanced presentations of fees and expenses in investment company advertisements.[800] As investment companies increasingly compete and market themselves on the basis of costs, we are concerned that investment company advertisements may mislead investors by creating an inaccurate impression of the costs associated with an investment.[801] The advertising rule amendments generally apply to any investment company, including mutual funds, ETFs, registered closed-end funds, and BDCs.

Specifically, we are amending Securities Act rules 433 and 482 and Investment Company Act rule 34b–1 to promote transparent and balanced presentations of fees and expenses in investment company advertisements. We also are amending Securities Act rule 156 to provide factors an investment company should consider to determine whether representations about the fees and expenses associated with an investment in the fund could be materially misleading.

We estimate that 43 open-end funds (including 11 ETFs), 31 closed-end funds, and 11 BDCs are small entities that will be affected by our final amendments to investment company advertising rules. As discussed above, we estimate that compliance with these final amendments will cost $5,715 for each advertisement, including small entities, in the first year, and $1,905 per year for each subsequent year.[802]

5. Inline XBRL Data Tagging

We are adopting requirements for funds to tag the shareholder report contents in Inline XBRL, which will make shareholder report disclosure more readily available and easily accessible for aggregation, comparison, filtering, and other analysis.[803] This requirement is a change from the proposed rule, which did not propose to require funds to tag the shareholder reports or other aspects of Form N–CSR in Inline XBRL. This aspect of our final rules is in keeping with the Commission's ongoing efforts to implement reporting and disclosure reforms that take advantage of the benefits of advanced technology to modernize the fund reporting and disclosure regime and, among other things, to help investors and other market participants better assess different funds. The Inline XBRL data tagging requirement generally apply to any investment company, including mutual funds, ETFs, registered closed-end funds, and BDCs.

We estimate that 43 open-end funds (including 11 ETFs), 31 closed-end funds, and 11 BDCs are small entities that will be affected by our final rule requiring the tagging of shareholder report information. As discussed above, we estimate that compliance with these final rules will cost $6,858 for each shareholder report, including small entities, in the first year.[804] Consistent with similar tagging requirements, we estimate no ongoing burden, as this is already incorporated into the current burden estimate for funds that are complying with requirements to tag disclosures using Inline XBRL.[805]

E. Agency Action To Minimize Effect on Small Entities

The RFA directs the Commission to consider significant alternatives that would accomplish our stated objective, while minimizing any significant economic impact on small entities. We considered the following alternatives for small entities in relation to our proposal: (1) establishing different reporting, recordkeeping, and other compliance requirements or frequency, to account for resources available to small entities; (2) exempting funds that are small entities from the proposed reporting, recordkeeping, and other compliance requirements, to account for resources available to small entities; (3) clarifying, consolidating, or simplifying the compliance requirements under the final rules for small entities; and (4) using performance rather than design standards.

As discussed above, our final rules: (1) amend the shareholder report content and disclosure requirements; (2) amend to the scope of rule 30e–3 to exclude UIT separate accounts and funds registered on Form N–1A; (3) rescind rule 30e–1(d) (which currently permits a fund to transmit a copy of its prospectus or SAI in place of its shareholder report under certain conditions); (4) require that funds tag their reports in Inline XBRL; (5) amends the advertising rules for funds, including BDCs; and (6) amends Form N–CSR. Collectively, these amendments are designed to tailor the disclosures that funds provide by using layered disclosure principles to create a new disclosure framework designed to meet the informational needs of different investors (*i.e.,* initial investors versus existing shareholders, and retail investors versus those who desire more information). The final amendments are designed to focus on key information different investors must to make informed investment decisions and, for existing shareholders, to assess and monitor their fund investments. In addition, our final rules amend investment company advertising rules to promote transparent and balanced presentations of fees and expenses in investment company advertisements. We are also adopting final rules requiring funds to tag their shareholder reports using Inline XBRL to provide machine-readable data that retail investors could use to more efficiently access and evaluate their investments.

We do not believe it would be appropriate to establish different reporting, recordkeeping, and other compliance requirements or frequency, to account for resources available to small entities. Small entities currently follow the same requirements that large entities do when preparing, transmitting, and filing shareholder reports; preparing and sending or giving prospectuses to investors; and preparing investment company advertisements and supplemental sales literature. If the final rules included different requirements for small funds, it could raise investor protection concerns for investors in small funds to the extent that investors in small funds would not receive the same disclosures as investors in larger funds.

For example, to the extent that small funds may have fewer resources to invest in investor education or marketing materials, investors in small funds may have fewer opportunities outside of regulatory disclosures to obtain key information needed to make informed investment decisions and assess and monitor their fund investments. For this reason, it is important that the regulatory disclosures that small funds provide to investors are consistent in terms of content and frequency with the disclosures that larger funds provide to investors, so that all investors have the tools they need to meet their informational needs. More generally, the disclosure requirements we are adopting are tailored to meet the informational needs of different groups of investors, and to implement a layered disclosure framework that would benefit all

[800] *See supra* section II.G.

[801] *See id.*

[802] *See supra* footnote 744 and 745 and accompanying text.

[803] *See supra* section II.H.

[804] *See supra* footnote 730 and accompanying text.

[805] *See id.*

investors. Permitting different disclosure requirements for small funds would result in small fund investors not experiencing the anticipated benefits of the new tailored disclosure framework. Furthermore, uniform prospectus fee and risk disclosure requirements allow all investors to compare funds reporting the same information on the same frequency, and help all investors to make informed investment decisions based upon those comparisons.

Similarly, we do not believe it would be appropriate to exempt small funds from the final amendments. As discussed above, our contemplated disclosure framework will be disrupted if investors in smaller funds received different disclosures than investors in larger funds. We believe that investors in all funds should benefit from the Commission's disclosure amendments, not just investors in large funds.

We do not believe that clarifying, consolidating, or simplifying the compliance requirements under the final amendments for small funds would permit us to achieve our stated objectives. Many of the amendments we are adopting are based on existing rules or disclosure frameworks. We anticipate that building on existing regulatory frameworks and concepts should help to ease certain compliance burdens for funds, including small funds. For example, many of our amendments to fund shareholder reports and Form N–CSR largely reframe existing disclosure requirements to tailor disclosures to the informational needs of different investors, as opposed to requiring new disclosures for which funds would need to generate and develop reporting and compliance procedures for the first time.

Finally, we do not believe it would be appropriate to use performance rather than design standards. As discussed above, we believe the regulatory disclosures that small funds provide to investors should be consistent with the disclosures provided to investors in larger entities. Our disclosure requirements are tailored to meet the informational needs of different investors, and to implement a layered disclosure framework. We believe all fund investors should experience the anticipated benefits of the new tailored disclosure framework.

VII. Statutory Authority

The Commission is adopting the rules and forms contained in this document under the authority set forth in the Securities Act, particularly, section 19 thereof [15 U.S.C. *77a et seq.*], the Exchange Act, particularly, sections 13, 23, and 35A thereof [15 U.S.C. 78a *et seq.*], the Investment Company Act, particularly, sections 8, 24, 30, and 38 thereof [15 U.S.C. 80a *et seq.*], and 44 U.S.C. 3506, 3507.

List of Subjects

17 CFR Part 200

Administrative practice and procedure, Organization and functions (Government agencies).

17 CFR Parts 230, 232 and 239

Reporting and recordkeeping requirements, Securities.

17 CFR Part 240

Brokers, Reporting and recordkeeping requirements, Securities.

17 CFR Parts 270, 274, and 249

Investment companies, Reporting and recordkeeping requirements, Securities.

VIII. Text of Proposed Rules and Form Amendments

For reasons set forth in the preamble, title 17, chapter II of the Code of Federal Regulations is amended as follows:

PART 200—ORGANIZATION; CONDUCT AND ETHICS; AND INFORMATION AND REQUESTS

Subpart N—Commission Information Collection Requirements Under the Paperwork Reduction Act: OMB Control Numbers

■ 1. The authority citation for subpart N of part 200 continues to read as follows:

Authority: 44 U.S.C. 3506; 44 U.S.C. 3507.

PART 230—GENERAL RULES AND REGULATIONS, SECURITIES ACT OF 1933

■ 2. The authority citation for part 230 continues to read in part as follows:

Authority: 15 U.S.C. 77b, 77b note, 77c, 77d, 77f, 77g, 77h, 77j, 77r, 77s, 77z–3, 77sss, 78c, 78d, 78j, 78*l,* 78m, 78n, 78*o,* 78*o*–7 note, 78t, 78w, 78*ll*(d), 78mm, 80a–8, 80a–24, 80a–28, 80a–29, 80a–30, and 80a–37, and Pub. L. 112–106, sec. 201(a), sec. 401, 126 Stat. 313 (2012), unless otherwise noted.

* * * * *

■ 3. Amend § 230.156 by adding paragraph (b)(4) to read as follows:

§ 230.156 Investment company sales literature.

* * * * *

(b) * * *

(4) Representations about the fees or expenses associated with an investment in the fund could be misleading because of statements or omissions made involving a material fact, including situations where portrayals of the fees and expenses associated with an investment in the fund omit explanations, qualifications, limitations, or other statements necessary or appropriate to make the portrayals not misleading.

* * * * *

■ 4. Amend § 230.433 by adding paragraph (c)(3) to read as follows:

§ 230.433 Conditions to permissible post-filing free writing prospectuses.

* * * * *

(c) * * *

(3) A free writing prospectus with respect to securities of a registered closed-end investment company or a business development company that includes fee or expense information must comply with paragraphs (i) and (j) of § 230.482 (Rule 482), as applicable.

* * * * *

■ 5. Amend § 230.482 by adding paragraphs (i) and (j) to read as follows:

§ 230.482 Advertising by an investment company as satisfying requirements of section 10.

* * * * *

(i) *Advertisements including fee or expense figures.* An advertisement that provides fee or expense figures for an investment company must include the following:

(1) The maximum amount of any sales load, or any other nonrecurring fee, and the total annual expenses without any fee waiver or expense reimbursement arrangement, based on the methods of computation prescribed by the investment company's registration statement form under the 1940 Act or under the Act for a prospectus and presented at least as prominently as any other fee or expense figure included in the advertisement; and

(2) The expected termination date of a fee waiver or expense reimbursement arrangement, if the advertisement provides total annual expenses net of fee waiver or expense reimbursement arrangement amounts.

(j) *Timeliness of fee and expense information.* Fee and expense information contained in an advertisement must be as of the date of the investment company's most recent prospectus or, if the company no longer has an effective registration statement under the Act, as of the date of its most recent annual shareholder report, except that a company may provide more current information if available.

PART 232—REGULATION S–T—GENERAL RULES AND REGULATIONS FOR ELECTRONIC FILINGS

■ 6. The general authority citation for part 232 continues to read, in part, as follows:

Authority: 15 U.S.C. 77c, 77f, 77g, 77h, 77j, 77s(a), 77z–3, 77sss(a), 78c(b), 78*l,* 78m, 78n, 78o(d), 78w(a), 78*ll,* 80a–6(c), 80a–8, 80a–29, 80a–30, 80a–37, 7201 *et seq.;* and 18 U.S.C. 1350, unless otherwise noted.

* * * * *

■ 7. Amend § 232.405 by revising (b)(2)(i) as follows:

(b) * * *

(2) * * *

(i) Items 2, 3, and 4 of §§ 239.15A and 274.11A of this chapter (Form N–1A), as well as any information provided in response to Item 27A(b)–(h) of Form N–1A included in any report to shareholders filed on §§ 249.331 and 274.128 of this chapter (Form N–CSR);

PART 239—FORMS PRESCRIBED UNDER THE SECURITIES ACT OF 1933

■ 8. The general authority citation for part 239 is revised to read as follows:

Authority: 15 U.S.C. 77c, 77f, 77g, 77h, 77j, 77s, 77z–2, 77z–3, 77sss, 78c, 78*l,* 78m, 78n, 78*o*(d), 78*o*–7 note, 78u–5, 78w(a), 78*ll,* 78mm, 80a–2(a), 80a–3, 80a–8, 80a–9, 80a–10, 80a–13, 80a–24, 80a–26, 80a–29, 80a–30, 80a–37, and sec. 71003 and sec. 84001, Pub. L. 114–94, 129 Stat. 1321, unless otherwise noted.

* * * * *

PART 270—RULES AND REGULATIONS, INVESTMENT COMPANY ACT OF 1940

■ 9. The authority for part 270 continues to read in part as follows:

Authority: 15 U.S.C. 80a–1 *et seq.,* 80a–34(d), 80a–37, 80a–39, and Pub. L. 111–203, sec. 939A, 124 Stat. 1376 (2010), unless otherwise noted.

* * * * *

Section 270.30e–1 is also issued under 15 U.S.C. 77f, 77g, 77h, 77j, 77s, 78l, 78m, 78n, 78o(d), 78w(a), 80a–8, 80a–29, and 80a–37.

* * * * *

■ 10. Amend § 270.30a–2 by:

■ a. In paragraph (a), removing the reference to ''the form specified in Item 12(a)(2) of Form N–CSR'' and adding in its place the reference ''the form specified in Item 18(a)(2) of Form N–CSR''; and

■ b. In paragraph (b), removing the reference to ''Item 12(b) of Form N–CSR'' and adding in its place the reference to ''Item 18(b) of Form N–CSR.''

■ 11. Amend § 270.30e–1 by:

■ a. Removing paragraph (d);

■ b. Redesignating paragraphs (b) and (c) as paragraphs (c) and (d);

■ c. Adding a new paragraph (b); and

■ d. Revising newly redesignated paragraphs (c) and (d) and paragraph (f)(2)(ii)(F).

The addition and revisions read as follows:

§ 270.30e–1 Reports to stockholders of management companies.

* * * * *

(b)(1) To satisfy its obligations under section 30(e) of the 1940 Act, an open-end management investment company registered on Form N–1A (§§ 239.15A and 274.11A of this chapter) also must:

(i) Make certain materials available on a website, as described under paragraph (b)(2) of this section; and

(ii) Deliver certain materials upon request, as described under paragraph (b)(3) of this section.

(2) The following website availability requirements are applicable to an open-end management investment company registered on Form N–1A (§§ 239.15A and 274.11A of this chapter).

(i) The company must make the disclosures required by Items 7 through 11 of Form N–CSR (§§ 249.331 and 274.128 of this chapter) publicly accessible, free of charge, at the website address specified at the beginning of the report to stockholders under paragraph (a) of this section, no later than 60 days after the end of the fiscal half-year or fiscal year of the company until 60 days after the end of the next fiscal half-year or fiscal year of the company, respectively. The company may satisfy the requirement in this paragraph (b)(2)(i) by making its most recent report on Form N–CSR publicly accessible, free of charge, at the specified website address for the time period that this paragraph (b)(2)(i) specifies.

(ii) Unless the company is a money market fund under § 270.2a–7, the company must make the company's complete portfolio holdings, if any, as of the close of the company's most recent first and third fiscal quarters, after the date on which the company's registration statement became effective, presented in accordance with the schedules set forth in §§ 210.12–12 through 210.12–14 of this chapter (Regulation S–X), which need not be audited. The complete portfolio holdings required by this paragraph (b)(2)(ii) must be made publicly accessible, free of charge, at the website address specified at the beginning of the report to stockholders under paragraph (a) of this section, not later than 60 days after the close of the of the first and third fiscal quarters until 60 days after the end of the next first and third fiscal quarters of the company, respectively.

(iii) The website address relied upon for compliance with this section may not be the address of the Commission's electronic filing system.

(iv) The materials that are accessible in accordance with paragraph (b)(2)(i) or (ii) of this section must be presented on the website in a format, or formats, that are convenient for both reading online and printing on paper.

(v) Persons accessing the materials specified in paragraph (b)(2)(i) or (ii) of this section must be able to permanently retain, free of charge, an electronic version of such materials in a format, or formats, that meet the requirements of paragraph (b)(2)(iv) of this section.

(vi) The requirements set forth in paragraphs (b)(2)(i) through (v) of this section will be deemed to be met, notwithstanding the fact that the materials specified in paragraphs (b)(2)(i) and (ii) of this section are not available for a time in the manner required by paragraphs (b)(2)(i) through (v) of this section, provided that:

(A) The company has reasonable procedures in place to ensure that the specified materials are available in the manner required by paragraphs (b)(2)(i) through (v) of this section; and

(B) The company takes prompt action to ensure that the specified materials become available in the manner required by paragraphs (b)(2)(i) through (v) of this section, as soon as practicable following the earlier of the time at which it knows or reasonably should have known that the materials are not available in the manner required by paragraphs (b)(2)(i) through (v) of this section.

(vii) The materials specified in paragraph (b)(2)(i) or (ii) of this section may either be separately available for each series of a fund, or the materials may be grouped by the types of materials and/or by series, so long as the grouped information:

(A) Is presented in a format designed to communicate the information effectively;

(B) Clearly distinguishes the different types of materials and/or each series (as applicable); and

(C) Provides a means of easily locating the relevant information (including, for example, a table of contents that includes hyperlinks to the specific materials and series).

(3) The following requirements to deliver certain materials upon request are applicable to an open-end management investment company registered on Form N–1A (§§ 239.15A and 274.11A of this chapter).

(i) The company (or a financial intermediary through which shares of the company may be purchased or sold) must send, at no cost to the requestor and by U.S. first class mail or other reasonably prompt means, a paper copy of any of the materials specified in paragraph (b)(2)(i) or (ii) of this section, to any person requesting such a copy within three business days after receiving a request for a paper copy.

(ii) The company (or a financial intermediary through which shares of the company may be purchased or sold) must send, at no cost to the requestor, and by email or other reasonably prompt means, an electronic copy of any of the materials specified in paragraph (b)(2)(i) or (ii) of this section, to any person requesting such a copy within three business days after receiving a request for an electronic copy. The requirement to send an electronic copy of the requested materials may be satisfied by sending a direct link to the online location of the materials; provided that a current version of the materials is directly accessible through the link from the time that the email is sent through the date that is six months after the date that the email is sent and the email explains both how long the link will remain useable and that, if recipients desire to retain a copy of the materials, they should access and save the materials.

(c) For registered management companies other than open-end management investment companies registered on Form N–1A, if any matter was submitted during the period covered by the shareholder report to a vote of shareholders, through the solicitation of proxies or otherwise, furnish the following information:

(1) The date of the meeting and whether it was an annual or special meeting.

(2) If the meeting involved the election of directors, the name of each director elected at the meeting and the name of each other director whose term of office as a director continued after the meeting.

(3) A brief description of each matter voted upon at the meeting and the number of votes cast for, against or withheld, as well as the number of abstentions and broker non-votes as to each such matter, including a separate tabulation with respect to each matter or nominee for office.

(i) *Instruction 1 to paragraph (c).* The solicitation of any authorization or consent (other than a proxy to vote at a shareholders' meeting) with respect to any matter shall be deemed a submission of such matter to a vote of shareholders within the meaning of this paragraph (c).

(ii) [Reserved]

(d) Each report shall be transmitted within 60 days after the close of the period for which such report is being made.

* * * * *

(f) * * *

(2) * * *

(ii) * * *

(F) Contain the following prominent statement, or similar clear and understandable statement, in bold-face type: ''Important Notice Regarding Delivery of Shareholder Materials''. This statement also must appear on the envelope in which the notice is delivered. Alternatively, if the notice is delivered separately from other communications to investors, this statement may appear either on the notice or on the envelope in which the notice is delivered;

* * * * *

■ 12. Revise § 270.30e–3 to read as follows:

§ 270.30e–3 Internet availability of reports to shareholders.

(a) *General.* A Fund may satisfy its obligation to transmit a report required by § 270.30e–1 (''Report'') to a shareholder of record if all of the conditions set forth in paragraphs (b) through (e) of this section are satisfied.

(b) *Availability of report to shareholders and other materials.* (1) The following materials are publicly accessible, free of charge, at the website address specified in the Notice from the date the Fund transmits the Report as required by § 270.30e–1 until the Fund next transmits a report required by § 270.30e–1 with respect to the Fund:

(i) *Current report to shareholders.* The Report.

(ii) *Prior report to shareholders.* Any report with respect to the Fund for the prior reporting period that was transmitted to shareholders of record pursuant to § 270.30e–1.

(iii) *Complete portfolio holdings from reports containing a summary schedule of investments.* If a report specified in paragraph (b)(1)(i) or (ii) of this section includes a summary schedule of investments (§ 210.12–12B of this chapter) in lieu of Schedule I—Investments in securities of unaffiliated issuers (§ 210.12–12 of this chapter), the Fund's complete portfolio holdings as of the close of the period covered by the report, presented in accordance with the schedules set forth in §§ 210.12–12 through 210.12–14 of Regulation S–X (§§ 210.12–12 through 210.12–14 of this chapter), which need not be audited.

(iv) *Portfolio holdings for most recent first and third fiscal quarters.* The Fund's complete portfolio holdings as of the close of the Fund's most recent first and third fiscal quarters, if any, after the date on which the Fund's registration statement became effective, presented in accordance with the schedules set forth in §§ 210.12–12 through 210.12–14 of Regulation S–X [§§ 210.12–12 through 210.12–14 of this chapter], which need not be audited. The complete portfolio holdings required by this paragraph (b)(1)(iv) must be made publicly available not later than 60 days after the close of the fiscal quarter.

(2) The website address relied upon for compliance with this section may not be the address of the Commission's electronic filing system.

(3) The materials that are accessible in accordance with paragraph (b)(1) of this section must be presented on the website in a format, or formats, that are convenient for both reading online and printing on paper.

(4) Persons accessing the materials specified in paragraph (b)(1) of this section must be able to retain permanently, free of charge, an electronic version of such materials in a format, or formats, that meet the conditions of paragraph (b)(3) of this section.

(5) The conditions set forth in paragraphs (b)(1) through (4) of this section shall be deemed to be met, notwithstanding the fact that the materials specified in paragraph (b)(1) of this section are not available for a time in the manner required by paragraphs (b)(1) through (4) of this section, provided that:

(i) The Fund has reasonable procedures in place to ensure that the specified materials are available in the manner required by paragraphs (b)(1) through (4) of this section; and

(ii) The Fund takes prompt action to ensure that the specified documents become available in the manner required by paragraphs (b)(1) through (4) of this section, as soon as practicable following the earlier of the time at which it knows or reasonably should have known that the documents are not available in the manner required by paragraphs (b)(1) through (4) of this section.

(c) *Notice.* A paper notice (''Notice'') meeting the conditions of this paragraph (c) must be sent to the shareholder within 70 days after the close of the period for which the Report is being made. The Notice may contain only the information specified by paragraphs (c)(1), (2), and (3) of this section, and may include pictures, logos, or similar design elements so long as the design is

not misleading and the information is clear.

(1) The Notice must be written using plain English principles pursuant to paragraph (d) of this section and:

(i) Contain a prominent legend in bold-face type that states ''[An] Important Report[s] to [Shareholders] of [Fund] [is/are] Now Available Online and In Print by Request.'' The Notice may also include information identifying the Fund, the Fund's sponsor (including any investment adviser or sub-adviser to the Fund), a variable annuity or variable life insurance contract or insurance company issuer thereof, or a financial intermediary through which shares of the Fund are held.

(ii) State that the Report contains important information about the Fund, including its portfolio holdings and financial statements. The statement may also include a brief listing of other types of information contained in the Report.

(iii) State that the Report is available at the website address specified in the Notice or, upon request, by mail, and encourage the shareholder to access and review the Report.

(iv) Include a website address where the Report and other materials specified in paragraph (b)(1) of this section are available. The website address must be specific enough to lead investors directly to the documents that are required to be accessible under paragraph (b)(1) of this section, rather than to the home page or a section of the website other than on which the documents are posted. The website may be a central site with prominent links to each document. In addition to the website address, the Notice may contain any other equivalent method or means to access the Report or other materials specified in paragraph (b)(1) of this section.

(v) Provide a toll-free (or collect) telephone number to contact the Fund or the shareholder's financial intermediary, and:

(A) Provide instructions describing how a shareholder may request a paper or email copy of the Report and other materials specified in paragraph (b)(1) of this section at no charge, and an indication that the shareholder will not otherwise receive a paper or email copy;

(B) Explain that the shareholder can at any time elect to receive print reports in the future and provide instructions describing how a shareholder may make that election (*e.g.,* by contacting the Fund or by contacting the shareholder's financial intermediary); and

(C) If applicable, provide instructions describing how a shareholder can elect to receive shareholder reports or other documents and communications by electronic delivery.

(2) The Notice may include additional methods by which a shareholder can contact the Fund or the shareholder's financial intermediary (*e.g.,* by email or through a website), which may include any information needed to identify the shareholder.

(3) A Notice may include content from the Report if such content is set forth after the information required by paragraph (c)(1) of this section.

(4) The Notice may not be incorporated into, or combined with, another document, except that the Notice may incorporate or combine one or more other Notices.

(5) The Notice must be sent separately from other types of shareholder communications and may not accompany any other document or materials; provided, however, that the Notice may accompany:

(i) One or more other Notices;

(ii) A current Statutory Prospectus, Statement of Additional Information, or Notice of internet Availability of Proxy Materials under § 240.14a–16 of this chapter;

(iii) In the case of a Fund held in a separate account funding a variable annuity or variable life insurance contract, such contract or the Statutory Prospectus and Statement of Additional Information for such contract; or

(iv) The shareholder's account statement.

(6) A Notice required by this paragraph (c) will be considered transmitted to a shareholder of record if the conditions set forth in § 270.30e–1(f), § 240.14a–3(e), or § 240.14c–3(c) of this chapter are satisfied with respect to that shareholder.

(d) *Plain English requirements.* (1) To enhance the readability of the Notice, plain English principles must be used in the organization, language, and design of the Notice.

(2) The Notice must be drafted so that, at a minimum, it substantially complies with each of the following plain English writing principles:

(i) Short sentences;

(ii) Definite, concrete, everyday words;

(iii) Active voice;

(iv) Tabular presentation or bullet lists for complex material, whenever possible;

(v) No legal jargon or highly technical business terms; and

(vi) No multiple negatives.

(e) *Delivery of paper copy upon request.* A paper copy of any of the materials specified in paragraph (b)(1) of this section must be transmitted to any person requesting such a copy, at no cost to the requestor and by U.S. first class mail or other reasonably prompt means, within three business days after a request for a paper copy is received.

(f) *Investor elections to receive future reports in paper.* (1) This section may not be relied upon to transmit a Report to a shareholder if the shareholder has notified the Fund (or the shareholder's financial intermediary) that the shareholder wishes to receive paper copies of shareholder reports at any time after the Fund has first notified the shareholder of its intent to rely on the rule or provided a Notice to the shareholder.

(2) A shareholder who has notified the Fund (or the shareholder's financial intermediary) that the shareholder wishes to receive paper copies of shareholder reports with respect to a Fund will be deemed to have requested paper copies of shareholder reports with respect to:

(i) Any and all current and future Funds held through an account or accounts with:

(A) The Fund's transfer agent or principal underwriter or agent thereof for the same ''group of related investment companies'' as such term is defined in § 270.0–10; or

(B) A financial intermediary; and

(ii) Any and all Funds held currently and in the future in a separate account funding a variable annuity or variable life insurance contract.

(g) *Delivery of other documents.* This section may not be relied upon to transmit a copy of a Fund's currently effective Statutory Prospectus or Statement of Additional Information, or both, under the Securities Act of 1933 (15 U.S.C. 77a *et seq.*) as otherwise permitted by paragraph (d) of § 270.30e–1.

(h) *Definitions.* For purposes of this section:

(1) Fund means a management company registered on Form N–2 (§§ 239.14 and 274.11a of this chapter) or Form N–3 (§§ 239.17a and 274.11b of this chapter) and any separate series of the management company that is required to transmit a report to shareholders pursuant to 270.30e–1.

(2) Statement of Additional Information means the statement of additional information required by Part B of the applicable registration form.

(3) Statutory Prospectus means a prospectus that satisfies the requirements of section 10(a) of the Securities Act of 1933 (15 U.S.C. 77(j)(a)).

Note 1 to § 270.30.e–3. For a discussion of how the conditions and requirements of this rule may apply in the context of investors holding Fund shares through financial

intermediaries, see Investment Company Release No. 33115 (June 5, 2018).

■ 13. Amend § 270.31a–2 by:
■ a. Removing the word ''and'' at the end of paragraph (a)(5);
■ b. In paragraph (a)(6), removing the period and adding ''; and'' in its place; and
■ c. Adding paragraph (a)(7).
The addition reads as follows:

§ 270.31a–2 Records to be preserved by registered investment companies, certain majority-owned subsidiaries thereof, and other persons having transactions with registered investment companies.

(a) * * *

(7) Preserve for a period not less than six years, the first two years in an easily accessible place, any shareholder report required by § 270.30e–1 (including any version posted on a website or otherwise provided electronically) that is not filed with the Commission in the exact form in which it was used.

* * * * *

■ 14. Amend § 270.34b–1 by:
■ a. Revising the introductory text and paragraph (b)(3); and
■ b. Adding paragraph (c).
The revisions and addition read as follows:

§ 270.34b–1 Sales literature deemed to be misleading.

Any advertisement, pamphlet, circular, form letter, or other sales literature addressed to or intended for distribution to prospective investors that is required to be filed with the Commission by section 24(b) of the Act [15 U.S.C. 80a–24(b)] (for purposes of paragraph (a) and (b) of this section, ''sales literature'') will have omitted to state a fact necessary in order to make the statements made therein not materially misleading unless the sales literature includes the information specified in paragraphs (a) and (b) of this section. Any registered investment company or business development company advertisement, pamphlet, circular, form letter, or other sales literature addressed to or intended for distribution to prospective investors in connection with a public offering (for purposes of paragraph (c) of this section, ''sales literature'') will have omitted to state a fact necessary in order to make the statements therein not materially misleading unless the sales literature includes the information specified in paragraph (c) of this section.

Note 1 to § 270.34b–1 Introductory Text: The fact that the sales literature includes the information specified in paragraphs (a) and (b) of this section does not relieve the investment company, underwriter, or dealer of any obligations with respect to the sales literature under the antifraud provisions of the Federal securities laws. For guidance about factors to be weighed in determining whether statements, representations, illustrations, and descriptions contained in investment company sales literature are misleading, *see* § 230.156 of this chapter.

* * * * *

(b) * * *

(3) The requirements specified in paragraph (b)(1) of this section do not apply to any quarterly, semi-annual, or annual report to shareholders under Section 30 of the Act [15 U.S.C. 80a–29] containing performance data for a period commencing no earlier than the first day of the period covered by the report; nor do the requirements of paragraphs (d)(3)(ii), (d)(4)(ii), and (g) of § 230.482 of this chapter apply to any such periodic report containing any other performance data.

(c)(1) Except as provided in paragraph (c)(2) of this section:

(i) In any sales literature that contains fee and expense figures for a registered investment company or business development company, include the disclosure required by paragraph (i) of § 230.482 of this chapter.

(ii) Any fee and expense information included in sales literature must meet the timeliness requirements of paragraph (j) of § 230.482 of this chapter.

(2) The requirements specified in paragraph (c)(1) of this section do not apply to any quarterly, semi-annual, or annual report to shareholders under Section 30 of the Act [15 U.S.C. 80a–29] or to other reports pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 79m or 78o(d)) containing fee and expense information; nor do the requirements of paragraphs (i) and (j) of § 230.482 of this chapter or paragraph (c)(3) of § 230.433 of this chapter apply to any such report containing fee and expense information.

PART 274—FORMS PRESCRIBED UNDER THE INVESTMENT COMPANY ACT OF 1940

■ 15. The authority for part 274 continues to read in part as follows:

Authority: 15 U.S.C. 77f, 77g, 77h, 77j, 77s, 78c(b), 78*l,* 78m, 78n, 78*o*(d), 80a–8, 80a–24, 80a–26, 80a–29, and Pub. L. 111–203, sec. 939A, 124 Stat. 1376 (2010), unless otherwise noted.

* * * * *

Note: The text of Form N–1A does not, and these amendments will not, appear in the Code of Federal Regulations.

■ 16. Revise the General Instructions of Form N–1A, and Items 1, 4, 5, 13, 17, and 27 of Form N–1A, and add new Item 27A of Form N–1A (referenced in §§ 239.15A and 274.11A) to read as follows:

* * * * *

General Instructions

* * * * *

C. Preparation of the Registration Statement

* * * * *

(g) Interactive Data File

* * * * *

(iii) An Interactive Data File is required to be submitted to the Commission in the manner provided by rule 405 of Regulation S–T for any information provided in response to Item 27A(b)–(h) of Form N–1A that is included in any report to shareholders filed on Form N–CSR.

(iv) The Interactive Data File must be submitted in accordance with the specifications in the EDGAR Filer Manual, and in such a manner that will permit the information for each Series and, for any information that does not relate to all of the Classes in a filing, each Class of the Fund to be separately identified.

* * * * *

Part A—Information Required in a Prospectus

Item 1. Front and Back Cover Pages

(a) Front Cover Page. Include the following information, in plain English under rule 421(d) under the Securities Act, on the outside front cover page of the prospectus:

(1) The Fund's name and the Class or Classes, if any, to which the prospectus relates.

(2) The exchange ticker symbol of the Fund's shares or, if the prospectus relates to one or more Classes of the Fund's shares, adjacent to each such Class, the exchange ticker symbol of such Class of the Fund's shares. If the Fund is an Exchange-Traded Fund, also identify the principal U.S. market or markets on which the Fund shares are traded.

(3) The date of the prospectus.

(4) The statement required by rule 481(b)(1) under the Securities Act.

Instruction. A Fund may include on the front cover page a statement of its investment objectives, a brief (*e.g.,* one sentence) description of its operations, or any additional information, subject to the requirement set out in General Instruction C.3(b).

(b) Back Cover Page. Include the following information, in plain English under rule 421(d) under the Securities Act, on the outside back cover page of the prospectus:

(1) A statement that the SAI includes additional information about the Fund, and a statement to the following effect:

Additional information about the Fund's investments is available in the Fund's annual and semi-annual reports to shareholders and in Form N–CSR. In the Fund's annual report, you will find a discussion of the market conditions and investment strategies that significantly affected the Fund's performance during its last fiscal year. In Form N–CSR, you will find the Fund's annual and semi-annual financial statements.

Explain that the SAI, the Fund's annual and semi-annual reports to shareholders, and other information such as Fund financial statements are available, without charge, upon request, and explain how shareholders in the Fund may make inquiries to the Fund. Provide a toll-free telephone number for investors to call: to request the SAI; to request the Fund's annual or semi-annual report; to request the Fund's financial statements; to request other information about the Fund; and to make shareholder inquiries. Also, state that the Fund makes available its SAI, annual and semi- annual reports, and other information such as Fund financial statements, free of charge, on or through the Fund's website at a specified address. If the Fund does not make its SAI and shareholder reports available in this manner, disclose the reasons why it does not do so (including, where applicable, that the Fund does not have a website).

Instructions

1. A Fund may indicate, if applicable, that the SAI, annual and semi-annual report, Fund financial statements, and other information are available by email request.

2. A Fund may indicate, if applicable, that the SAI and other information are available from a financial intermediary (such as a broker-dealer or bank) through which shares of the Fund may be purchased or sold. When a Fund (or financial intermediary through which shares of the Fund may be purchased or sold) receives a request for the SAI, the annual report, the semi-annual report, or other information such as financial statements that the Fund files on Form N–CSR, the Fund (or financial intermediary) must send the requested document within 3 business days of receipt of the request, by first-class mail or other means designed to ensure equally prompt delivery.

3. A Fund that has not yet been required to deliver an annual or semi-annual report to shareholders under rule 30e–1 [17 CFR 270.30e–1] or to file a Form N–CSR report may omit the statements required by this paragraph regarding the report.

4. A Money Market Fund may omit the sentence indicating that a reader will find in the Fund's annual report a discussion of the market conditions and investment strategies that significantly affect the Fund's performance during its last fiscal year.

(2) A statement whether and from where information is incorporated by reference into the prospectus as permitted by General Instruction D. Unless the information is delivered with the prospectus, explain that the Fund will provide the information without charge, upon request (referring to the telephone number provided in response to paragraph (b)(1)).

Instruction. The Fund may combine the information about incorporation by reference with the statements required under paragraph (b)(1).

(3) State that reports and other information about the Fund are available on the EDGAR Database on the Commission's website at *http://www.sec.gov,* and that copies of this information may be obtained, after paying a duplicating fee, by electronic request at the following email address: *publicinfo@sec.gov.*

(4) The Fund's Investment Company Act file number on the bottom of the back cover page in type size smaller than that generally used in the prospectus (*e.g.,* 8-point modern type).

* * * * *

Item 4. Risk/Return Summary: Investments, Risks, and Performance

* * * * *

(2) Risk/Return Bar Chart and Table.

* * * * *

(iii) If the Fund has annual returns for at least one calendar year, provide a table showing the Fund's (A) average annual total return; (B) average annual total return (after taxes on distributions); and (C) average annual total return (after taxes on distributions and redemptions). A Money Market Fund should show only the returns described in clause (A) of the preceding sentence. All returns should be shown for 1-, 5-, and 10-calendar year periods ending on the date of the most recently completed calendar year (or for the life of the Fund, if shorter), but only for periods subsequent to the effective date of the Fund's registration statement. The table also should show the returns of an appropriate broad-based securities market index as defined in Instruction 6 to Item 27A(d)(2) for the same periods. A Fund that has been in existence for more than 10 years also may include returns for the life of the Fund. A Money Market Fund may provide the Fund's 7-day yield ending on the date of the most recent calendar year or disclose a toll-free telephone number that investors can use to obtain the Fund's current 7-day yield. For a Fund (other than a Money Market Fund or a Fund described in General Instruction C.3.(d)(iii)), provide the information in the following table with the specified captions:

AVERAGE ANNUAL TOTAL RETURNS

(For the periods ended December 31,_____)

	1 year	5 years *(or life of fund)*	10 years *(or life of fund)*
Return Before Taxes	__%	__%	__%
Return After Taxes on Distributions	__%	__%	__%
Return After Taxes on Distributions and Sale of Fund Shares	__%	__%	__%
Index (*reflects no deduction for [fees, expenses, or taxes]*)	__%	__%	__%

* * * * *

Instructions

* * * * *

2. *Table.*

* * * * *

(b) A Fund may include, in addition to the required broad-based securities market index, information for one or more other indexes as permitted by Instruction 7 to Item 27A(d)(2). If an additional index is included, disclose information about the additional index in the narrative explanation accompanying the bar chart and table (*e.g.,* by stating that the information shows how the Fund's performance compares with the returns of an index

of funds with similar investment objectives).

* * * * *

4. *Change in Investment Adviser.* If the Fund has not had the same investment adviser during the last 10 calendar years, the Fund may begin the bar chart and the performance information in the table on the date that the current adviser began to provide advisory services to the Fund subject to the conditions in Instruction 13 of Item 27A(d)(2).

* * * * *

Item 5. Management

* * * * *

(b) *Portfolio Manager(s).* State the name, title, and length of service (or year service began) of the person or persons employed by or associated with the Fund or an investment adviser of the Fund who are primarily responsible for the day-to-day management of the Fund's portfolio (''Portfolio Manager'').

* * * * *

Item 13. Financial Highlights Information

* * * * *

4. *Ratios/Supplemental Data.*

(a) Calculate ''average net assets'' based on the value of the net assets determined no less frequently than the end of each month.

(b) Calculate the Ratio of Expenses to average Net Assets using the amount of expenses shown in the Fund's statement of operations for the relevant fiscal period, including increases resulting from complying with paragraph 2(g) of rule 6–07 of Regulation S–X and reductions resulting from complying with paragraphs 2(a) and (f) of rule 6–07 regarding fee waivers and reimbursements.

(c) A Fund that is a Money Market Fund may omit the Portfolio Turnover Rate.

(d) Calculate the Portfolio Turnover Rate as follows:

(i) Divide the lesser amounts of purchases or sales of portfolio securities for the fiscal year by the monthly average of the value of the portfolio securities owned by the Fund during the fiscal year. Calculate the monthly average by totaling the values of portfolio securities as of the beginning and end of the first month of the fiscal year and as of the end of each of the succeeding 11 months and dividing the sum by 13.

(ii) Exclude from both the numerator and the denominator amounts relating to all securities, including options, whose maturities or expiration dates at the time of acquisition were one year or less. Include all long-term securities, including long-term U.S. Government securities. Purchases include any cash paid upon the conversion of one portfolio security into another and the cost of rights or warrants. Sales include net proceeds of the sale of rights and warrants and net proceeds of portfolio securities that have been called or for which payment has been made through redemption or maturity.

(iii) If the Fund acquired the assets of another investment company or of a personal holding company in exchange for its own shares during the fiscal year in a purchase-of-assets transaction, exclude the value of securities acquired from purchases and securities sold from sales to realign the Fund's portfolio. Adjust the denominator of the portfolio turnover computation to reflect these excluded purchases and sales and disclose them in a footnote.

(iv) Include in purchases and sales any short sales that the Fund intends to maintain for more than one year and put and call options with expiration dates more than one year from the date of acquisition. Include proceeds from a short sale in the value of the portfolio securities sold during the period; include the cost of covering a short sale in the value of portfolio securities purchased during the period. Include premiums paid to purchase options in the value of portfolio securities purchased during the reporting period; include premiums received from the sale of options in the value of the portfolio securities sold during the period.

(e) A fund may incorporate by reference the Financial Highlights Information from Form N–CSR into the prospectus in response to this Item if the Fund transmits the annual report required by rule 30e–1(b) with the prospectus or, if the report has been previously delivered (*e.g.,* to a current shareholder), the Fund includes the statement required by Item 1(b)(1).

* * * * *

Item 17. Management of the Fund

Instructions

* * * * *

(a) *Management Information.*

(1) Provide the information required by the following table for each director and officer of the Fund, and, if the Fund has an advisory board, member of the board. Explain in a footnote to the table any family relationship between the persons listed.

(1)	(2)	(3)	(4)	(5)	(6)
Name, Address, and Age (or Year of Birth)	Position(s) Held with Fund	Term of Office and Length of Time Served (or Year Service Began)	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen by Director	Other Directorships Held by Director

* * * * *

Item 27. Financial Statements

Include, in a separate section following the responses to the preceding Items, the financial statements and schedules required by Regulation S–X. The specimen price-make-up sheet required by Instruction 4 to Item 23(c) may be provided as a continuation of the balance sheet specified by Regulation S–X.

Instructions

1. The statements of any subsidiary that is not a majority-owned subsidiary required by Regulation S–X may be omitted from Part B and included in Part C.

2. In addition to the requirements of rule 3–18 of Regulation S–X [17 CFR 210.3–18], any Fund registered under the Investment Company Act that has not previously had an effective registration statement under the Securities Act must include in its initial registration statement under the Securities Act any additional financial statements and condensed financial information (which need not be audited) necessary to make the financial statements and condensed financial information included in the registration statement current as of a date within 90 days prior to the date of filing.

Item 27A. Annual and Semi-Annual Shareholder Report

(a) *Annual and Semi-Annual Reports.* Every annual shareholder report required by rule 30e–1 must contain the

information required by paragraphs (b) through (i) of this Item and may contain the information permitted by paragraph (j) of this Item. Every semi-annual shareholder report required by rule 30e–1 must contain the information required by paragraphs (b), (c), (e), (f), (h), and (i) of this Item, except as otherwise specified in these paragraphs, and may contain other information permitted or required in annual shareholder reports (so long as the information that the fund includes at its option meets the requirements of the relevant paragraph, including any related instructions, and is not incomplete, inaccurate, or misleading).

Instructions

1. For annual shareholder reports, disclose the information required or permitted by paragraphs (b) through (i) of this Item in the same order as these items appear below. In an annual shareholder report that appears on a website or is otherwise provided electronically, organize the information in a manner that gives each item similar prominence as that provided by the order prescribed in this Instruction.

2. For semi-annual shareholder reports, disclose the information that must appear in the report pursuant to paragraph (a) of this Item in the same order as these items appear below. Any other information permitted in annual shareholder reports, which the Fund chooses to include in its semi-annual shareholder report pursuant to this Item, must also be included in the same order as these items appear below. For example, if a Fund chooses to include the information described in paragraph (g) in its semi-annual shareholder report, the information in the Fund's semi-annual report must appear in the following order: paragraphs (b), (c), (e), (f), (g), (h), and (i). In a semi-annual shareholder report that appears on a website or electronically, organize the information in a manner that gives each item similar prominence as that provided by the order prescribed in this Instruction.

3. Do not include information in an annual or semi-annual shareholder report other than disclosure that Item 27A and its Instructions require or permit in annual or semi-annual shareholder reports, as applicable, or as provided by rule 8b–20 under the Investment Company Act [17 CFR 270.8b–20].

4. Prepare a separate annual or semi-annual shareholder report for each Series of a Fund, and if a Series has multiple Classes, prepare a separate annual or semi-annual shareholder report for each Class within the Series.

5. A Fund may not incorporate by reference any information into its annual or semi-annual shareholder report.

6. The plain English requirements of rule 421 under the Securities Act [17 CFR 230.421] apply to the annual and semi-annual shareholder report. Provide the disclosure in an annual or semi-annual shareholder report in plain English under rule 421(d) under the Securities Act. Include white space and use other design features to make the annual or semi-annual shareholder report easy to read. The annual or semi-annual shareholder report should be concise and direct. Specifically: (i) use short sentences and paragraphs; (ii) use definite, concrete, everyday words; (iii) use active voice; (iv) avoid legal jargon or highly technical business terms unless clearly explained; (v) avoid multiple negatives; (vi) use ''you,'' ''we,'' etc. to speak directly to shareholders; and (vii) use descriptive headers and sub-headers. Do not use vague or imprecise ''boilerplate.''

7. If a required disclosure is inapplicable, a Fund may omit the disclosure from an annual or semi-annual shareholder report. A Fund may modify a required legend or narrative information if the modified language contains comparable information.

8. Funds should use design techniques that promote effective communication. Funds are encouraged to use, as appropriate, question-and-answer formats, charts, graphs, tables, bullet lists, and other graphics or text features to respond to the required disclosures.

For an annual or semi-annual shareholder report that appears on a website or is otherwise provided electronically, funds are encouraged to use online tools (for example, tools that populate discrete sets of information based on investor selections—*e.g.,* Class-specific information, performance information over different time horizons, or the dollar value used to illustrate the Fund's expenses or to populate the performance line graph, as applicable). The default presentation must use the value that the applicable form requirement prescribes. Funds also may include: (i) a means of facilitating electronic access to video or audio messages, or other forms of information (*e.g.,* hyperlink, website address, Quick Response Code (''QR code''), or other equivalent methods or technologies); (ii) mouse-over windows; (iii) pop-up boxes; (iv) chat functionality; (v) expense calculators; or (vi) other forms of electronic media, communications, or tools designed to enhance an investor's understanding of material in the annual or semi-annual shareholder report. Any information that is not included in the annual or semi-annual shareholder report filed on Form N–CSR shall have the same status, under the Federal securities laws, as any other website or electronic content that the Fund produces or disseminates.

9. In an annual or semi-annual shareholder report posted on a website or otherwise provided electronically, Funds must provide a means of facilitating access to any information that is referenced in the annual or semi-annual shareholder report if the information is available online, including, for example, hyperlinks to the Fund's prospectus and financial statements. In an annual or semi-annual shareholder report that is delivered in paper format, Funds may include website addresses, QR codes, or other means of facilitating access to such information. Funds must provide a link specific enough to lead investors directly to the particular information, rather than to the home page or a section of the fund's website other than on which the information is posted. The link may be to a central site with prominent links to the referenced information.

10. Explanatory or supplemental information included in an annual or semi-annual shareholder report under Instruction 8 or 9 may not, because of the nature, quantity, or manner of presentation, obscure or impede understanding of the information that must be included. When using interactive graphics or tools, Funds may include instructions on their use and interpretation.

11. Unless otherwise indicated, the reporting period for an annual shareholder report is the Fund's most recent fiscal year, and the reporting period for a semi-annual shareholder report is the Fund's most recent fiscal half-year.

12. The Fund's annual or semi-annual shareholder report may be accompanied by other materials, but the annual or semi-annual shareholder report must be given greater prominence than other materials that accompany the report, with the exception of other shareholder reports, summary prospectuses or statutory prospectuses (both as defined in rule 498 under the Securities Act [17 CFR 230.498]), or a notice of internet availability of proxy materials under rule 14a–6 under the Securities Exchange Act [17 CFR 240.14a–6].

13. In an annual or semi-annual shareholder report posted on a website or otherwise provided electronically, Funds may satisfy legibility requirements applicable to printed

documents by presenting all required information in a format that promotes effective communication as described in Instruction 8. The body of every printed annual or semi-annual shareholder report and other tabular data included therein shall comply with the applicable legibility of prospectus requirements set forth in rule 420 under the Securities Act of 1933.

(b) *Cover Page or Beginning of Annual or Semi-Annual Shareholder Report.* Include on the cover page or at the beginning of the annual or semi-annual shareholder report:

(1) The Fund's name and the Class, if relevant.

(2) The exchange ticker symbol of the Fund's shares or, if the annual or semi-annual shareholder report relates to a Class of the Fund's shares, its exchange ticker symbol. If the Fund is an Exchange-Traded Fund, also identify the principal U.S. market or markets on which the Fund's shares are traded.

(3) A statement identifying the document as an ''annual shareholder report'' or a ''semi-annual shareholder report,'' as applicable.

(4) The following statement:

This [annual or semi-annual] shareholder report contains important information about [the Fund] for the period of [beginning date] to [end date]. You can find additional information about the Fund at [__]. You can also request this information by contacting us at [__].

(5) If the annual or semi-annual report includes Material Fund Changes, as described in paragraph (g) of this Item, include the following prominent statement, or similar clear and understandable statement, in bold-face type: ''This report describes changes to the Fund that occurred during the reporting period.''

Instructions

1. A Fund may include graphics, logos, and other design or text features on the cover page or at the beginning of its annual or semi-annual shareholder report to help shareholders identify the materials as the Fund's annual or semi-annual shareholder report.

2. In the statement required under paragraph (b)(5), provide the toll-free telephone number and, as applicable, email address that shareholders can use to request additional information about the Fund. Provide a website address where information about the Fund is available. The website address must be specific enough to lead shareholders directly to the materials that are required to be accessible under rule 30e–1, rather than to the home page or a section of the website other than on which the materials are posted. The website may be a central site with prominent links to the materials that must be accessible under rule 30e–1. In addition to the website address, a Fund may include other ways an investor can find or request additional information about the Fund (*e.g.,* QR code, mobile application).

(c) *Fund Expenses.*

In a table, provide the expenses of an ongoing $10,000 investment in the Fund during the reporting period. The table must show: (i) the [Fund or Class Name]; (ii) expenses in dollars paid on a $10,000 investment during the period; and (iii) expenses as a percent of an investor's investment in the Fund (*i.e.* expense ratio).

What were the Fund costs for the last [year/six months]?

(based on a hypothetical $10,000 investment)

[Fund or Class Name]	Costs of a $10,000 investment	Costs paid as a percentage of a $10,000 investment
	$	%

Instructions

1. General.

(a) Round all percentages in the table to the nearest hundredth of one percent and round all dollar figures in the table to the nearest dollar.

(b) If the Fund is a Feeder Fund, reflect the aggregate expenses of the Feeder Fund and the Master Fund. In a footnote to the expense table, state that the expense table reflects the expenses of both the Feeder and Master Funds.

(c) If the Fund's annual or semi-annual shareholder report covers a period of time that is less than the full reporting period of the annual or semi-annual report, the Fund must include a footnote to the table to briefly explain that expenses for the full reporting period would be higher.

(d) If the disclosed expenses include extraordinary expenses, the Fund may include a brief footnote to the ''Costs paid as a percentage of your investment'' column disclosing what actual costs would have been if extraordinary expenses were not included. ''Extraordinary expenses'' refers to expenses that are distinguished by their unusual nature and by the infrequency of their occurrence. Unusual nature means the expense has a high degree of abnormality and is clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the Fund, taking into account the environment in which the Fund operates. Infrequency of occurrence means the expense is not reasonably expected to recur in the foreseeable future, taking into consideration the environment in which the Fund operates. The environment of a Fund includes such factors as the characteristics of the industry or industries in which it operates, the geographical location of its operations, and the nature and extent of government regulation.

2. *Computation.*

(a) To determine ''Costs of a $10,000 investment,'' multiply the figure in the ''Cost paid as a percentage of your investment'' column by the average account value over the period based on an investment of $10,000 at the beginning of the period.

(b) Assume reinvestment of all dividends and distributions.

(c) In the annual shareholder report, disclose the expense ratio in the ''Costs paid as a percentage of your investment'' column as it appears in the Fund's most recent audited financial statements or financial highlights. In the semi-annual shareholder report, the Fund's expense ratio in the ''Costs paid as a percentage of your investment column'' should be calculated in the manner required by Instruction 4(b) to Item 13(a) using the expenses for the Fund's most recent fiscal half-year. Express the expense ratio on an annualized basis.

(d) *Management's Discussion of Fund Performance.* Disclose the following information unless the Fund is a Money Market Fund. A Money Market Fund is permitted but not required to disclose some or all of the following information, so long as the information the Money Market Fund chooses to disclose meets the requirements of the relevant paragraph, including any related instructions, and is not incomplete, inaccurate, or misleading.

(1) Briefly summarize the key factors that materially affected the Fund's performance during the reporting period, including the relevant market conditions and the investment strategies and techniques used by the Fund's investment adviser.

Instruction

1. As appropriate, use graphics or text features, such as bullet lists or tables, to present the key factors. Do not include a lengthy, generic, or overly broad discussion of the factors that generally affected market performance during the reporting period.

(2) Line graph and table.

(i) Provide a line graph comparing the initial and subsequent account values at the end of each of the most recently

completed 10 fiscal years of the Fund (or for the life of the Fund, if shorter), but only for periods subsequent to the effective date of the Fund's registration statement. Assume a $10,000 initial investment at the beginning of the first fiscal year in an appropriate broad-based securities market index for the same period.

(ii) In a table placed within or next to the graph, provide the Fund's average annual total returns for the 1-, 5-, and 10-year periods as of the end of the reporting period (or for the life of the Fund, if shorter), but only for periods subsequent to the effective date of the Fund's registration statement. Separately provide the average annual total returns with and without sales charges, as applicable. Also provide the average annual total returns of an appropriate broad-based securities market index for the same periods.

(iii) Include a statement accompanying the graph and table to the effect that:

(A) The Fund's past performance is not a good predictor of the Fund's future performance. Use text features to make the statement noticeable and prominent through, for example: graphics, larger font size, or different colors or font styles.

(B) The graph and table do not reflect the deduction of taxes that a shareholder would pay on fund distributions or redemption of fund shares.

Instructions

1. *Line Graph Computation.*

(a) Assume that the initial investment was made at the offering price last calculated on the business day before the first day of the first fiscal year.

(b) Base subsequent account values on the net asset value of the Fund last calculated on the last business day of the first and each subsequent fiscal year.

(c) Calculate the final account value by assuming the account was closed and redemption was at the price last calculated on the last business day of the reporting period.

(d) Base the line graph on the Fund's required minimum initial investment if that amount exceeds $10,000.

2. *Sales Load.* Reflect any sales load (or any other fees charged at the time of purchasing shares or opening an account) by beginning the line graph at the amount that actually would be invested (*i.e.,* assume that the maximum sales load, and other charges deducted from payments, is deducted from the initial $10,000 investment). For a Fund whose shares are subject to a contingent deferred sales load, assume the deduction of the maximum deferred sales load (or other charges) that would apply for a complete redemption that received the price last calculated on the last business day of the reporting period. For any other deferred sales load, assume that the deduction is in the amount(s) and at the time(s) that the sales load actually would have been deducted.

3. *Dividends and Distributions.* Assume reinvestment of all of the Fund's dividends and distributions on the reinvestment dates during the period, and reflect any sales load imposed upon reinvestment of dividends or distributions or both.

4. *Account Fees.* Reflect recurring fees that are charged to all accounts.

(a) For any account fees that vary with the size of the account, assume a $10,000 account size.

(b) Reflect, as appropriate, any recurring fees charged to shareholder accounts that are paid other than by redemption of the Fund's shares.

(c) Reflect an annual account fee that applies to more than one Fund by allocating the fee in the following manner: divide the total amount of account fees collected during the year by the Funds' total average net assets, multiply the resulting percentage by the average account value for each Fund and reduce the value of each hypothetical account at the end of each fiscal year during which the fee was charged.

5. *Table Computation.* Compute average annual total returns in accordance with Item 26(b)(1). To calculate average annual total returns without sales charges, do not deduct sales charges, as applicable, as otherwise described in the instructions to Item 26(b)(1). For the Fund's 1-year annual total return without sales charges in an annual shareholder report, use the 1-year total return in the Fund's most recent audited financial highlights.

6. *Appropriate Broad-Based Securities Market Index.* For purposes of this Item, an ''appropriate broad-based securities market index'' is one that is administered by an organization that is not an affiliated person of the Fund, its investment adviser, or principal underwriter, unless the index is widely recognized and used. A ''broad-based'' index is an index that represents the overall applicable domestic or international equity or debt markets, as appropriate. Adjust the index to reflect the reinvestment of dividends on securities in the index, but do not reflect the expenses of the Fund.

7. *Additional Indexes.* A Fund is encouraged to compare its performance not only to the required broad-based index, but also to other more narrowly based indexes that reflect the market sectors in which the Fund invests. A Fund also may compare its performance to an additional broad-based index, or to a non-securities index (*e.g.,* the Consumer Price Index), so long as the comparison is not misleading.

8. *Change in Index.* If the Fund uses an index that is different from the one used for the immediately preceding reporting period, explain the reason(s) for the change and compare the Fund's annual change in the value of an investment in the hypothetical account with the new and former indexes.

9. *Interim Periods.* The line graph may compare the ending values of interim periods (*e.g.,* monthly or quarterly ending values), so long as those periods are after the effective date of the Fund's registration statement.

10. *Scale.* The axis of the graph measuring dollar amounts may use either a linear or a logarithmic scale.

11. *New Funds.* A New Fund (as defined in Instruction 6 to Item 3) is not required to include the information specified by this Item in its annual shareholder report, unless Form N–1A (or the Fund's annual Form N–CSR report) contains audited financial statements covering a period of at least 6 months.

12. *Change in Investment Adviser.* If the Fund has not had the same investment adviser for the previous 10 fiscal years, the Fund may begin the line graph on the date that the current adviser began to provide advisory services to the Fund so long as:

(a) Neither the current adviser nor any affiliate is or has been in ''control'' of the previous adviser under section 2(a)(9) [15 U.S.C. 80a–2(a)(9)];

(b) The current adviser employs no officer(s) of the previous adviser or employees of the previous adviser who were responsible for providing investment advisory or portfolio management services to the Fund; and

(c) The graph is accompanied by a statement explaining that previous periods during which the Fund was advised by another investment adviser are not shown.

13. *Multiple Class Funds.*

(a) Provide information about account values in the line graph under Item 27A(d)(2)(i) for the Class of the Fund to which the report relates.

(b) Provide information about the average annual total returns for Class of the Fund to which the report relates in the table under Item 27A(d)(2)(ii).

14. *Material Changes.* If a material change to the Fund has occurred during the period covered by the line graph and table, such as a change in investment adviser or a change to the Fund's

investment strategies, the Fund may include a brief legend or footnote to describe the relevant change and when it occurred.

15. *Availability of Updated Performance Information.* If the Fund provides updated performance information on its website or through other widely accessible mechanisms, direct shareholders to where they can find this information.

(3) If the Fund has a policy or practice of maintaining a specified level of distributions to shareholders, disclose if the Fund was unable to meet the specified level of distributions during the reporting period. Also discuss the extent to which the Fund's distribution policy resulted in distributions of capital.

(4) For an Exchange-Traded Fund, provide a table showing the number of days the Market Price of the Fund shares was greater than the Fund's net asset value and the number of days it was less than the Fund's net asset value (*i.e.,* premium or discount) for the most recently completed calendar year, and the most recently completed calendar quarters since that year (or the life of the Fund, if shorter). The Fund may omit the information required by this paragraph if it satisfies the requirements of paragraphs (c)(1)(ii)–(iv) and (c)(1)(vi) of Rule 6c–11 [17 CFR 270.6c–11(c)(1)(ii)–(iv) and (c)(1)(vi)] under the Investment Company Act.

Instructions

1. Provide the information in tabular form.

2. Express the information as a percentage of the net asset value of the Exchange-Traded Fund, using separate columns for the number of days the Market Price was greater than the Fund's net asset value and the number of days the Market Price was less than the Fund's net asset value. Round all percentages to the nearest hundredth of one percent.

3. Adjacent to the table, provide a brief explanation that: shareholders may pay more than net asset value when they buy Fund shares and receive less than net asset value when they sell those shares, because shares are bought and sold at current market prices.

4. Include a statement that the data presented represents past performance and cannot be used to predict future results.

(e) *Fund Statistics.* Disclose the Fund's net assets, total number of portfolio holdings, the total advisory fees paid, and, if the Fund is not a Money Market Fund, portfolio turnover rate as of the end of the reporting period. The total advisory fees paid by the Fund is only required to be disclosed in the annual shareholder report. Following these required statistics, the Fund may provide additional statistics that the Fund believes would help shareholders better understand the Fund's activities and operations during the reporting period (*e.g.,* tracking error, maturity, duration, average credit quality, or yield).

Instructions

1. Fund statistics that are required to be disclosed under this paragraph must precede any additional permitted statistics that the Fund chooses to include.

2. The total advisory fees paid is the total amount of investment advisory fees as disclosed in the Fund's statement of operations as required by paragraph 2(a) of rule 6–07 of Regulation S–X [17 CFR 210.6–07]). The total investment advisory fees should include any reductions or reimbursements of such fees.

3. If the Fund provides a statistic that is otherwise described in this form, it must follow any associated instructions describing the calculation method for the relevant statistic.

4. As appropriate, use graphics or text features, such as bullet lists or tables, to present the fund statistics.

5. If the Fund provides a statistic in a shareholder report that is otherwise included in, or could be derived from, the Fund's financial statements or financial highlights, the fund must use or derive such statistic from the Fund's most recent financial statements or financial highlights.

6. A Fund may briefly describe the significance or limitations of any disclosed statistics in a parenthetical or similar presentation.

7. If a Fund that is a Multiple Class Fund provides a statistic that is calculated based on the Fund's performance or fees (*e.g.,* yield or tracking error), show the statistic for the Class of the Fund to which the report relates. A Fund can provide a statistic regarding Class performance only if such Class has one year of performance.

8. A Fund may include additional statistics only if they are reasonably related to the Fund's investment strategy.

(f) *Graphical Representation of Holdings.* One or more tables, charts, or graphs depicting the portfolio holdings of the Fund, as of the end of the reporting period, by reasonably identifiable categories (*e.g.,* type of security, industry sector, geographic regions, credit quality, or maturity) showing the percentage of (i) net asset value, (ii) total investments, or (iii) total exposure (depicting long and short exposures to each category, to the extent applicable) attributable to each. The categories and the basis of the presentation should be disclosed in a manner reasonably designed to depict clearly the types of investments made by the Fund, given its investment objectives. A Fund that uses ''total exposure'' as a basis for representing its holdings may also include a ''net exposure'' presentation as well as a brief explanation of these presentations. If the Fund depicts portfolio holdings according to the credit quality, it should include a brief description of how the credit quality of the holdings were determined, and if credit ratings, as defined in section 3(a)(60) of the Securities Exchange Act [15 U.S.C. 78(c)(a)(60)], assigned by a credit rating agency, as defined in section 3(a)(61) of the Securities Exchange Act [15 U.S.C. 78(c)(a)(61)], are used, concisely explain how they were identified and selected. This description should be included near, or as part of, the graphical representation. The Fund may also list, in a table or chart that appears near the graphical representation of holdings, the Fund's 10 largest portfolio holdings. A Fund that includes a list of its 10 largest portfolio holdings may also show, as part of this presentation, the percentage of the Fund's (i) net asset value, (ii) total investments, or (iii) total exposure, as applicable, attributable to each of the holdings listed.

(g) *Material Fund Changes.* Briefly describe any material change, with respect to any of the following items, that has occurred since the beginning of the reporting period. The Fund may also disclose, but is not required to disclose, material changes it plans to make in connection with updating its prospectus under section 10(a)(3) of the Securities Act for the current fiscal year. The Fund also may describe other material changes that it would like to disclose to its shareholders or changes that may be helpful for investors to understand the fund's operations and/or performance over the reporting period.

(1) The Fund's name (as described in Item 1(a)(1));

(2) The Fund's investment objectives or goals (as described in Item 2);

(3) The Fund's annual operating expenses, shareholder fees, or maximum account fee (as described in Item 3), including the termination or introduction of an expense reimbursement or fee waiver arrangement;

(4) The Fund's principal investment strategies (as described in Item 4(a));

(5) The principal risks of investing in the Fund (as described in Item 4(b)(1)); and

(6) The Fund's investment adviser(s) (as described in Item 5(a)).

Instructions

1. Provide a concise description of each material change that the fund describes as specified in this Item 27A(g). Provide enough detail to allow shareholders to understand each change and how each change may affect shareholders.

2. Include a legend to the effect of the following: ''This is a summary of certain changes [and planned changes] to the Fund since [date]. For more complete information, you may review the Fund's next prospectus, which we expect to be available by [date] at [_____] or upon request at [_____].'' Provide the toll-free telephone number and, as applicable, email address that shareholders can use to request copies of the Fund's prospectus. If the updated prospectus will be made available on a website, provide the address of the central site where a link to the prospectus will be available.

3. A Fund is not required to disclose a material change that occurred during the reporting period and otherwise would be required to be disclosed if the Fund already disclosed this change in its last annual shareholder report because, for example, the change occurred before the last annual shareholder report was transmitted to shareholders or the Fund planned to make the change in connection with updating its prospectus under section 10(a)(3) of the Securities Act at that time (and chose to disclose it in the last annual report).

(h) *Changes in and Disagreements with Accountants.* If the Fund is required to disclose on Form N–CSR the information that Item 304(a)(1) of Regulation S–K [17 CFR 229.304] requires, provide:

(1) A statement of whether the former accountant resigned, declined to stand for re-election, or was dismissed and the date thereof; and

(2) A brief, plain English description of disagreements(s) with the former accountant during the Fund's two most recent fiscal years and any subsequent interim period that the Fund discloses on Form N–CSR.

(i) *Availability of Additional Information.* Provide a brief, plain English statement that certain additional Fund information is available on [the Fund's] website. Include plain English references to, as applicable, the fund's prospectus, financial information, holdings, and proxy voting information. A Fund also may refer to other information available on this website if it reasonably believes that shareholders likely would view the information as important.

Instructions

1. Provide means of facilitating shareholders' access to the additional information in accordance with Instruction 10 to Item 27A(a).

2. If the Fund provides prominent links to the additional information to which it refers under this Item 27A(i) on the same central site the Fund discloses under Item 27A(b), the Fund may state that materials are available at the website address included at the beginning of its annual or semi-annual shareholder report. The Fund would not need to provide other means of facilitating shareholders' access to the relevant additional information under these circumstances.

(j) *Householding.* A Fund may include disclosure required under rule 30e–1(e)(3) [17 CFR 270.30e–1(e)(3)] under the Securities Act to explain how shareholders who have consented to receive a single annual or semi-annual shareholder report at a shared address may revoke this consent.

* * * * *

Note: The text of Form N–CSR does not, and these amendments will not, appear in the Code of Federal Regulations.

■ 17. Amend Form N–CSR (referenced in §§ 249.331 and 274.128) by:

■ a. In the third sentence of the second paragraph on the cover page of Form N–CSR, removing ''450 Fifth Street NW, Washington, DC 20549–0609'' and adding in its place ''100 F Street NE, Washington, DC 20549–1090'';

■ b. Revising Instruction C.4;

■ c. In the first sentence of General Instruction D, removing ''Items 4, 5, and 13(a)(1)'' and adding in its place ''Items 4, 5, and 18(a)(1)'';

■ d. In the second sentence of Item 2(c), removing ''Item 13(a)(1)'' and adding in its place ''Item 18(a)(1)'';

■ e. In the first sentence of Item 2(f), removing ''Item 13(a)(1)'' and adding in its place ''Item 18(a)(1)'';

■ f. Revising Item 6(a);

■ g. Redesignating Items 7 through 13 as Items 12 through 18, respectively;

■ h. Adding Items 7 through 11; and

■ i. In the first sentence of the instruction to paragraph (a)(2) of current Item 13, removing ''Item 13(a)(2)'' and adding in its place ''Item 18(a)(2)''.

The additions read as follows:

Form N–CSR

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General Instructions

* * * * *

C. * * *

4. *Interactive Data File.* An Interactive Data File as defined in Rule 11 of Regulation S–T [17 CFR 232.11] is required to be submitted to the Commission in the manner provided by Rule 405 of Regulation S–T [17 CFR 232.405] by a management investment company registered under the Investment Company Act of 1940 (15 U.S.C. 80a *et seq.*) to the extent required by Rule 405 of Regulation S–T.

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Item 6. Investments.

File Schedule I—Investments in securities of unaffiliated issuers as of the close of the reporting period as set forth in § 210.12–12 of Regulation S–X [17 CFR 210.12–12], unless the schedule is included as part of the report to shareholders filed under Item 1 of this Form or is included in the financial statements filed under Item 7 of this Form'';

* * * * *

Item 7. Financial Statements and Financial Highlights for Open-End Management Investment Companies.

(a) An open-end management investment company registered on Form N–1A [17 CFR 239.15A and 17 CFR 274.11A] must file its most recent annual or semi-annual financial statements required, and for the periods specified, by Regulation S–X.

(b) An open-end management investment company registered on Form N–1A [17 CFR 239.15A and 17 CFR 274.11A] must file the information required by Item 13 of Form N–1A.

Instruction to paragraph (a) and (b).

The financial statements and financial highlights filed under this Item must be audited and be accompanied by any associated accountant's report, as defined in rule 1–02(a) of Regulation S–X [17 CFR 210.1–02(a)], except that in the case of a report on this Form N–CSR as of the end of a fiscal half-year, the financial statements and financial highlights need not be audited.

Item 8. Changes in and Disagreements with Accountants for Open-End Management Investment Companies.

An open-end management investment company registered on Form N–1A [17 CFR 239.15A and 17 CFR 274.11A] must disclose the information concerning changes in and disagreements with accountants and on accounting and financial disclosure required by Item 304 of Regulation S–K [17 CFR 229.304].

Item 9. Proxy Disclosures for Open-End Management Investment Companies.

If any matter was submitted during the period covered by the report to a vote of shareholders of an open-end management investment company registered on Form N–1A [17 CFR 239.15A and 17 CFR 274.11A], through the solicitation of proxies or otherwise, the company must furnish the following information:

(1) The date of the meeting and whether it was an annual or special meeting.

(2) If the meeting involved the election of directors, the name of each director elected at the meeting and the name of each other director whose term of office as a director continued after the meeting.

(3) A brief description of each matter voted upon at the meeting and the number of votes cast for, against or withheld, as well as the number of abstentions and broker non-votes as to each such matter, including a separate tabulation with respect to each matter or nominee for office.

Instruction. The solicitation of any authorization or consent (other than a proxy to vote at a shareholders' meeting) with respect to any matter shall be deemed a submission of such matter to a vote of shareholders within the meaning of this Item.

Item 10. Remuneration Paid to Directors, Officers, and Others of Open-End Management Investment Companies.

Unless the following information is disclosed as part of the financial statements included in Item 7, an open-end management investment company registered on Form N–1A [17 CFR 239.15A and 17 CFR 274.11A] must disclose the aggregate remuneration paid by the company during the period covered by the report to:

(1) All directors and all members of any advisory board for regular compensation;

(2) Each director and each member of an advisory board for special compensation;

(3) All officers; and

(4) Each person of whom any officer or director of the Fund is an affiliated person.

Item 11. Statement Regarding Basis for Approval of Investment Advisory Contract.

If the board of directors approved any investment advisory contract during the Fund's most recent fiscal half-year, discuss in reasonable detail the material factors and the conclusions with respect thereto that formed the basis for the board's approval. Include the following in the discussion:

(1) Factors relating to both the board's selection of the investment adviser and approval of the advisory fee and any other amounts to be paid by the Fund under the contract. These factors would include, but not be limited to, a discussion of the nature, extent, and quality of the services to be provided by the investment adviser; the investment performance of the Fund and the investment adviser; the costs of the services to be provided and profits to be realized by the investment adviser and its affiliates from the relationship with the Fund; the extent to which economies of scale would be realized as the Fund grows; and whether fee levels reflect these economies of scale for the benefit of Fund investors. Also indicate in the discussion whether the board relied upon comparisons of the services to be rendered and the amounts to be paid under the contract with those under other investment advisory contracts, such as contracts of the same and other investment advisers with other registered investment companies or other types of clients (*e.g.,* pension funds and other institutional investors). If the board relied upon such comparisons, describe the comparisons and how they assisted the board in concluding that the contract should be approved; and

(2) If applicable, any benefits derived or to be derived by the investment adviser from the relationship with the Fund such as soft dollar arrangements by which brokers provide research to the Fund or its investment adviser in return for allocating Fund brokerage.

Instructions.

(1) Board approvals covered by this Item include both approvals of new investment advisory contracts and approvals of contract renewals. Investment advisory contracts covered by this Item include subadvisory contracts.

(2) Conclusory statements or a list of factors will not be considered sufficient disclosure. Relate the factors to the specific circumstances of the Fund and the investment advisory contract and state how the board evaluated each factor. For example, it is not sufficient to state that the board considered the amount of the investment advisory fee without stating what the board concluded about the amount of the fee and how that conclusion affected its decision to approve the contract.

(3) If any factor enumerated in this Item is not relevant to the board's evaluation of an investment advisory contract, explain the reasons why that factor is not relevant;

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By the Commission.

Dated: October 26, 2022.

Vanessa A. Countryman,

Secretary.

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