Cost-Benefit Analysis of the Summary Prospectus Proposal

February 28, 2008

Investment Company Institute®

Appendix A

INVESTMENT COMPANY INSTITUTE

Questions for Fund Complexes Regarding Summary Prospectus Proposal
December 27, 2007

Please respond to as many questions as you can. Even if you are unable to provide complete answers to some questions, the information you can provide is still valuable. Please input your responses into this document and email to Shelly Antoniewicz at rantoniewicz@ici.org by January 11, 2008. If you have any questions regarding the questionnaire, please call Shelly Antoniewicz at 202-326-5910.

A. Current Printing & Mailing Costs for Prospectuses
For complex-wide questions, please aggregate across all of the funds for each one's most recent fiscal year.

1. How many mutual funds does your complex have?

2. How many prospectuses did the funds and their vendors mail in hard copy form to existing mutual fund shareholders for purposes of annual fulfillment?
   a. If possible, please report separate figures for your smallest fund and for your largest fund.

3. How many prospectuses did the funds and their vendors mail in electronic form to existing mutual fund shareholders for purposes of annual fulfillment?
   a. If possible, please report separate figures for your smallest fund and for your largest fund.

4. How many prospectuses did the funds and their vendors mail in hard copy form to investors for purposes of post-sale fulfillment?
   a. If possible, please report separate figures for your smallest fund and for your largest fund.

5. How many prospectuses did the funds and their vendors mail in electronic form to investors for purposes of post-sale fulfillment?
   a. If possible, please report separate figures for your smallest fund and for your largest fund.

6. How many copies of prospectuses for annual and post-sale fulfillment were printed for all the funds?

7. If you know from your distributors, how many fund prospectuses were mailed out with marketing materials?

8. What was the total printing cost, including any handling or other fees, for all of the funds’ prospectuses?
    a. Were the prospectuses printed with offset printing only?
    b. Digital print on demand only?
    c. Some combination of the two?

9. What was the total mailing cost for all of the funds’ prospectuses?
    a. Were annual fulfillment prospectuses sent by bulk mail?
    b. Were post-sale fulfillment prospectuses sent by first class mail?

10. How do you manage your prospectus print inventory?
    a. Print once each year
    b. Print 6 months worth and then reprint
    c. Print on demand
    d. Some combination or other method

11. To whom do you ship prospectuses? Please check all that apply and list any that do not easily fit in one of the categories provided below.
    a. Fulfillment vendors
    b. Transfer agents
    c. Independent financial advisors
    d. Other intermediaries (e.g.; brokers/dealers, fund platforms)

B. Proposed Mandatory Form N-1A Changes

We understand that time estimates may be difficult to assess at this stage, please provide your best educated guess and describe any factors that may result in a higher or lower estimate.

1. How much time (in hours) would you estimate that it would take to comply **initially** with the proposed new requirements to Form N-1A for all of your funds? Please include in your estimate the amount of time:
    a. To set-up the template, compile, and review the additional information required in the summary section of the statutory prospectus, and
    b. Spent on any other tasks (e.g.; amending your funds’ policies and procedures, if necessary).

2. How much time (in hours) would you estimate that it would take to update and review the information each year for Form N-1A on an **on-going** basis for all of your funds?

C. Voluntary Use of Summary Prospectus

For purposes of gathering information, please assume that you would opt to use the summary prospectus as proposed when answering the following questions. Again, we understand that time estimates may be difficult to assess at this stage, please provide your best educated guess and describe any factors that may result in a higher or lower estimate.

1. How much time (in hours) would you estimate that it would take to comply initially with the proposed requirements for the summary prospectus for all of your funds? Please include in your estimate the amount of time:
    a. To create a summary prospectus for each fund assuming that the information has already been collected for purposes of the summary section of Form N-1A,
    b. To comply with requirements for electronic posting, including
        i. Inserting hyperlinks from the table of contents to the respective sections for the statutory prospectus
        ii. Creating hyperlinks between the summary prospectus to more detailed information in the statutory prospectus, SAI, and, if desired, the annual shareholder report, including time spent by legal and other staff to determine the appropriate links,
        iii. Creating a website from which shareholders can easily find prospectuses and SAIs for all of your funds.
    c. Spent on any other tasks (e.g.; amending your funds' policies and procedures for quarterly updating, if necessary).

2. How much time (in hours) would you estimate that it would take to complete all stages of producing the quarterly summary prospectuses, such as updating, reviewing, loading the summary prospectuses on the funds' website with updated hyperlinks for all of your funds, and completing the filings on EDGAR?

3. Please describe how different the internal review process for quarterly updating of the summary prospectuses would be, if at all, from the process used to update fund fact sheets.

4. Do you have sufficient current staff to compile and update the summary prospectus for each fund on calendar year quarters within the 30-day window?
    a. If no, how will you staff the process? (e.g.; temps, new hires, outsource)
    b. What degree of bottlenecking, if any, would occur at your complex in the month after the calendar quarter-end?
        i. Little to none
        ii. Moderate
        iii. Severe
    c. How would this bottleneck be different from that created by updating the fund fact sheets?
    d. Which job functions would be the most impacted by any bottlenecking?
    e. Would bottlenecking be a significant factor in keeping you from opting to use the summary prospectus?

5. At this stage, do you expect the summary prospectus for your funds will be in black and white or color?

6. Given the quarterly updating requirements as proposed, do you anticipate that your prospectus fulfillment process would change, if at all, for your direct/registered shareholders and/or your intermediated/omnibus shareholders?
    a. If your complex contracts out to vendor(s) for any prospectus fulfillment (printing and/or mailing) for its funds, would you need to change the fulfillment process for the quarterly update of the summary prospectuses?
        i. No change, current vendor capable of meeting quarterly requirements.
        ii. Contract with new vendor as current vendor does not have capability to fulfill quarterly update. (Please describe limitations)
    b. If your complex carries out any prospectus fulfillment (printing and/or mailing) for its funds on its own, how would you manage the fulfillment process for the summary prospectuses on the quarterly update?
        i. Contract out to vendor
        ii. Use offset printing (please explain how your complex will meet the 30-day deadline)
        iii. Use digital print on demand
            1. Would you need to invest in new equipment?
            2. If yes, can you describe the equipment and estimate its cost?

7. As the proposal is written, do you expect to opt to use the summary prospectus for all or some of your funds?
    a. If you expect to use the summary prospectus for some funds and not others:
        i. Please describe the characteristics of the funds for which you do not anticipate using the summary prospectus.
        ii. If you can, please tell us how many funds you would not use the summary prospectus for.
    b. If you do not expect to use the summary prospectus for all or some of your funds, please describe the most significant impediments to adopting the summary prospectus.

Appendix B

Cost-Benefit Analysis of SEC Mutual Fund Disclosure Reform Proposal

Executive Summary

In this analysis, we describe the major costs and benefits of the Commission's mutual fund disclosure reform proposal that were detailed in the Proposing Release. The Commission requested comment on its cost-benefit analysis, and this study provides feedback to the Commission. Based on survey information gathered from our members and other information from various industry sources, we estimate the costs, benefits, and net savings of the two parts of the proposal: the mandatory Form N-1A changes and the voluntary use of the Summary Prospectus.[1] We also estimate the percentage of funds that would choose to use the Summary Prospectus (the "opt-in" rate) based on whether: (1) the funds in our sample and their shareholders would realize positive net savings from opting in; and (2) the complexes noted that it would be difficult to overcome the challenges of heavy workloads at quarter ends.

Our estimates of the costs of complying with the proposed Form N-1A changes are relatively close to those of the Commission. We differ significantly from the Commission in our assessment of the internal initial and ongoing costs associated with the Summary Prospectus. The Commission did not factor in any set-up costs in connection with opting to use the Summary Prospectus over and above the costs of conforming with the proposed changes to Form N-1A. Based on information from our members, we estimate that initial compliance will take a fund 23 hours, on average, to complete. Also, our estimate of the ongoing costs from updating the Summary Prospectus each calendar quarter is considerably higher than the Commission's.

Based on an analysis of the responses to our survey, we estimate that between 30 and 45 percent of funds would opt to use the Summary Prospectus as currently proposed. This is substantially lower than the 75 percent opt-in rate assumed by the Commission in the Proposing Release. Survey respondents noted that the major impediments to using the Summary Prospectus were costs and operational difficulties associated with the proposed quarterly updating requirements, complicated website linking requirements, and prohibitions against binding other materials with the Summary Prospectus (especially with respect to variable annuities) and integrating information for multiple funds into one Summary Prospectus.

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[1] We received information from 42 fund complexes, which together offer 3,122 funds that accounted for nearly 60 percent of total mutual fund industry assets as of December 2007. Our survey responses reflect the views of fund complexes of a range of sizes. Thirty-eight percent of respondents were fund complexes with assets greater than $100 billion; 29 percent had assets between $10 billion and $100 billion; and 33 percent had assets of less than $10 billion.

While not analyzed in our study, the opt-in rate also will depend to some degree on intermediary acceptance of the Summary Prospectus. In 2006, nearly 90 percent of sales of stock, bond, and hybrid mutual funds were conducted through third parties.[2] Thus, even if a fund has opted to use the Summary Prospectus, intermediaries could decide not to send it to their clients and require, instead, the statutory prospectus. Consequently, the opt-in rate may be even lower than our estimated 30 to 45 percent range if intermediaries are reluctant to use the Summary Prospectus.

In our cost-benefit analysis of the individual complexes in our sample, the expense of quarterly updating prevented many funds from finding it cost-effective to adopt the Summary Prospectus. If updating were required annually rather than quarterly, we estimate that 80 percent of funds industry-wide would have positive net savings and be more likely to elect to use the Summary Prospectus. This opt-in rate is substantially higher than the 30 to 45 percent range we estimate would occur for the industry with the quarterly updating requirement.

[2] *See 2007 Investment Company Fact Book*, 47th Edition, Washington, DC: Investment Company Institute, 2007 (www.icifactbook.org), at 69.

Cost-Benefit Analysis of SEC Mutual Fund Disclosure Reform Proposal

The discussion below is in three parts. The first section describes the survey the Institute conducted to gather information on the Commission's proposal. The second section provides detailed information on our estimates of the costs of the proposed Form N-1A changes and how they compare to the Commission's estimates. The third section provides a comparison of our estimates of the costs, benefits, net savings, and opt-in rate associated with the proposed Summary Prospectus with those of the Commission's. The third section also estimates the opt-in rate and the net savings of the Summary Prospectus if the quarterly updating requirement were eliminated.

I. Survey Description

In the Proposing Release, the Commission reported the results of its cost-benefit study of the disclosure reform proposal and requested comment on various aspects of its analysis. In response to the Commission's request, the Institute surveyed our members regarding operational and financial aspects of the rule proposal.[3] The questionnaire requested information in three general areas: (1) current prospectus printing and mailing volumes and costs; (2) proposed Form N-1A proposed changes; and (3) voluntary use of the Summary Prospectus.

We received information from 42 fund complexes, which together offer 3,122 funds[4] that accounted for nearly 60 percent of total mutual fund industry assets as of December 2007. All of the complexes provided aggregate figures on the number of prospectuses printed and mailed with their associated costs for annual fulfillment and post-sale fulfillment purposes for their funds' most recent complete fiscal year.[5] Over 90 percent of responding complexes provided estimates of the number of hours necessary to comply with the proposed Form N-1A changes on an initial and ongoing basis, respectively. These complexes also provided estimates of the number of hours necessary to comply with the requirements of the voluntary Summary Prospectus. Complexes to varying degrees provided information on other issues related to the continued use and updating of the Summary Prospectus, such as "bottlenecking" (heavy workloads at calendar quarter ends), staffing needs, technology requirements, and other impediments to using the Summary Prospectus.

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[3] A copy of the questionnaire is provided in Appendix A to the Institute's comment letter.

[4] The terms "portfolio" and "fund" are fully interchangeable. In its cost-benefit analysis, the Commission used the term "portfolio" instead of fund. The Commission estimated the number of portfolios to be 8,726, as reported in the ICI Fact Book, *supra* note 2, at 10. This figure is the number of mutual funds as of December 2006.

[5] The responding complexes printed about 230 million prospectuses of which nearly 173 million were mailed to shareholders during their funds' most recent fiscal year (138 million were for annual fulfillment and 35 million were for post-sale fulfillment), for a total cost of about $138 million.

II. Costs and Benefits Associated with Proposed Form N-1A Changes

Under the Commission's proposal, all funds would have to comply with the proposed Form N-1A changes regardless of whether they opt to use the Summary Prospectus. As a result, the costs and benefits associated with the Form N-1A changes should be assessed independently from those related to the Summary Prospectus. As discussed in Section III, we believe the decision to use the Summary Prospectus will be based largely on whether the amount of the net savings from choosing to use the Summary Prospectus is positive and will not be affected by costs already paid in connection with the proposed Form N-1A changes.

Costs of Proposed Form N-1A Changes

Internal costs for the proposed Form N-1A changes include initial costs and ongoing costs. Initial costs include time spent to set up templates for, compile, and review the information required in the summary section of the statutory prospectus. Ongoing costs cover time spent to update and review the information in the summary section of the statutory prospectus each year after the initial year.

The Institute's survey asked fund complexes to estimate the total number of hours needed for all of their funds to comply with the proposed changes initially and on an ongoing basis. For each complex, these aggregate hour burden estimates were scaled to a per fund basis by dividing by the number of funds at the complex. This scaling allows a direct comparison of the hour burden estimates from the Commission and those collected from the Institute's survey (shown in Exhibit 1).[6]

Exhibit 1
Estimated Time Burden of Proposed Form N-1A Changes
Number of hours per fund

	SEC	ICI Respondents*
Initial compliance	16	17
Ongoing compliance	4	9

*Weighted average. Each complex's per fund hours estimate was weighted by the ratio of the number of funds at the complex to the total number of funds in the sample.

Institute respondents estimated that it would take, on average, 17 hours per fund in the first year to comply with the proposed changes, about the same amount of time as estimated by

[6] The Commission estimated the hour burden of an initial registration statement or the initial creation of a post-effective amendment to a registration statement and subsequent post-effective amendments on a per fund basis.

the Commission. For ongoing compliance, Institute respondents estimated an average of nine hours per fund, five hours more per fund than the Commission's estimate.

We translated these initial and ongoing hour burden estimates to dollar costs using the blended hourly rate for legal staff and programming staff cited by the Commission in the Proposing Release and an updated figure for the number of funds.[7] Initial and ongoing monetary costs for the proposed Form N-1A changes are shown in Exhibit 2. Based on responses to the Institute's survey, we estimate that the industry will spend approximately $38 million the first year and $20 million each year thereafter to comply with the proposed requirements. We estimate that the annual costs of ongoing compliance will be somewhat more than twice the amount estimated by the Commission because of the additional hours to update and review the information in the summary section each year.

Exhibit 2
Estimated Industry Monetary Costs of Proposed Form N-1A Changes*
Millions of dollars

	SEC	ICI
Initial compliance	$35	$38
Ongoing compliance	$9	$20

*Calculated as (# of hours from Exhibit 1) x (wage rate = $252.50) x (# of funds = 8,754).

<u>Benefits and Net Savings of Proposed Form N-1A Changes</u>

Benefits from the proposed Form N-1A changes are difficult to assess. All investors would receive key information about a fund at the front of the statutory prospectus, regardless of whether the fund opted to use the Summary Prospectus. This format design may increase accessibility and shareholder use, but neither the Commission nor the Institute has sought to measure this benefit.

Both the Commission and the Institute expect that the net savings associated with the proposed Form N-1A changes will be negative (*i.e.,* equal to the costs incurred in connection with the requirements), as shown in Exhibit 3. These additional costs apply to all funds irrespective of their use of the Summary Prospectus. In many cases, multi-fund statutory prospectuses will become longer and more costly to produce because, as proposed, they would contain a separate summary for each fund at the front of the prospectus.

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[7] The Commission estimated an hourly wage rate of $252.50 for compliance attorneys and senior programmers. *See* Proposing Release at 92, n. 170. We believe this wage rate, including bonuses, benefits, and overhead, is in line with industry averages. As of December 2007, Institute data indicate that there were 8,754 mutual funds, slightly higher than the 8,726 figure used by the Commission and reported as of December 2006 in the ICI Fact Book, *supra* note 2, at 10.

Exhibit 3
Estimated Fund Industry Net Savings of Proposed Form N-1A Changes
Millions of dollars

	SEC	ICI
Initial compliance	-$35	-$38
Ongoing compliance	-$9	-$20

III. Costs and Benefits Associated with the Voluntary Use of the Summary Prospectus

In this section, we estimate baseline benefits and costs associated with the use of the Summary Prospectus. The Commission's baseline estimates were derived from information in the Proposing Release[8] and the Institute's baseline estimates were derived from information gathered from fund complexes in our survey and from other industry sources. Our baseline calculations assume that all funds are required to use the Summary Prospectus. We then examine the potential opt-in rate,[9] which is based on fund companies' assessments of the costs and benefits of using the Summary Prospectus.

Fund complexes with the greatest net savings from using the Summary Prospectus would be the most likely to adopt it. Those fund complexes with negative net savings or little net savings from using the Summary Prospectus likely would not choose to use it. For many fund complexes, a large part of the decision whether to use the Summary Prospectus will be based on a cost-benefit analysis at the complex level or on a fund-by-fund basis within the complex. We estimate the probable opt-in rate for the industry based on a cost-benefit analysis of each of the complexes that responded to the Institute's survey. Our analysis indicates that given a choice, only about 30 to 45 percent of funds will voluntarily adopt the Summary Prospectus because of the high cost of quarterly updates. As noted earlier, the opt-in rate may be even lower if intermediaries are reluctant to use the Summary Prospectus. The Commission assumed that 75 percent of funds would opt to use the Summary Prospectus.

<u>Baseline Costs of the Summary Prospectus</u>

The baseline costs of opting to use the Summary Prospectus can be grouped into two main categories: internal costs and external costs. Both these costs are reviewed in detail in the following sub-sections.

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[8] We updated the Commission's costs estimates with more recent information on the number of mutual funds and did not scale the cost and benefit estimates of the Summary Prospectus by the 75 percent opt-in rate assumed by the Commission in the Proposing Release.

[9] The opt-in rate is defined as the percentage of funds that would elect to use the Summary Prospectus.

Internal Costs

Internal costs for the proposed Summary Prospectus requirements include initial costs and ongoing costs. The Commission estimated that initial costs to comply with the requirements of the Summary Prospectus "beyond those discussed [...] in connection with the collection of information for Form N-1A" would be minimal. Many Institute members reported that there would be start-up costs associated with using the Summary Prospectus. These costs include: a document design process to create the Summary Prospectus that is different from that used for the statutory prospectus; technology requirements for posting documents on the funds' websites and providing hyperlinks within and between certain documents; and communication with distribution channels regarding the use of the Summary Prospectus. In our survey, the Institute asked fund complexes to estimate how many hours it would take to comply initially with the proposed requirements for the Summary Prospectus for all of their funds. On average, Institute respondents estimated that it would take 23 hours per fund to comply initially with the requirements for the Summary Prospectus (Exhibit 4).

To gauge the time burden associated with ongoing compliance, the Institute's survey also requested an estimate (in hours) for completing all stages of producing an update of the quarterly summary prospectus for all the funds in the complex. On average, Institute respondents estimated about 10 hours per fund to update and review the information, load the Summary Prospectus on the fund's website with updated hyperlinks, and complete the filing on EDGAR. The Commission estimated that a quarterly update of the Summary Prospectus would take approximately five hours per fund to complete.

Exhibit 4
Estimated Time Burden of Summary Prospectus
Number of hours per fund

	SEC	ICI Respondents[1]
Initial compliance	0	23
Ongoing compliance[2]	5	10

1. Weighted average. Each complex's per fund hours estimate was weighted by the ratio of the number of funds at the complex to the total number of funds in the sample.
2. Number of hours per fund per update.

Estimated initial and ongoing monetary costs for the Summary Prospectus requirements are shown in Exhibit 5. Based on responses to the Institute's survey, we estimate that if all funds opted to use the Summary Prospectus, the industry would spend approximately $51 million in initial costs and $66 million each year thereafter to comply with the proposed requirements. The Institute's estimate of the ongoing annual cost of the Summary Prospectus assumes that funds would be required to complete four quarterly updates, one of which would also be used as the summary section of the fund's statutory prospectus. Our estimate of the frequency of the updates each year is three quarterly updates, which is the same as the Commission's.[10]

Exhibit 5
Estimated Industry Annual Monetary Costs of Summary Prospectus
Millions of dollars

	SEC	ICI
Initial compliance[1]	$0	$51
Ongoing compliance[2]	$33	$66

1. Calculated as (# of hours from Exhibit 4) x (wage rate = $252.50) x (# of funds = 8,754).
2. Calculated as (# of hours from Exhibit 4) x (wage rate = $252.50) x (# of funds = 8,754) x (# of updates = 3)

External Costs

As noted by the Commission in the Proposing Release, external costs of opting to use the Summary Prospectus will be largely those associated with printing and mailing.[11] In the Commission's estimate of the printing and mailing costs, the staff considered several factors (shown in Exhibit 6). For the most part, the Institute agrees with the Commission's estimated values of these factors. Our estimate of printing and mailing costs for the Summary Prospectus ($180 million) is only moderately higher than the Commission's estimate ($147 million).

In our assessment of the Commission's estimated values of the factors, we examined relevant responses to our survey and gathered general printing costs from various industry sources.[12] We agree with the Commission's estimates of mailing costs and number of Summary

[10] Based on data from the Strategic Insight Simfund mutual fund database, we estimate that almost half of funds do not have fiscal year ends that fall on calendar quarters. As noted in our comment letter at pp. 13-15, the proposed rule could be read to require that these funds file an additional update to their summary prospectus on the date that the annual update to their registration statement is due. Similarly, as discussed on p. 15 of the Institute's comment letter, the proposed rule could necessitate that these funds file an additional three updates to ensure that the Summary Prospectus legend incorporates by reference the updated statutory prospectus, statement of additional information, and shareholder reports. We do not believe, however, that the Commission intended to create these extra filings, and thus have assumed in our analysis that the Commission will eliminate the need for them in its final release.

[11] In the Institute's survey, two fund complexes noted that they would utilize outside counsel in approving the design/template of their Summary Prospectuses. We have no indication that use of outside counsel will be widespread for the industry as a whole. As a result, we have not incorporated any outside legal costs.

[12] We estimated print costs by averaging individual print charges gathered from Institute members and print vendors.

Prospectus mailings, but disagree with the estimates for printing costs of the Summary Prospectus and the number of statutory prospectuses that will be printed by individuals in their homes. More detail on specific estimates is provided following Exhibit 6.

Exhibit 6

Factors Underlying Estimated Printing and Mailing Costs of the Summary Prospectus

	SEC	ICI
Annual Fulfillment		
Print cost per summary	$0.11	$0.17
Mail cost per summary	$0.255	$0.255
Number of summary prospectuses	290 million	290 million
Total cost for annual fulfillment[1]	$106 million	$123 million
Post-Sale Fulfillment		
Print cost per summary	$0.11	$0.26
Mail cost per summary	$0.41	$0.41
Number of summary prospectuses	64.5 million	64.5 million
Total cost for post-sale fulfillment[1]	$34 million	$43 million
Printing by Individuals		
Print cost per statutory prospectus	$2.03	$2.03
Number of statutory prospectuses	3.2 million	7.1 million
Total cost to individuals[2]	$7 million	$14 million
Estimated Total Printing & Mailing Cost[3]	**$147 million**	**$ 180 million**

1. Calculated as (print cost + mail cost per summary prospectus) x (# of summary prospectuses).
2. Calculated as (print cost per statutory prospectus) x (# of statutory prospectuses).
3. Sum of total costs for annual fulfillment, post-sale fulfillment, and printing by individuals.

Mailings Costs: We believe the Commission's estimates of mailing costs are appropriate. Over 90 percent of funds in the Institute's survey indicated that statutory prospectuses for annual fulfillment are sent via bulk mail and those for post-sale fulfillment are sent via first class mail. We would expect this pattern to continue with the Summary Prospectus.

Number of Summary Prospectus Mailings: We believe the Commission's estimates of 290 million prospectuses mailed for annual fulfillment and 64.5 million mailed for post-sale fulfillment are reasonable based on the data provided by the fund companies in our survey.[13]

[13] In our sample, fund companies mailed directly or through their intermediaries 138 million statutory prospectuses for annual fulfillment and 35 million for post-sale fulfillment. These firms represent close to 60 percent of industry assets and 37 percent of the total number of funds. Assuming a proportional relationship between industry assets and the number of prospectuses mailed, industry totals would equal 230 million for annual fulfillment and 58 million for post-sale fulfillment. Respondents to the Institute's survey, however, have somewhat higher average account balances and a larger share of their assets coming from 401(k) plans, suggesting that the number of prospectuses per dollar of assets could be lower for respondents than for non-respondents. If we were to

Printing Cost Per Summary Prospectus: We believe the Commission's estimate of the average cost of printing a Summary Prospectus consisting of four pages[14] in black and white with digital print on demand at $0.11 is on the low side. The Commission assumed that digital print on demand would be used for both annual and post-sale fulfillment. We agree with the Commission that use of digital print on demand for post-sale fulfillment will be widespread due to the proposed one-month deadline for the quarterly update. We estimate, however, that the print cost for post-sale fulfillment will be $0.26 per Summary Prospectus.[15] For annual fulfillment, we believe that about half of the funds will have sufficient print volumes to use offset printing, which can be considerably less expensive per document than digital print on demand.[16] Nevertheless, our estimate is higher than the Commission's. Using a weighted average, we estimate the average print cost for annual fulfillment to be $0.17 per Summary Prospectus.[17]

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assume a proportional relationship between number of funds and the number of prospectuses mailed, we would obtain 373 million prospectuses for annual fulfillment and 95 million for post-sale fulfillment. We believe that these figures are too high. The Commission's estimates, which fall between the two data points, appear to be a good indicator of industry-wide prospectus mailings.

[14] The Institute's survey did not ask members about an anticipated average length of the Summary Prospectus for their funds. In our analysis, we assumed an average length of four pages, the same as the Commission. Several Institute members that have experimented with creating and formatting a Summary Prospectus for some of their funds, however, tell us that it is difficult to fit all the required information onto four pages, particularly for funds with multiple share classes. Therefore, the printing costs per Summary Prospectus that we report in Exhibit 6 should be viewed as a minimum cost.

[15] We estimate the average cost of a four-page (standard 8-1/2" X 11") document in black and white produced with digital print on demand to be $0.14, slightly higher than the Commission's estimate of $0.11. In addition, according to those funds that answered the question in our survey, 47 percent expect to use color for the Summary Prospectus, which has a substantially higher cost than black and white in a digital print on demand environment. Estimates for a four-page color document with print on demand average $0.40. We, therefore, used a weighted average of the color and black and white prices (.47x$0.40 + .53x$0.14 = $0.26, rounded to the nearest penny).

[16] In the absence of time constraints, the decision between digital print on demand and offset printing largely hinges on volume. In conversations with Institute members and print vendors, we understand that as a general rule of thumb, volumes greater than 5,000 documents appear to be more economical per unit in offset printing than in digital print on demand. In part for this reason, funds with a smaller number of shareholders tend to be included in multi-fund statutory prospectuses in order to realize the economies of scale in offset printing. Under the proposal, each fund would be required to have a separate Summary Prospectus. Based on confidential data submitted to the Institute on the number of shareholder accounts for retail mutual funds (excluding variable annuities), we estimate that approximately half of mutual funds would still have sufficient volumes for offset printing for annual fulfillment.

[17] We estimated the average cost by assuming that half of funds would offset print at a blended color/black and white cost of $0.08 per Summary Prospectus and half of funds would use digital print on demand at a blended color/black and white rate of $0.26 per Summary Prospectus (*see supra* note 15). The calculation is (.5x$0.08 + .5x$0.26 = $0.17, rounded to the nearest penny). The offset blended color/black and white rate was estimated as 47 percent of the average color offset rate of $0.09 and 53 percent of the average black and white offset rate of $0.07 (.47x$0.09 + .53x$0.07 = $.08, rounded to the nearest penny). The offset print costs include costs for typesetting.

Our print cost estimates are conservative because they do not consider increased costs for funds whose Summary Prospectus information requires more than four pages.[18] We understand that these funds could face print costs that are anywhere from 20 to 50 percent higher because a printing form has to be configured in multiples of four regardless of how many pages are filled with copy (*e.g.*, even if a Summary Prospectus only has copy that fills five pages, the fund pays for eight pages with three of the pages blank).

Printing by Individuals: We commend the Commission for considering the cost to those individuals who would choose to print the statutory prospectus on their own. This cost is difficult to assess because of the uncertainty about which type of shareholders and how many of each group will print the statutory prospectus. Like the Commission, we estimate that a small percentage of new investors will print the statutory prospectus.[19] In contrast to the Commission, we expect that some percentage of existing shareholders will print statutory prospectuses.[20] We assume this will be two percent, the same rate as new shareholders. As shown in Exhibit 6, we estimate that 7.1 million shareholders will print the statutory prospectus at home, somewhat higher than the Commission's estimate of 3.2 million.[21]

Baseline Benefits of the Summary Prospectus

As stated above, the Institute strongly agrees with the Commission that the Summary Prospectus will significantly benefit investors by providing them with a streamlined document that presents key information in a concise, user-friendly format. While this benefit to investors is impossible to quantify, it may manifest itself in a fund's decision to use the Summary Prospectus. Another unquantifiable, but also important, social benefit to the proposal is the positive impact on the environment from a reduction in paper consumption and waste.

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[18] *See supra* note 14.

[19] The Commission estimated that 5 percent of new shareholders would print the statutory prospectus. We would approximate the at-home printing rate by individuals to be no more than 2 percent. This estimate is based on information from Broadridge Financial Solutions; investor requests for written materials under the Commission's notice and access e-proxy model have averaged around 2 percent. While this is not a direct comparison to the propensity to print statutory prospectuses, it may provide an indication of investors' preferences for printed information.

[20] Institute research shows that 12 percent of individuals, while they do not read the prospectus, save it—most likely filing it away for possible future reference. See Investment Company Institute, *Understanding Investor Preferences for Mutual Fund Information* (2006), available at http://www.ici.org/stats/res/rpt_06_inv_prefs_full.pdf, at 9. Presumably, some fraction of existing shareholders will print the statutory prospectus on their own.

[21] We estimate the amount printed by individuals as .02 x (290 million + 64.5 million) = 7.1 million. The Commission's estimate is .05 x 64.5 million = 3.2 million.

The major quantifiable benefit from the Summary Prospectus is the cost savings to funds and their shareholders from no longer printing and mailing statutory prospectuses for annual and post-sale fulfillment. The Commission's estimate of these eliminated costs takes into consideration several factors (shown in Exhibit 7). For the most part, the Institute agrees with the Commission's estimated values of these factors, and our estimate of the eliminated costs ($236 million) is virtually the same as that of the Commission ($243 million).

As noted in more detail following Exhibit 7, our estimates of current printing and mailing costs for statutory prospectuses are consistent with those of the Commission. We expect satisfying investor requests for hard copies of the statutory prospectus to be somewhat more costly than the Commission estimated.

Exhibit 7
Factors Underlying Estimated Eliminated Costs of Statutory Prospectuses

	SEC	ICI
Annual Fulfillment		
Print cost per statutory prospectus	$0.27	$0.26
Mail cost per statutory prospectus	$0.255	$0.255
Number of statutory prospectuses	290 million	290 million
Total savings for annual fulfillment[1]	$152 million	$149 million
Post-Sale Fulfillment		
Print cost per statutory prospectus	$0.35	$0.26
Mail cost per statutory prospectus	$1.21	$1.39
Number of statutory prospectuses	64.5 million	64.5 million
Total savings for post-sale fulfillment[1]	$101 million	$106 million
Hard Copy Investor Requests		
Print cost per statutory prospectus	$0.35	$1.35
Mail cost per request	$1.21	$1.39
Number of requests	6.5 million	7.1 million
Total cost of investor requests[2]	$10 million	$19 million
Estimated Total Eliminated Costs[3]	**$243 million**	**$236 million**

1. Calculated as (print cost + mail cost) x (# of statutory prospectuses).
2. Calculated as (print cost + mail cost) x (# of requests).
3. Sum of total savings for annual and post-sale fulfillment less total cost of investor requests.

Print Cost Per Statutory Prospectus: We believe the Commission's estimate of the average print cost of a statutory prospectus at $0.27 for annual fulfillment is accurate. Based on responses to our survey, the average cost to print a statutory prospectus is $0.26. This estimate reflects print costs for full offset production runs and digital print on demand documents and is somewhat lower than the estimate of $0.35 used by the Commission for post-sale fulfillment. Some small funds currently only use print on demand in the production of their statutory prospectuses because they have insufficient volume for offset printing and other funds may run out of offset print statutory prospectuses and need to print additional ones using print on demand. We used our average cost estimate of $0.27 in the determination of the cost savings for both annual fulfillment and post-sale fulfillment.

Mailing Costs: As noted above, we agree with the Commission that the vast majority of funds mail statutory prospectuses for annual fulfillment at the bulk rate and those for post-sale fulfillment at the first class or equivalent expedited rate. Based on responses to our survey, we estimate the average mailing cost to be $1.39 per post-sale statutory prospectus, modestly higher than the Commission's estimate of $1.21.

Hard Copy Inventory/Investor Requests: The Commission noted in the Proposing Release that funds and/or their intermediaries would likely maintain some level of paper inventory of statutory prospectuses to fulfill any requests from investors for a hard copy within the 3-day deadline. The Commission estimated that approximately 10 percent of investors that make fund purchases would request a hard copy of the statutory prospectus to be mailed to them, resulting in about 6.5 million in hard copy inventory and investor requests. In estimating the printing costs of these statutory prospectuses, the Commission assumed a $0.35 per statutory prospectus charge. We believe this estimate is too low because it largely reflects economies of scale from high volume offset printing that are not realistic even at the level of investor requests the Commission has proposed. The more likely scenario is that investor requests for statutory prospectuses will be met by using print on demand. We estimate the average digital print on demand cost for a statutory prospectus to be $1.35.[22] Also, we expect that, at most, 2 percent (7.1 million) of new and existing shareholders will request a hard copy of the statutory prospectus.[23]

Baseline Net Savings of the Summary Prospectus

The baseline net savings to funds and their shareholders is summarized in Exhibit 8. If all funds were required to adopt the Summary Prospectus, we estimate that they would incur net costs of $47 million in the first year. Our estimate is substantially lower than the Commission's estimate due to our consideration of the initial costs in setting up the Summary Prospectus and our higher estimates of the costs of quarterly updating. After the first year, we estimate industry annual net savings to be only $4 million if every fund were required to use the Summary Prospectus. Again, our estimate of the cost of quarterly updating indicates that annual net savings will be considerably lower than the Commission's estimate of $70 million.

[22] This calculation is based on an average charge of $0.03 per page in black and white print on demand for an average prospectus length of 45 pages that is cited in the Proposing Release ($0.03x45 = $1.35, rounded to the nearest penny).

[23] *See supra* notes 19 and 20.

Exhibit 8

Estimated Baseline Fund Industry Costs, Benefits, and Net Savings of the Summary Prospectus
Millions of dollars

	SEC	ICI
Benefits		
Ongoing eliminated costs (Exhibit 7)	$243	$236
Costs		
Initial internal costs (Exhibit 5)	$0	$51
Ongoing annual internal costs (Exhibit 5)	$33	$66
Ongoing printing/mailing costs (Exhibit 6)[1]	$140	$166
Net Savings		
First year[2]	$70	-$47
Annual thereafter[3]	$70	$4

1. Does not include costs of printing by individuals because this is not considered a fund industry cost.
2. Calculated as (ongoing eliminated costs – initial internal costs – ongoing annual internal costs – ongoing printing/mailing costs).
3. Calculated as (ongoing eliminated costs – ongoing annual internal costs – ongoing printing/mailing costs).

<u>Net Savings When Funds Elect to Use the Summary Prospectus</u>

As noted earlier, the rate at which funds voluntarily elect to use the Summary Prospectus (the opt-in rate) will be heavily influenced by the amount of net savings that funds realize and pass through to their shareholders. Funds with the greatest net savings will be more likely to adopt the Summary Prospectus than those with little or negative net savings.[24]

We believe it is unlikely that the industry opt-in rate for the current proposal, which requires quarterly updating, will be as high as the 75 percent assumed by the Commission in its Proposing Release. Based on our analysis of data provided by respondents to the Institute's survey, we estimate that between 30 and 45 percent of all funds industry-wide would choose to use the Summary Prospectus. We estimated this range for the opt-in rate by carrying out a cost-benefit analysis using a similar approach to that outlined in this study on each complex in our sample.[25] The upper bound of the range included funds that had cumulative positive net

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[24] As also previously noted, funds may seek to use the Summary Prospectus because of the benefits it could offer to investors. These benefits are difficult to quantify, and as such are not reflected in this analysis.

[25] We estimated the net savings of adopting the Summary Prospectus for each complex using its confidential individual responses. In general, we determined that the complex would opt to use the Summary Prospectus if the cumulative net savings from doing so over a period of five years were positive. There were some exceptions to this "rule." If a complex had positive net savings, but noted that it would not use the Summary Prospectus for certain types of funds (*e.g.*, variable annuities, target date funds, or funds in multi-fund prospectuses), we excluded these funds in the calculation of the opt-in rate. If a complex had negative net savings, but noted that they were planning to use the Summary Prospectus, we included these funds in the calculation of the opt-in rate. To estimate the lower bound of the range, we excluded funds based on whether a fund complex indicated that bottlenecking for

savings over a period of five years. The lower bound of the range considered that some funds, despite having cumulative positive net savings, still would not opt to use the Summary Prospectus because of severe bottlenecking at calendar quarter ends.

This individual complex-level analysis revealed several general findings. Large fund complexes with many funds tended to have negative net savings if they opted to use the Summary Prospectus. These fund complexes generally did not experience as significant of savings on a percentage basis of their printing costs because they already have fairly low per copy print costs for their statutory prospectuses because of their large volumes. Also, the internal costs of initially creating and updating the Summary Prospectus quarterly for each of their numerous funds outweighed any savings from lower print costs. Small fund complexes tended to realize on a percentage basis substantial print savings from using the Summary Prospectus. Nonetheless, for more than of half of small fund complexes, the internal costs of the Summary Prospectus more than offset these savings.

In calculating the overall cost savings to the industry, the SEC multiplied their baseline net savings by an assumed 75 percent opt-in rate (Exhibit 9). A literal interpretation of this result is that the Commission could increase net savings for the industry by *requiring* funds to adopt the Summary Prospectus. We believe that the Commission did not intend to imply this result, but rather used a mechanical scaling mechanism to reduce overall net savings for the industry if there were less than a 100 percent opt-in rate.

We believe that the funds most likely to adopt the Summary Prospectus will be those with positive net savings, precluding us from multiplying the Institute's baseline net savings by the endpoints of our estimated range of 30 to 45 percent for the opt-in rate. We estimate that industry net savings for the current proposal will be between \$8 million and \$10 million in the first year and between \$20 million and \$25 million in each year thereafter with only 30 to 45 percent of funds opting to use the Summary Prospectus (Exhibit 9).[26] The complexes with positive net savings would tend to have lower hours for initial set-up of the Summary Prospectus and fewer funds so that the total hours required for quarterly updating would be less burdensome and bottlenecking would be less of an issue.

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quarterly updating would be a significant factor in opting against using the Summary Prospectus. Our estimate of the industry-wide opt-in rate is determined from our sample, which we believe is representative of the industry as a whole.

[26] For non-respondents, we estimated the aggregate number of funds that would adopt the Summary Prospectus by multiplying the expected opt-in rate by the number of non-responding funds within three categories: (1) large complexes with greater than \$100 billion in assets; (2) medium complexes with less than \$100 billion and greater than \$10 billion in assets; and (3) small complexes with less than \$10 billion in assets. We then applied the average net savings per fund from our sample for large, medium, and small fund complexes to the estimate of the number of adopting funds for non-respondents within each size category. Essentially, we assumed that funds at complexes that did not respond would have average net savings per fund similar to those that responded.

Exhibit 9
Estimated Fund Industry Net Savings of Summary Prospectus at Estimated Opt-In Rates
Millions of dollars

	SEC[1]	ICI[2]	
	Opt-In Rate = 75%	Opt-In Rate = 30%	Opt-In Rate = 45%
First year	$53	$10	$8
Annual thereafter	$53	$20	$25

1. Calculated as .75 x net savings for SEC from Exhibit 8.
2. Estimated based on average net savings per fund of complexes with positive net savings from opting to use the Summary Prospectus. For more detailed information, see notes 25 and 26 above.

Requiring or forcing all funds to adopt the Summary Prospectus does not increase or maximize industry net savings. As shown in the Institute's baseline case in Exhibit 8, industry net savings is negative in the first year and significantly smaller for each year thereafter when funds are required to adopt the Summary Prospectus. This result occurs because funds that would not voluntarily adopt the Summary Prospectus would tend to have high initial set-up costs and ongoing compliance costs from quarterly updating, which would outweigh the cost savings from no longer printing and mailing the statutory prospectuses.

<u>Net Savings of Summary Prospectus Without Quarterly Updating Requirement</u>

In our cost-benefit analysis of the individual complexes in our sample, the expense of quarterly updating would prevent many funds from finding it cost-effective to adopt the Summary Prospectus. If the quarterly updating requirement were removed, we estimate that 80 percent of funds would elect to use the Summary Prospectus, up from the 30 to 45 percent range estimated with the quarterly updating requirement.[27] The opt-in rate will not be 100 percent because the elimination of quarterly updating still would not result in positive net savings for some funds and does not address the concerns of fund complexes that offer certain types of funds (*e.g.*, variable annuities, target date funds, or funds in multi-fund prospectuses).

At an 80 percent opt-in rate, the Institute estimates industry net savings of the proposal to be $12 million in the first year (Exhibit 10). This estimate remains below the Commission's estimate of $69 million because we believe funds would bear the initial costs of creating the Summary Prospectus and meeting the technological requirements for linking within and between documents on their websites. For each year thereafter, the Institute estimates that the net savings of adopting the Summary Prospectus would be $43 million—also lower than the

[27] *See supra* note 25.

Commission's estimate of $69 million. Our estimate of the ongoing costs for reviewing, updating, and posting to the web on an annual basis is higher than the Commission's.[28]

Exhibit 10

Estimated Fund Industry Net Savings of Summary Prospectus Without Quarterly Updating
Millions of dollars

	SEC[1]	ICI[2]
	Opt-In Rate = 75%	Opt-In Rate = 80%
First year	$69	$12
Annual thereafter	$69	$43

1. Calculated as .75 x (ongoing eliminated costs – .33 x (ongoing annual internal costs) – ongoing printing/mailing costs) for the SEC from Exhibit 8.
2. Estimated based on average net savings per fund of complexes with positive net savings from opting to use the Summary Prospectus without quarterly updating. For more detailed information, see note 26 above.

[28] In our estimation of the net savings without the quarterly update, we assumed that ongoing internal cost for the Summary Prospectus were equivalent to the cost of one quarterly update.