



1401 H Street, NW, Washington, DC 20005-2148, USA
202/326-5800 www.ici.org

June 1, 2018

Mr. Brent J. Fields
Secretary
US Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-9303

Re: *Proposed Rule on Inline XBRL Filing of Tagged Data* (File Number S7-03-17)

Dear Mr. Fields:

The Investment Company Institute¹ is supplementing its comments² on the SEC's proposal to require the use of Inline eXtensible Business Reporting Language (iXBRL) format for the submission of mutual fund risk/return summaries.³ The proposal would require mutual funds to use iXBRL format to tag risk/return summary information within a filing, replacing the current requirement to file a separate XBRL exhibit with this information. Although the SEC's proposal largely focuses on tagging of operating company financial statement information, our comments focus on the tagging of mutual fund risk/return summary information.

¹ The [Investment Company Institute](http://www.ici.org) (ICI) is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI's members manage total assets of US\$21.8 trillion in the United States, serving more than 100 million US shareholders, and US\$7.6 trillion in assets in other jurisdictions. ICI carries out its international work through [ICI Global](http://www.ici.org/global), with offices in London, Hong Kong, and Washington, DC.

² Letter from Dorothy M. Donohue, Deputy General Counsel, Investment Company Institute, to Brent J. Fields, Secretary, U.S. Securities and Exchange Commission, dated May 16, 2017, *available at* <https://www.sec.gov/comments/s7-03-17/s70317-1754353-151977.pdf>.

³ *Proposed Rule: Inline XBRL Filing of Tagged Data*, SEC Rel. Nos. 33-10323, 34-80133, IC-32518 (Mar. 1, 2017), *available at* <https://www.sec.gov/rules/proposed/2017/33-10323.pdf>. Throughout this letter, we refer to open-end registered investment companies as "funds" or "mutual funds."

While we appreciate the Commission's goal of using technology to improve the availability of fund information for investors,⁴ requiring funds to use iXBRL simply will result in additional expense for fund shareholders without any corresponding benefit. We highlight three key points:

- First, mutual fund tagged data is different from operating company tagged data. The benefits of applying iXBRL tagging to operating company financial statement information do not apply similarly to mutual fund risk/return summary information.
- Second, moving to iXBRL would create both direct and indirect costs for funds, including adding costs associated with mailing shareholder reports.
- Third, the only likely benefit of this proposal is added convenience for third-party information providers—a benefit that does not warrant increased cost to fund shareholders.

I. Mutual Fund Tagged Data Is Different from Operating Company Tagged Data and the Benefits of iXBRL Tagging Do Not Similarly Apply

When the Commission first considered XBRL tagging requirements in 2008, it released separate proposals for mutual funds and operating companies—appropriately recognizing the fundamental differences between mutual funds and operating companies and the need for a unique analysis of each.⁵ As we explain below, the nature and use of XBRL tagged mutual fund information differ significantly from that of operating companies.

The availability of tagged data permits investors to analyze operating company financial statements, for example, to value the company's business and evaluate the share price at which they may be willing to buy or sell. Such an analysis may reveal companies whose shares are undervalued relative to their earnings, cash flows, or assets. This information also can be used to prepare earnings estimates or issue price targets for operating companies. Therefore, the ability to ingest this data in a structured, timely manner is very valuable.

In contrast, mutual fund shares are issued and redeemed at the mark-to-market value of their net assets. The same is true for exchange-traded funds, which generally trade in the secondary market at approximately their NAV. Fund analysts do not prepare "earnings estimates" or issue "price targets" for

⁴ In that regard, we were very pleased to see that the SEC's Spring Regulatory Flexibility Agenda indicated that the staff was considering recommending that the Commission seek comment on enhancing investment company disclosure to improve the investor experience and help investors make more informed investment decisions.

⁵ See *Proposed Rule: Interactive Data For Mutual Fund Risk/Return Summary*, SEC Rel. Nos. 34-57942, 39-2457, IC-28298 (Jun. 10, 2008), available at <https://www.sec.gov/rules/proposed/2008/33-8929.pdf>; see also *Proposed Rule: Interactive Data to Improve Financial Reporting*, 34-57896; 39-2455; IC-28293 (May 30, 2008), available at <https://www.sec.gov/rules/proposed/2008/33-8924.pdf>.

Mr. Brent J. Fields, Secretary

June 1, 2018

Page 3 of 6

funds. For this and other reasons, the Commission appropriately focused the fund XBRL tagging requirements on the prospectus risk/return summary.

The tagged fund performance and expense information data that is available currently and proposed to be made available through iXBRL is historical.⁶ Fund investors and third parties already do, and would continue to be able to, access this performance and expense information from the fund's shareholder report and prospectus, either in print or on the fund's website.⁷ In addition, fund investors can, and do, obtain more up-to-date performance information from fund websites. Our members also provide updated performance data directly via data feeds to many third-party information providers. We also note that funds publish a daily NAV, and we understand that certain third-party information service providers update performance information on a daily basis.⁸ Consequently, we do not see any benefits to fund shareholders (and rather only additional costs) to requiring funds to use iXBRL to tag risk/return summary information.

We also note that the proposal cites the need to improve data quality as a primary justification for the move to iXBRL.⁹ The proposal discusses data quality issues associated with operating company XBRL filings, but we are not aware of, nor has the SEC demonstrated, any data quality issues associated with fund XBRL filings.¹⁰

II. Moving to iXBRL Will Create Costs for Funds

Second, both members who use outside vendors and members who handle their funds' XBRL filings in-house expect that the proposed timing of the iXBRL filings would create both direct and indirect costs for funds.¹¹ For fund complexes that mail the prospectus and shareholder report together, the shorter timeframe for iXBRL review would jeopardize funds' ability to mail the prospectus and

⁶ A fund must update its registration statement within 120 days after the end of its fiscal year. *See* rule 8b-16(a) under the Investment Company Act of 1940. Updated 1, 5, and 10-year average annual total return information and expense ratio data is required to be included in the fund's annual shareholder report. That shareholder report must be delivered to shareholders not more than *60 days* after the end of the fund's fiscal year.

⁷ We realize that existing rules require funds also to tag narrative disclosure around a fund's investment objective and principal strategies and risks. We understand that investors do not use the tagged form of this narrative information. Rather, investors access this information in human-readable form in the context of the prospectus.

⁸ This information includes, for example, year-to-date returns updated daily, and 1, 3, 5, and 10-year average annual total returns updated as of the most recent month end and as of the most recent quarter end.

⁹ *See* iXBRL Proposed Rule, *supra* note 3, at p. 20.

¹⁰ *See* ICI Letter, *supra* note 2, at p. 2.

¹¹ Under the current requirements, funds must submit the XBRL exhibit not later than 15 business days after the effective date of the related filing. The proposal would require funds to file the iXBRL tagged risk/return summary information concurrently with the prospectus, thereby shortening the filing timeframe considerably.

Mr. Brent J. Fields, Secretary

June 1, 2018

Page 4 of 6

shareholder report together.¹² Separating these mailings significantly increases mailing costs for fund shareholders.¹³ Further, at least one large filing vendor believes that the SEC's proposal may have significantly underestimated the cost of implementing iXBRL tagging in the mutual fund context, particularly for smaller registrants.¹⁴

Moving to iXBRL has different cost implications for funds than operating companies because of the differences in the corporate structure and applicable regulatory framework. Fund managers typically manage multiple funds. A large mutual fund complex with hundreds of funds may file dozens of registration statement updates each month, each with accompanying XBRL tagged information. Managing the filing process for hundreds of funds with different fiscal years is a complex and time-consuming undertaking around which our members have built their current workflow, policies, and procedures. Changes to this filing process reverberate throughout a fund complex's internal audit and compliance processes. Moving to iXBRL would require funds to shift the review and approval process from post-filing to pre-filing, thereby eliminating time to work through any technical difficulties and perform quality control checks.¹⁵ Although funds do not currently experience issues with tagged data quality, this process shift from post-filing to pre-filing would compress the existing workflow and could diminish the quality of XBRL tagging.

As a larger point, mutual funds also have a greater regulatory filing burden than operating companies.¹⁶ A typical operating company files a Form 10-K, three Form 10-Qs, and a proxy statement every year. A typical mutual fund files semi-annual shareholder reports and quarterly holdings. In addition, it files an annual updated registration statement, reports on Form N-SAR (soon to be

¹² See Letter from Peter J. Germain, General Counsel, Federated Investors, Inc., to Brent J. Fields, Secretary, U.S. Securities and Exchange Commission, dated May 16, 2017, available at <https://www.sec.gov/comments/s7-03-17/s70317-1756850-152052.pdf>.

¹³ See, e.g., Letter from Peter J. Germain, General Counsel, Federated Investors, Inc., to Brent J. Fields, Secretary, U.S. Securities and Exchange Commission, dated June 1, 2018 (estimating additional mailing costs of approximately \$1.5 million per year).

¹⁴ Letter from U.S. Bancorp Fund Services, LLC, to Brent J. Fields, Secretary, U.S. Securities and Exchange Commission, dated May 16, 2017, available at <https://www.sec.gov/comments/s7-03-17/s70317-1754130-151972.pdf>, at pgs. 2-3 (“USBFS believes that the assumptions on which the Commission has relied in determining the costs to mutual funds of implementing the Proposed Rule may have resulted in the Commission significantly underestimating the costs to mutual funds, particularly smaller registrants, of complying with the Proposed Rule. . . We believe that the Commission may have significantly underestimated the proportion of mutual funds and their vendors that will incur very significant costs and burdens to implement the Proposed Rule.”).

¹⁵ Eliminating the 15-day period would cause this shift. As an alternative solution, shortening the 15-day timeframe to 7 days would preserve a window of time for funds to complete the data tagging process while also addressing the SEC's interest in shrinking the time between a fund's initial EDGAR filing and filing the XBRL tagged exhibit.

¹⁶ For example, Federated Investors' mutual fund complex submitted approximately 1,291 fund filings (not including 336 XBRL filings) in calendar year 2017. By contrast, Federated Investors, Inc., as a public company, submits approximately 15 SEC filings per year. See Federated Letter 2018, *supra* note 12, at fn. 3.

replaced by Form N-CEN), annual proxy voting reports, and, in the future, monthly reports on Form N-PORT.¹⁷ As such, funds have a complex and robust framework of policies and procedures in place to ensure funds meet their regulatory reporting obligations under the federal securities laws.

III. Benefit to Third-Party Information Providers Does Not Warrant Increased Cost to Fund Shareholders

The SEC's proposal outlines several benefits it expects iXBRL to generate—none of which apply to mutual funds. In summary, the use of iXBRL will not:

- improve the quality of tagged fund data;
- reduce the time and effort associated with preparing XBRL filings;
- simplify the review process for filers; or
- lower funds' filing costs over time by decreasing preparation costs.¹⁸

We have been able to discern only one possible benefit of this proposal: increased convenience for third-party information providers because they would no longer have to extract performance and expense information from fund HTML filings.¹⁹ While iXBRL would provide earlier access to the structured version of this data, the iXBRL tagging will not improve the timeliness of the performance information itself.²⁰ Third-party information providers are therefore likely to continue to receive more timely performance information through direct feeds from our members and/or from funds' websites.²¹ In addition, the information will remain available as it is today, in HTML format (which is now readily accessed by third-party information providers).

As to the other piece of tagged financial information—the fund expense ratio—although a fund's annual registration statement update contains an updated fund expense ratio, this information tends to change minimally from year to year and is not time-sensitive in the manner of operating company financial information. Rather than tagging this data in XBRL or iXBRL, the Commission

¹⁷ Money market funds already file monthly holdings on Form N-MFP.

¹⁸ See also ICI Letter, *supra* note 2, pgs. 2-3 (further explaining negative implications of requiring funds to use iXBRL).

¹⁹ See Letter from Aron Szapiro, Director of Policy Research, et al., Morningstar, Inc., to Brent J. Fields, Secretary, U.S. Securities and Exchange Commission, dated May 16, 2017, available at <https://www.sec.gov/comments/s7-03-17/s70317-1754317-151974.pdf>, at p. 2. ("Currently, we use the HTML filings rather than the XBRL filings . . ."). We understand that many third-party information providers use software that "reads" the initial HTML filing of a fund's registration statement.

²⁰ See *supra* note 6 and accompanying discussion.

²¹ We also note the Form N-PORT will require funds to provide monthly total returns for each of the preceding three months, and the total returns for the third month will be made publicly available. See Form N-PORT, Item B.5.a.

Mr. Brent J. Fields, Secretary

June 1, 2018

Page 6 of 6

should consider including expense information as an item in Form N-CEN.²² If this is not administratively feasible in the near-term, the Commission should address this item as part of its initiative to revamp fund disclosure more broadly.²³

* * *

We appreciate the opportunity to supplement our comments on the proposed rules. If you have any questions regarding our comments or would like additional information, please contact Dorothy Donohue at (202) 218-3563 or ddonohue@ici.org, or Linda French at (202) 326-5845 or linda.french@ici.org.

Sincerely,

/s/Susan M. Olson

Susan M. Olson
General Counsel

cc: William H. Hinman, Director, Division of Corporation Finance
Dalia O. Blass, Director, Division of Investment Management
US Securities and Exchange Commission

²² Specifically, the Commission could include in Form N-CEN the expense ratio that is a part of the condensed financial information included in a fund's annual shareholder report. *See* Form N-1A, Item 27(b)(2). *See* ICI Letter, *supra* note 2, at p. 5.

²³ *See* discussion in note 4.