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April 2, 2012

Ronald W. Smith, Corporate Secretary  
Municipal Securities Rulemaking Board  
1900 Duke Street, Suite 600  
Alexandria, VA 22314

Re: MSRB Notice 2012-10, Electronic  
Dissemination of 529 Plan  
Disclosure Documents

Dear Mr. Smith:

The Investment Company Institute<sup>1</sup> appreciates the opportunity to comment on the proposal of the Municipal Securities Rulemaking Board (“MSRB”) regarding electronic dissemination of 529 college savings plan (“529 plan”) disclosure documents.<sup>2</sup> The Concept Proposal also seeks comment on whether 529 plan customers would benefit from a summary disclosure document, similar to the summary prospectus used by mutual funds. The Institute strongly supports permitting brokers, dealers, and municipal securities dealers (collectively referred to in this letter as “municipal securities dealers”) to satisfy their disclosure delivery obligations under MSRB Rule G-32 by notifying investors how they may access their 529 plan official statements electronically.<sup>3</sup> We also would be pleased to work with other stakeholders in further exploring the feasibility of developing a summary 529 plan disclosure document. Each of these issues is discussed in more detail below.

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<sup>1</sup> The Investment Company Institute is the national association of U.S. investment companies, including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. Members of ICI manage total assets of \$13.3 trillion and serve over 90 million shareholders.

<sup>2</sup> See *MSRB Requests Comment on a Concept Proposal for Electronic Dissemination of 529 College Savings Plan Disclosure Documents*, MSRB Notice 2012-10 (March 1, 2012) (the “Concept Proposal”).

<sup>3</sup> We note that, because the MSRB’s jurisdiction is limited to municipal securities dealers and does not extend to issuers of 529 plan securities, interests in 529 plans that are currently sold without reliance on a municipal securities dealer are not subject to Rule G-32.

## **I. ELECTRONIC DISSEMINATION OF A 529 PLAN DISCLOSURE DOCUMENT**

The Institute has long supported increased use of electronic media to satisfy regulatory disclosure delivery obligations. For example, when the MSRB first considered an “access equals delivery” model in 2006, the Institute filed a comment letter noting that the Institute “strongly supports increased reliance on electronic disclosure for mutual funds, as well as 529 plans and other municipal fund securities.”<sup>4</sup> Consequently, we were disappointed that the MSRB excluded municipal fund securities when it revised Rule G-32 in 2009 to permit municipal securities dealers to satisfy their delivery obligations through electronic delivery of official statements for all other municipal securities. Last year, when the MSRB sought comment on whether Rule G-32 should be revised to remove the exception for municipal fund securities, the Institute filed a comment letter expressing our strong support for doing so.<sup>5</sup> We are pleased, therefore, that the MSRB has issued a Concept Proposal on this issue.

In connection with its current initiative, the MSRB is seeking detailed information on (1) 529 plan customers’ use of the Internet and (2) the benefits that may flow to such customers if the MSRB permits electronic dissemination of 529 plan disclosures.<sup>6</sup> Our comments on each of these issues follows.

### **A. Institute Research**

The Institute appreciates the opportunity to share with the MSRB our data on households saving for college and investors’ use of the Internet, which we believe strongly support moving to an approach under Rule G-32 that permits municipal securities dealers to satisfy their official statement delivery obligations for 529 plans by directing customers to an electronic version of the document (and offering to provide a hard copy upon request).

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<sup>4</sup> See Letter from Elizabeth Krentzman, General Counsel, ICI, to Mr. Ernesto A. Lanza, Senior Associate General Counsel, MSRB, dated September 14, 2006, at p. 3. The Institute’s letter was filed in response to MSRB Notice 2006-19 (July 27, 2006), seeking comment on application of an “access equals delivery” standard to official statement dissemination for new issue municipal securities.

<sup>5</sup> See Letter from Tamara K. Salmon, Senior Associate Counsel, to Ronald W. Smith, Corporate Secretary, MSRB, dated August 31, 2011 at pp. 6-7.

<sup>6</sup> The Concept Proposal also seeks information on the “requisite sophistication” of 529 plan investors to access and review plan disclosure documents online. We are not aware of any data specifically addressing this issue. We note, however, that the ICI data depicted in the chart on page 3 of this letter indicates that the vast majority of households saving for college (84%) pursued education beyond high school.

## 1. Households Saving For College

The following chart reflects data we have collected on households that are saving for college.<sup>7</sup> It shows that the majority of these households has income of \$75,000 or more and is headed by someone who is between ages 35-54 and has education beyond high school.

FIGURE 7.24  
**Characteristics of Households Saving for College**  
*Percentage of U.S. households saving for college,<sup>1</sup> May 2010*

<b>Age of head of household<sup>2</sup></b>	
Younger than 35	26
35 to 44	31
45 to 54	23
55 to 64	9
65 or older	11
<b>Education level of head of household<sup>2</sup></b>	
High school graduate or less	16
Associate's degree or some college	33
Completed college	23
Some graduate school or completed graduate school	28
<b>Household income<sup>3</sup></b>	
Less than \$25,000	6
\$25,000 to \$34,999	6
\$35,000 to \$49,999	10
\$50,000 to \$74,999	18
\$75,000 to \$99,999	18
\$100,000 or more	42
<b>Number of children in home<sup>4</sup></b>	
None	31
One	24
Two	29
Three or more	16

<sup>1</sup> Households saving for college are households that own education savings plans (Coverdell ESAs or 529 plans) or responded that paying for education was one of their financial goals for their mutual funds.  
<sup>2</sup> Head of household is the sole or co-decisionmaker for saving and investing.  
<sup>3</sup> Total reported is household income before taxes in 2009.  
<sup>4</sup> The number of children reported is children younger than 18 living in the home.

<sup>7</sup> See 2011 Investment Company Fact Book (51<sup>st</sup> edition) ("Fact Book") at Figure 7.24, p. 123. The Fact Book is available on the ICI's website at: [www.ici.org/pdf/2011\\_factbook.pdf](http://www.ici.org/pdf/2011_factbook.pdf). As the chart indicates, these data are not limited to households saving for college through 529 plans but instead include those saving for education through 529 plans, Coverdell Education Savings Accounts ("ESAs"), and mutual funds held outside of 529 plans or Coverdell ESAs.

## 2. Internet Usage

The Institute's data concerning Internet usage by mutual fund investors may be instructive to the MSRB as it considers the issues raised in its Concept Proposal. Our most current research on this topic is attached and summarized below.<sup>8</sup>

### a. Households with Internet Access

According to ICI research, the vast majority of households owning mutual funds (91%) have Internet access.<sup>9</sup> This number has grown significantly since 2000, when only 68% of mutual fund-owning households had such access. Importantly for the MSRB's current proposal, Internet access among mutual fund-owning households is nearly universal without regard to the respondent's age, education level, or household income.<sup>10</sup> Our data further indicate that overall, of those households saving for college, 93% have internet access.<sup>11</sup> Internet access among those households saving for college is similar to that of all mutual fund-owning households regardless of the respondent's age, education level, or household income.

### b. Frequency of Internet Access

With respect to the frequency of Internet access, our research shows that a majority of households saving for college of all ages, education levels, and household income levels with Internet access use the Internet on a daily basis.<sup>12</sup> Overall, 85% of households saving for college with Internet

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<sup>8</sup> See Bogdan, Michael, Sarah Holden, and Daniel Schrass, *Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2011*, ICI Research Perspective, Vol. 17, No. 5, Oct. 2011 ("Perspective"), which is available at [www.ici.org/pdf/per17-05.pdf](http://www.ici.org/pdf/per17-05.pdf). See also Peter P. Swire and Kenesa Ahmad, *Delivering ERISA Disclosure for Defined Contribution Plans: Why the Time Has Come to Prefer Electronic Delivery* (2011), which is available on the Department of Labor's ("DOL") website at <http://www.dol.gov/ebsa/pdf/1210-AB50-074.pdf>. This paper, which may be of interest to the MSRB as it considers the appropriateness of Internet delivery of 529 plan official statements, was submitted by the Institute to the DOL for consideration as the DOL contemplates permitting electronic delivery of ERISA documents to retirement plan participants.

<sup>9</sup> See *Perspective* at Figure 18.

<sup>10</sup> See *Perspective* at Figure 19.

<sup>11</sup> These statistics come from the Institute's Annual Mutual Fund Shareholder Tracking Survey, which surveys about 4,200 U.S. households about their ownership of financial assets and Internet activities. Households saving for college are households that own education savings plans (Coverdell ESAs or 529 plans) or responded that paying for education was one of their financial goals for their mutual funds. For more information about the Institute's Annual Mutual Fund Shareholder Tracking Survey, see *Perspective*.

<sup>12</sup> See *Perspective* at Figures 20 and 21.

access use the Internet at least daily, compared to 79% of all households owning mutual funds with Internet access.<sup>13</sup>

### **c. Households' Use of the Internet for Financial Purposes**

Among mutual-fund owning households with Internet access, our research indicates that the Internet is widely used for financial purposes regardless of the respondent's age, education level, or household income.<sup>14</sup> These purposes include accessing financial accounts, obtaining investment information, and buying or selling investments. The same is true of households saving for college. Among those with Internet access, 74% of households saving for college utilize the Internet for financial purposes.

## **3. Investors' Widespread Acceptance of the Internet**

We believe our data provide ample evidence that investors of all ages and education and income levels are comfortable utilizing online resources, and that many, if not most, municipal securities dealers' customers would welcome the ability to access electronically 529 plan official statements. To accommodate any customer who is unable to or does not want to access 529 plan official statements in this manner, we support requiring municipal securities dealers to make available to their customers upon request a hard copy of the official statement. This would be consistent with how Rule G-32 currently operates for delivery of official statements of municipal securities.

### **B. Benefits of Electronic Access**

The Concept Proposal seeks information on the benefits of electronic access. Permitting municipal securities dealers to satisfy disclosure delivery obligations by providing electronic access to the official statement for a 529 plan has several benefits. For example, it will enable municipal securities dealers' customers to review the information as and when the customer wants to.<sup>15</sup> It will also facilitate those customers' ready access – via search functions within the online version of the document – to the information of greatest interest to them without having to flip through pages of a lengthy hard copy

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<sup>13</sup> See *Perspective* at Figure 20. The percentages of daily use among households saving for college with Internet access range from 58%-97% based on age; 68%-90% based on education level; and 73%-90% based on household income. The corresponding percentages for households owning mutual funds are: 66%-94% based on age; 61%-87% based on education level; and 67%-89% based on household income. See *Perspective* at Figure 21.

<sup>14</sup> See *Perspective* at Figures 22 and 23.

<sup>15</sup> Under Rule G-32(d)(iii), disclosures made available in electronic format must be configured to permit the document to be saved, viewed, printed, and retransmitted by electronic means. The rule also requires that files submitted to the MSRB's Electronic Municipal Market Access System ("EMMA") on or after January 1, 2010 be "word searchable."

document.<sup>16</sup> Moreover, a shift to electronic media for delivery of 529 plan official statements may have a substantial impact on its quality. For example, electronic presentations are amenable to features such as keyword searches and linking, which are not possible with hard copy documents.

Permitting the use of the Internet for delivery of plan disclosure documents will also benefit 529 plans through cost savings. It should substantially reduce the need for printing, binding, and mailing hard copy documents.<sup>17</sup> In doing so, it also should reduce the volume of paper wasted by sending hard copies to all municipal securities dealers' customers.

### **C. Support for Electronic Delivery**

Revising Rule G-32 to permit municipal securities dealers to provide their customers a notice of the availability of 529 plan official statements on the Internet rather than delivering a hard copy of the official statement will be in the best interest of those customers who prefer to access information, including financial information, electronically. Moreover, by preserving the ability of those customers who are not interested in using the Internet to access the official statement to receive a hard copy of the disclosure upon request, there should be no adverse impact to any customer if the MSRB revises Rule G-32.

Accordingly, we strongly recommend that the MSRB revise Rule G-32 to enable municipal securities dealers to satisfy their municipal fund securities disclosure requirements by (1) directing their customers to an electronic version of 529 plan official statements and (2) agreeing to provide a hard copy of such document to any customer who requests it. We note that, for municipal security offerings, Rule G-32 currently requires that customers be provided access to official statements via the MSRB's EMMA. We strongly recommend that Rule G-32 enable municipal securities dealers to satisfy the disclosure requirements by directing customers to sites other than EMMA (*e.g.*, through a municipal securities dealer's website) where the official statement is available, even if it also is filed with and available through EMMA.<sup>18</sup> This may provide customers of municipal securities dealers additional information that could assist them in making a 529 plan investment decision – *e.g.*, through links to interactive investment tools or by making the disclosure available on a website that also provides such tools or other resources for investors.

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<sup>16</sup> According to the Concept Proposal, these documents are "typically 50-70 pages in length."

<sup>17</sup> It will also enable municipal securities dealers to print hard copies of the document on demand when requested by an customer rather than having to stockpile copies of the document, which may become stale.

<sup>18</sup> This concept is akin to the use of a "qualified portal" for municipal securities offerings. Unlike municipal security offerings, however, municipal fund securities do not have "primary offering" periods so the current definition of "qualified portal" may need to be adjusted to accommodate municipal fund security offerings. We recommend the use of other Internet "portals" in addition to EMMA to deliver these documents because it would facilitate investors' ability to take full advantage of the Internet's capabilities as a resource and information tool.

We further recommend that the MSRB enable 529 plan customers to obtain electronically any periodic updates to 529 plan disclosure documents that municipal securities dealers are required to provide pursuant to Rule G-32(a)(iv). In particular, municipal securities dealers could direct existing customers, via an account statement or other document, to where such updates may be accessed and offer to provide a hard copy of the updated document upon request.

## II. A SUMMARY 529 PLAN DISCLOSURE DOCUMENT

The Institute welcomes the MSRB's interest in the possibility of streamlining official statements for municipal fund securities.<sup>19</sup> As noted in the Concept Proposal, 529 plan disclosure documents typically run 50-70 pages. The very complex nature of these products, their tax consequences, and the variety of investment options offered by plans cause these documents to be lengthy<sup>20</sup> and may explain why many 529 plan customers utilize the services of financial professionals when making investment decisions.

For many years the Securities and Exchange Commission ("SEC") and the mutual fund industry grappled with similar issues as they engaged in repeated efforts to make mutual fund prospectuses more user friendly. These efforts were the result of a recognition by investor advocates, the mutual fund industry, the SEC, and others that fund prospectuses were long and complicated and often proved difficult for investors to use in selecting among thousands of mutual funds.<sup>21</sup> The unwieldy and intimidating nature of mutual fund prospectuses, coupled with research indicating that investors prefer to receive information in concise, user-friendly formats, ultimately resulted in the Commission permitting mutual funds to utilize a summary prospectus to fulfill their prospectus delivery requirements under the Securities Act of 1933.<sup>22</sup>

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<sup>19</sup> The College Savings Plan Network ("CSPN") should be commended for the "Disclosure Principles" it has adopted and continues to revise as necessary. These Disclosure Principles provide state 529 plans a template for their disclosure in order to ensure some uniformity in the contents and format of these voluminous disclosure documents. A copy of the latest version of the Disclosure Principles is available at:

<http://www.collegesavings.org/includes/pdfs/CSPN%20Disclosure%20Principles%20Statement%20No%20%205.pdf>.

<sup>20</sup> The longer and more complex these documents are, the less likely it is that investors will read them.

<sup>21</sup> See *Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Investment Companies*, SEC Release Nos. 33-8861 and IC-28064 (November 21, 2007) at p. 6.

<sup>22</sup> The ICI strongly supported the mutual fund summary prospectus, including the SEC's approach of providing the mutual fund summary prospectus to investors in paper unless the investor opted for electronic delivery. At the time we noted that, over time, we expected investors to become accustomed to seeking investment information on the Internet and recommended that the SEC revisit whether provision of information solely on the Internet may be sufficient. See Letter from Karrie McMillan, General Counsel, Investment Company Institute, to Ms. Nancy M. Morris, Secretary, U.S. Securities and Exchange Commission, dated February 28, 2008, at n. 3. With over 90% of mutual fund-owning households having access to the Internet, and 84% of those with access reporting that they go online for financial purposes, we believe

Like mutual fund investors, customers who purchase a 529 plan from a municipal securities dealers potentially could benefit from a summary disclosure document. Accordingly, we would be pleased to work with the MSRB, CSPN, industry representatives, and other stakeholders to consider such an initiative. Unlike mutual funds, which have relatively consistent basic structures and features from fund to fund and a limited, ascertainable universe of key information, the structures and features of 529 plans may differ significantly from plan to plan and from state to state. Additionally, some features, such as the tax consequences or investment options, may warrant a discussion that is more fulsome than summary. This might lead to the conclusion that official statements for 529 plans do not lend themselves well to a standardized and concise summary presentation. Nevertheless, it may be worthwhile to explore the feasibility of a summary disclosure document for 529 plans.

Based on our experience of working on initiatives to reform mutual fund prospectus disclosure and develop a summary disclosure document, we recognize that thorough consideration of the many issues involved is likely to take a significant amount of time and effort. For this reason, we encourage the MSRB to proceed with permitting municipal securities dealers to satisfy their delivery obligations by providing customers with a notice indicating how they may access an electronic version of the 529 plan official statement while allowing the appropriate stakeholders to explore the possibility of developing a simplified disclosure document.



The Institute commends the MSRB for pursuing these initiatives to modernize and improve 529 plan disclosures. If you have any questions concerning our comments or if we can be of further assistance to the MSRB in this process, please do not hesitate to let us know. I may be reached by phone at 202-326-5825.

Sincerely,

/s/

Tamara K. Salmon

Senior Associate Counsel