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Mutual funds

Plain talk proposed

[Tim Paradis](#)

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NEW YORK – The disclosure statements that come with mutual funds can seem so impenetrable that many investors don't bother slogging through them and instead toss them aside.

A proposal by regulators to change disclosure rules would likely mean fund companies could scrape away much of the pedantic boilerplate text they currently have and leave behind a plain-language summary designed to make it easier for investors to comparison shop. The changes, resulting in more svelte statements than the current thick-as-a-book brochures, could even lower expenses, which eat into returns.

The SEC voted unanimously earlier this month to propose the rule changes, which will be subject to a 90-day comment period.

"It's very disheartening to produce hundreds of millions of documents that we know end up in the trash," said Heidi Stam, managing director and general counsel at The Vanguard Group.

If rules change as outlined in preliminary comments by the Securities and Exchange Commission, thinner disclosure booklets would serve as alternatives to the current unabridged statements. Those who don't want the diet version would still be able to get the full set of disclosures, in print or online.

Vanguard estimates not having to print and mail as many full-size disclosure statements would lead to savings in the millions of dollars. About 80 percent of its customers already go online to get information from Vanguard.

Laura Pavlenko Lutton, senior mutual fund analyst at investment research provider Morningstar Inc., hopes the simplified disclosures will reveal more information about a fund's strategy as well as the background of a fund manager.

"I think right now if you look at the fund's disclosure on strategy it's pretty vague," Lutton said. "There's no reason why they couldn't be providing this kind of content to their customers already but most don't do that."

This is the kind of fund language that might be made simpler: "A fund could be adversely affected by delays in, or refusal to grant, any required governmental approval for repatriation of capital, as well as by the application to the fund of any restrictions on investments."

Distilling fund data to bold-faced facts shouldn't deprive investors of key information, Lutton said.

"I think there is some real opportunity to have some frank, open discussions about how funds are managed. The concern would be that the word 'shorter' turns into 'less disclosure' which we would never advocate for," she said.

The SEC wants fund shops to make broader use of the Web so investors can manipulate fund data into charts and formats better suited for comparison. SEC Chairman Christopher Cox also contends many investors don't get a "clear and concise" description of a fund's investment objectives, strategies, fees, risks or performance.

"There's no summary document written in plain English so that investors don't have to dig through pages of legalese for the key information that they need," Cox said at a recent SEC meeting.