



441 G St. N.W.
Washington, DC 20548

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December 9, 2022

The Honorable Sherrod Brown
Chairman
The Honorable Patrick J. Toomey
Ranking Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Maxine Waters
Chairwoman
The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
House of Representatives

Subject: *Securities and Exchange Commission: Tailored Shareholder Reports for Mutual Funds and Exchange-Traded Funds; Fee Information in Investment Company Advertisements*

Pursuant to section 801(a)(2)(A) of title 5, United States Code, this is our report on a major rule promulgated by the Securities and Exchange Commission (SEC) entitled "Tailored Shareholder Reports for Mutual Funds and Exchange-Traded Funds; Fee Information in Investment Company Advertisements" (RIN: 3235-AM52). We received the rule on October 27, 2022. It was published in the *Federal Register* as a final rule on November 25, 2022. 87 Fed. Reg. 72758. The effective date is January 24, 2023.

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

Enclosed is our assessment of SEC's compliance with the procedural steps required by section 801(a)(1)(B)(i) through (iv) of title 5 with respect to the rule. If you have any questions about this report or wish to contact GAO officials responsible for the evaluation work relating to the subject matter of the rule, please contact Shari Brewster, Assistant General Counsel, at (202) 512-6398.

A handwritten signature in black ink, reading "Shirley A. Jones". The signature is written in a cursive, flowing style.

Shirley A. Jones
Managing Associate General Counsel

Enclosure

cc: Vanessa A. Countryman
Secretary
Securities and Exchange Commission

REPORT UNDER 5 U.S.C. § 801(a)(2)(A) ON A MAJOR RULE
ISSUED BY THE
SECURITIES AND EXCHANGE COMMISSION
ENTITLED
“TAILORED SHAREHOLDER REPORTS FOR MUTUAL FUNDS
AND EXCHANGE-TRADED FUNDS; FEE INFORMATION
IN INVESTMENT COMPANY ADVERTISEMENTS”
(RIN: 3235-AM52)

(i) Cost-benefit analysis

The Securities and Exchange Commission (SEC) conducted an economic analysis of this final rule. In regard to the costs of the rule, SEC expressed that it expects funds and fund shareholders to incur transition costs of adapting to the new approach to funds' shareholder reports. SEC also noted that some shareholders could incur ongoing costs due to a mismatch between their preferences and the design of the rule, particularly shareholders who prefer to receive the baseline disclosure as opposed to the more concise and tailored disclosure they will receive under the final rule. SEC commented that these shareholders may experience costs associated with locating additional information online or requesting delivery of materials they will no longer automatically receive. SEC also stated that it expects costs to arise from implementing the rule. In addition to these costs, SEC stated that the advertising rule amendments of the final rule impose costs such as the cost to some investors who experience the loss of information about fees and expenses and the compliance costs incurred by investment companies and third parties who are involved in preparing or disseminating investment company advertisements.

In regard to benefits of the rule, SEC indicated that the rule will provide fund shareholders with more concise and more readily usable disclosures that are consistent across funds and that highlight information that is key to retail shareholders for the purpose of monitoring fund investments and informing portfolio decisions, while providing layered access to other information that shareholders now receive that may be of more relevance to market professionals and some fund shareholders. Additionally, SEC declared that the rule will enhance the transparency of the fees and expenses that are associated with investing in a particular investment company. Lastly, SEC stated that because the rule requires standardized fee and expense figures, the rule will benefit investors by providing more consistent fee and expense presentations across investment company advertisements relative to the baseline and thereby facilitate investor comparisons of those fee and expense figures across advertisements.

(ii) Agency actions relevant to the Regulatory Flexibility Act (RFA), 5 U.S.C. §§ 603–605, 607, and 609

SEC prepared a Final Regulatory Flexibility Analysis. According to SEC, the analysis discusses the final amendments to funds' annual and semi-annual report requirements, new Form N-CSR requirements and new website availability requirements, the final investment company advertising rule amendments, the final amendments to require that funds tag their shareholder reports in Inline eXtensible Business Reporting Language, and the final technical and conforming amendments. The analysis as prepared by SEC includes statements discussing

(1) the need for and objectives of the rule and form amendments; (2) significant issues raised by public comments; (3) small entities subject to the rule; (4) projected reporting, recordkeeping, and other compliance requirements; and (5) agency action to minimize effect on small entities.

(iii) Agency actions relevant to sections 202–205 of the Unfunded Mandates Reform Act of 1995, 2 U.S.C. §§ 1532–1535

As an independent regulatory agency, SEC is not subject to the requirements of the Act.

(iv) Other relevant information or requirements under acts and executive orders

Administrative Procedure Act, 5 U.S.C. §§ 551 *et seq.*

On November 5, 2020, SEC published a proposed rule. 85 Fed. Reg. 70716. In this final rule, SEC indicated that it received comments on the proposed rule from a variety of commenters, including funds and investment advisers, law firms, other fund service providers, investor advocacy groups, professional and trade associations, and interested individuals. SEC responded to comments in the final rule.

Paperwork Reduction Act (PRA), 44 U.S.C. §§ 3501–3520

SEC determined that this final rule contains information collection requirements under the PRA. SEC submitted proposed collections of information to the Office of Management and Budget (OMB) for review in accordance with the PRA. According to SEC, the titles for the existing collections of information are: (1) “Rule 30e-1 under the Investment Company Act, Reports to Stockholders of Management Companies” (OMB Control No. 3235-0025); (2) “Form N-CSR, Certified Shareholder Report under the Exchange Act and under the Investment Company Act for Registered Management Investment Companies” (OMB Control No. 3235-0570); (3) “Rule 482 under the Securities Act of 1933 Advertising by an Investment Company as Satisfying Requirements of Section 10” (OMB Control No. 3235-0565); (4) “Rule 34b-1 under the Investment Company Act, Sales Literature Deemed to be Misleading” (OMB Control No. 3235-0346); (5) “Rule 433 under the Securities Act of 1933” (OMB Control No. 3235-0617); (6) “Rule 30e-3 under the Investment Company Act, Internet Availability of Reports to Shareholders” (OMB Control No. 3235-0758); and (7) “Investment Company Interactive Data” (OMB Control No. 3235-0642). SEC estimated the burden of each information collection requirement.

Statutory authorization for the rule

SEC promulgated this final rule pursuant to various sections of title 15; section 1350 of title 18; and sections 3506 and 3507 of title 44, United States Code; as well as Public Laws 111-203, 112-106, and 114-94.

Executive Order No. 12866 (Regulatory Planning and Review)

As an independent regulatory agency, SEC is not subject to the Order.

Executive Order No. 13132 (Federalism)

As an independent regulatory agency, SEC is not subject to the Order.