

Fund Democracy  
Consumer Federation of America

June 2, 2006

BY EMAIL AND US MAIL

The Honorable Christopher Cox  
Chairman  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549-9303

Dear Chairman Cox,

We write to express our support for your efforts to find ways to use the Internet to enhance mutual fund disclosures. We agree that standardized coding of mutual fund information has the potential to provide substantial assistance to investors in making fully informed investment decisions.

As you may know, in 2000 we and twelve other groups petitioned the Commission to adopt rules requiring mutual funds to post their portfolio holdings on “a free Internet site in XML or other easily manipulable language, and attach to each holding the security’s ticker symbol, cusip number and security industry code.”<sup>1</sup> We therefore are particularly gratified that the Commission is considering such an approach for purposes of all fund disclosure.

We believe that electronically formatted fund disclosure is, in many cases, essential for the disclosure to have its desired effect. For example, some years ago the Commission required that funds disclose their directors’ investments in the funds. We received many calls from the financial press indicating that they would like to write about directors’ holdings but found it extremely difficult and time-consuming to find the information on Edgar. Some stories have since been written about this issue, but we believe it would be more effective disclosure if the information were coded in a standardized format such that it could be easily downloaded for a select group of funds.<sup>2</sup>

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<sup>1</sup> Letter from Mercer Bullard, President and Founder, Fund Democracy to Jonathan Katz, Secretary, SEC (June 28, 2000); *see also* Letter from Barbara Roper, Consumer Federation of America, *et al.* to Jonathan Katz, Secretary, SEC (August 9, 2000).

<sup>2</sup> We also note that the SEC’s General Counsel, Brian Cartwright, recently observed that intermediaries such as mutual funds own a high percentage of stocks and asked whether it was “time to begin examining in turn the governance of [intermediaries such as mutual funds] and questioning whether they are sufficiently faithful to the interests of [shareholders].” We recommended in 2002 that the Commission

As this illustration suggests, the most efficient vehicle for dissemination of fund disclosure is often third parties, such as the financial press and third-party information providers such as Morningstar, Inc.

We also encourage the Commission to develop the means of providing for comparability across different funds for particular information categories. The significance of much, if not most, fund disclosure is relative in the sense that one fund's disclosure is meaningful only when it can be considered in the context of other funds' disclosure of the same information. For example, an expense ratio standing alone tells an investor little, but the same expense ratio standing beside the expense ratios of comparable funds provides the information in a more useful format. Simply providing data and information points in a standardized format will not alone provide investors with sufficient context to understand the information. We encourage the Commission to consider providing mechanisms whereby users can easily conduct comparative analyses of the coded material.

Furthermore, we hope that the Commission will consider facilitating more than mere information collection and aggregation. The utility of fund disclosure in some cases depends on the ability to apply basic analytical functions. For example, the Commission has yet to resolve the issue of disclosure of fund portfolio transaction costs, which are currently disclosed only in dollar amounts in the Statement of Additional Information. This information is generally useable to investors only when converted to a percentage of assets that can be added to the expense ratio to provide a more complete picture of fund expenses. As long as the Commission continues to decline to require the disclosure of fund commissions as a percentage of assets, it should ensure that its current initiative will include permitting investors and third parties to easily calculate that amount themselves. Another possibility would be providing the ability to automatically compare a fund's investment performance to a benchmark selected by the investor or third party. The Commission currently permits, for example, an Internet fund to use the S&P 500 index as its benchmark, when a standard Internet index would clearly be a more appropriate comparator. Fund investment performance could easily be formatted in a way to enable investors to compare it to a benchmark selected from a menu of alternatives provided on the Commission's web site.

Finally, we believe that the Commission should consider standardized coding of information provided not only by funds, but also by intermediaries. Most sales of fund shares occur through intermediaries, and investors using intermediaries may not review much, if any, fund disclosure. It therefore is critical that investors be able to evaluate the cost of the intermediary's services and conflicts that he or she might have. For example, standardized coding could enable investors to view the relative revenue sharing payments

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“create and implement a pilot proxy-voting program disclosure program that would provide proxy-voting information in an accessible, easily manipulated format while imposing the lowest possible cost on shareholders.” Letter from Mercer Bullard, President and Founder, Fund Democracy to Jonathan Katz, Secretary, SEC (Oct. 21, 2002). We hope that the Commission will consider such a program, which would facilitate the kind of closer examination of mutual funds' role as shareholders that Mr. Cartwright proposes.

received by brokers not only with respect to a particular fund transaction, but also for other funds, so that investors could easily determine whether the broker has a financial interest in recommending one fund over another. The disclosure mandated in the Edward Jones settlement illustrates the dramatic differences in brokers' incentives resulting from revenue sharing.<sup>3</sup>

We applaud your XBRL initiative and look forward to working with the Commission on proposals to improve the delivery of information to investors.

Sincerely,

Mercer Bullard  
Founder and President  
Fund Democracy

Barbara Roper  
Director of Investor Protection  
Consumer Federation of America

cc: (U.S. Mail only)

The Honorable Cynthia A. Glassman  
The Honorable Paul S. Atkins  
The Honorable Roel C. Campos  
The Honorable Annette L. Nazareth  
Andrew Donohue, Esq.  
Susan Nash, Esq.

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<sup>3</sup> See [http://www.edwardjones.com/cgi/getHTML.cgi?page=/USA/products/mutualfunds\\_revenue\\_sharing.html](http://www.edwardjones.com/cgi/getHTML.cgi?page=/USA/products/mutualfunds_revenue_sharing.html) (showing ongoing revenue sharing receipts on \$10,000 in assets ranging from \$3.06 to \$14.00).