

**Consumer Federation of America
Fund Democracy, Inc.
Consumer Action
AARP
Consumers Union**

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**Consumer Groups Praise SEC for Testing Proposed Point-of-Sale Disclosures
Urge Agency to Act on What it Learned**

The nation's leading consumer groups have written to members of the Securities and Exchange Commission praising the agency for testing its proposed point-of-sale mutual fund disclosures with average investors and urging the agency to implement what it learned.

“Requiring pre-sale cost and conflict disclosure for mutual funds has the potential to offer enormous benefits to investors. But it will only do so if the requirement is implemented effectively,” stated the letter from Consumer Federation of America, AARP, Consumer Action, Consumers Union, and Fund Democracy, Inc. “The Commission is to be congratulated for taking the essential first step toward achieving that goal – testing the proposed disclosures with investors to determine their effectiveness. We now urge the Commission to take the next step, and adopt the changes that the real world tests support.”

The letter came in response to the SEC's publication on its website of a report detailing the findings from this testing, *Results of In-Depth Investor Interviews Regarding Proposed Mutual Fund Sales Fee and Conflict of Interest Disclosure Forms*, by Siegel & Gale, LLC and Gelb Consulting Group, Inc. The consumer group letter states that the report offers strong support for the following points:

- It is essential to disclose total costs, including fund operating costs, not just distribution costs.
- The costs must be put in context, by providing comparative cost information in dollar amounts, if investors are to understand their importance.
- The disclosure must be provided in writing using standardized format and language.
- The disclosures must be provided early in the process, at the point of recommendation rather than at point of sale.

“If the rule is revised to reflect these findings, it should dramatically improve investors’ ability to take fund costs and conflicts of interest into account when making a fund selection,” the groups wrote. “Without these changes, the rule is likely to be ineffective at best and counter-productive at worst.”

Including total costs is of particular importance, said CFA Director of Investor Protection Barbara Roper. The original rule proposal requires only that distribution-related costs, such as sales loads and 12b-1 fees, be disclosed. When 12b-1 fees are disclosed in isolation, however, many investors incorrectly conclude that these fees represent the funds’ total annual operating costs, according to the report.

“It is incomprehensible that the SEC proposal failed to include fund operating costs in the proposed disclosures. Knowing now that the incomplete disclosures would be misunderstood by many investors, it would be unconscionable for the SEC to proceed along this path,” Roper said. “Furthermore, including fund operating costs in the pre-sale disclosures provides an ideal opportunity for the SEC to promote the kind of market competition that it says is its preferred method for disciplining fund costs.”

Fund Democracy founder and president Mercer Bullard emphasized the importance of putting costs in context, noting that, when no fee ranges were provided, investors interviewed assumed the fees were reasonable. “Reasonableness is necessarily relative,” he said. “Providing context in the form of comparative cost information is an essential tool to promote competition in the fund industry.”

“We urge the Commission to require the clearest possible disclosure to investors,” said Consumers Union Senior Counsel Sally Greenberg. “Give investors the ability to compare one fund’s short- and long-term costs to other like funds. Tell them what their broker is making off their investment. Tell them what percentages they will pay over time on their investment. All of these will help ensure that investors cut through the fog of numbers and make the best investments for themselves and their families.”

“It would be informative for the SEC to approve requirements that strengthen accuracy, comparability, and clarity,” said David Certner, AARP’s Director of Federal Affairs. “But these requirements are most useful only if they are available to investors in advance of their decision-making.”

“We need to standardize the disclosures and require that they be in writing,” said Ken McEldowney, Executive Director of Consumer Action. “In the age of email, fax machines, and websites, it is ridiculous to suggest that brokers can’t provide this information in writing in the vast majority of cases. Only by doing so will consumers benefit.”

“Despite all the investor education that has been devoted to this topic, the report clearly indicates that many investors do not make the connection between fund fees and their returns,” Roper concluded. “The new disclosure documents offer an opportunity to address that problem, but they will only do so if the SEC implements what it has learned from this testing. We urge the Commission to do so, even if it requires re-proposing the rule.”

The consumer group letter is available on the Consumer Federation of America website at www.consumerfed.org/point_of_sale_testing_results_ltr.pdf.

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The Consumer Federation of America (CFA) is a nonprofit association of 300 national, state, and local consumer groups, which in turn represent approximately 50 million Americans. CFA was established in 1968 to advance the consumer interest through research, education, and advocacy.

Fund Democracy is a nonprofit advocacy group for mutual fund shareholders. It was founded in 2000 to provide a voice and information source for mutual fund shareholders on operational and regulatory issues that affect their fund investments.

Founded in 1971, Consumer Action works on a wide range of consumer issues through its national network of 6,500 community based organizations.

AARP is a nonprofit, nonpartisan membership organization dedicated to making life better for people 50 and over. We provide information and resources; engage in legislative, regulatory and legal advocacy; assist members in serving their communities; and offer a wide range of unique benefits, special products, and services for our members. These include *AARP The Magazine*, published bimonthly; *AARP Bulletin*, our monthly newspaper; *Segunda Juventud*, our quarterly newspaper in Spanish; *Live and Learn*, our quarterly newsletter for National Retired Teachers Association members; and our Web site, www.aarp.org. We have staffed offices in all 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

Consumers Union, publisher of *Consumer Reports* magazine, is an independent nonprofit testing, educational and information organization serving only the consumer.