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Mutual Funds Are Still Keeping Secrets

The Securities and Exchange Commission should press for better disclosures, not fewer.

By Arthur Levitt
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In my career in the securities industry, I have seen that a rising stock market brings falling interest in transparency, risk awareness and investor protections. With every new high in the Dow Jones industrial average someone seeks to further diminish our system of securities regulation.

Sure enough, as the Dow hit new heights last year, the mutual fund industry's lobbying arm, the Investment Company Institute, asked the Securities and Exchange Commission to water down its relatively modest disclosure requirements.

Mutual funds are required to send investors documents detailing recent performance and fees every six months. This responsibility, the $18 trillion industry claims, is too onerous. Fund companies want the commission to reduce the requirement to a single, once-a-year postcard alerting investors where they can search for the information on the internet.

It's almost as if the mutual fund industry doesn't want investors to assess the risks and costs of staying with a fund. Indeed, this kind of forced march to the internet has a well-established record of failure.

When the S.E.C. gave companies the ability to require investors to vote their proxies on the internet in 2007, the percentage of investors — especially individual investors — voting fell significantly.

And when the Investment Company Institute looked at this kind of reporting mechanism in 2018, it found yet another feature only mutual fund companies could like: Just half of investors looking at its prototype disclosure could pick the fund with the lowest expense ratio.

What's most egregious about this push to reduce disclosure is that the S.E.C. has already made life easier for the mutual fund industry. Two years ago, the commission agreed to allow mutual fund companies to shift to the "forced march" model for disclosure. Under the rule, they can do as little as send three notices a year: once on where to find a prospectus, and twice to see recent performance and costs. The industry wants to knock even that low standard to just one notice.

The mutual fund industry should reconsider its rush to shut down the flow of vital information to investors. In our complex world, transparency is essential. That means offering investor information that is standardized and understandable, provided more frequently — perhaps quarterly — and presented to investors in a way that will encourage consumption and contemplation.

The chairman of the S.E.C., Jay Clayton, should press the industry to adopt simplified and illustrative disclosures — a one-page summary of a mutual fund's fees, top 10 holdings and recent performance against major indexes. Investors shouldn't have to search for that information; they should get it by email from the mutual fund company.

If the commission lets mutual funds give less information to customers, we are sure to find that the next stock market downturn will be accompanied by the inevitable question from investors and politicians: Why did regulators allow the mutual fund industry to stint on providing data to investors about risks and costs?

The American mutual fund industry has nothing to gain from this exercise and much to lose. Its success depends on a reputation for prudent disclosure, a guarded approach to risk, and a wary eye on the vagaries of market volatility. It hasn't reached these heights by forcing investors to go on an online hunt for documents.

In the end, the best regulatory approach is rooted in more transparency, not less. The mutual fund industry is trying to take the opposite approach. And in the long run, that is bad for the industry and bad for investors.

Arthur Levitt was the chairman of the Securities and Exchange Commission from 1993 to 2001.

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