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CLIENT
MEMORANDUM

CLIENT ALERT: SEC INTERACTIVE DATA ROUNDTABLE, JUNE 12, 2006

After characterizing the current disclosure regime for registered investment companies as "deeply flawed" because it requires investors to read a "dense blob of legalese," Chairman Christopher Cox, at the SEC's Interactive Data Roundtable, set the day's optimistic tone by proposing a method of disclosure as easy to navigate as "your favorite website." The future of disclosure using eXtensible Business Reporting Language (XBRL) was enthusiastically endorsed at the day-long roundtable, at which Chairman Cox and the SEC commissioners presided and in which a diverse group of securities industry representatives and participants and academics participated. In the proposed XBRL system, SEC registrants would tag specified data elements in their filings, and investors would be able to selectively and instantly retrieve data elements they deem most important to their investment decision.

The roundtable featured two panels devoted specifically to mutual fund disclosure issues. The first, which dealt with the subject of what disclosures should be required, was moderated by Andrew J. Donohue, Director, Division of Investment Management and Susan Wyderko, Director, Office of Investor Education and Assistance, and included as speakers Henry H. Hopkins, Vice President and Chief Legal Counsel, T. Rowe Price Group, Inc., William Dwyer, Managing Director, National Sales, Linsco/Private Ledger Corp., Don Phillips, Managing Director, Morningstar, Inc., Barbara Roper, Director of Investor Protection, Consumer Federation of America, and Elisse B. Walter, Senior Executive Vice President, NASD.

The first panel discussed the type of information most useful to mutual fund investors. The panel enthusiastically agreed with Mr. Donohue's observation that investors need a "life raft to keep from drowning in a sea of information." All panelists supported the idea of a brief disclosure document to be used instead of the current prospectus as a primary selling document, acknowledging that investors do not read the full prospectus. The panelists generally agreed that the key information investors seek in making investment decisions had been correctly identified by the SEC when it adopted the currently available prospectus Profile. Mr. Hopkins, for example, described the Profile as a "document designed to give investors just the right amount of information." While it was noted that the Profile has not been widely used by the fund industry, the panelists discussed the possibility of using the Profile or a Profile-like document as a physically delivered document while having a full prospectus available online.

Mr. Phillips explained that a brief disclosure document delivered in hard copy form combined with a full prospectus delivered electronically containing interactive tagged data could meet the needs of two distinct audiences -- individual investors and financial advisers. Mr. Hopkins noted specifically that the Profile could be used as the primary disclosure document and the full prospectus could be provided on the internet or mailed upon request. He also suggested, along with Ms. Walter, that the Commission permit the Profile to incorporate by reference the electronic version of the full prospectus. Mr. Phillips stated that the Profile provided the information that shareholders "needed to know" but should be supplemented by online access to the full prospectus, which contains the information that shareholders have "the right to know" and that issuers should be required to make available. Ms. Walter also discussed the "Profile Plus," a modified Profile that would contain hyperlinks to the disclosures in the full prospectus, suggesting that Profile-like documents would themselves be delivered online. Ms. Roper pointed out that, when adopting an abbreviated disclosure document as the primary selling document, the SEC should not require any particular method of presentation, but instead permit funds to convey information in a way their investors can best understand.

Chairman Cox asked what effect interactive data might have on the fund industry. The panelists made the point that, although the use of interactive data would allow online users to extract specific pieces of data for analysis, most of the analysis across fund sectors would still be done by professionals, not by individual investors. Mr. Phillips explained that the value of interactive data was that it would free up professional analysts and firms from the tedium of manually retrieving and organizing data and give them more time to interpret the data and provide informed advice to their customers. In addition, the panel speculated that software vendors would design and market online tools that individual investors could use for data retrieval and comparison.

The second panel, which dealt with using the internet to leverage the effectiveness of fund disclosure, was moderated by Mr. Donohue and Susan Nash, Associate Director, Division of Investment Management. The speakers were Tim Buckley, Chief Information Officer, Vanguard, Paul G. Haaga, Jr., Executive Vice President, Capital Research and Management Company, Dr. William D. Lutz, Professor of English, Rutgers University and Paul Schott Stevens, President and Chief Executive Officer, Investment Company Institute.

Mr. Stevens began by noting that the ICI was currently working with an outside consultant on a project to extend XBRL to the risk/return summary section of the prospectus that is scheduled to be finished in the first quarter of 2007. He pointed out that the bulk of the existing XBRL taxonomy (the specification of individual data tags) relates to financial statements, but that the most significant information in a mutual fund prospectus is not in the financial statements, but in the disclosures found in the risk/return summary. The panelists agreed that the burden involved in fully tagging the complete financial statements of mutual funds would far outweigh any benefits to investors. Mr. Stevens urged the SEC to participate in the working group that will oversee the development of the risk/return summary tags.

Both Mr. Buckley and Mr. Haaga conveyed the view that the time was right to utilize interactive data and at the same time move to a form of electronic delivery. Mr. Haaga, for example, noted that the amount of paper one fund in the American Funds complex distributes to its 5.6 million shareholders from one annual report is enough to fill seventeen tractor-trailers. Mr. Buckley said that Vanguard has already begun to prioritize certain information on its website, and that it had found that only approximately ten to twelve items of interactive data need to be highlighted for investors. In general, the panelists agreed that developing a taxonomy is not difficult, although it could easily become complex if "exotic" information is tagged. Further, the panelists urged the adoption of an "access equals delivery" standard. Using online electronic documents as "delivered" documents for purposes of compliance with disclosure requirements would be an efficient and economical way to provide investors with more timely data, since a fund would update its documents as data is changed and mailing copies would not be required.

Chairman Cox asked the panel how the Commission could encourage funds to use an abbreviated disclosure document despite the concern over potential liability due to inadequate disclosure. He noted that funds have failed to use the Profile since it has been available. Mr. Stevens explained that delivery over the internet is no less effective than delivery by mail for purposes of the securities laws, and that the question of liability should not be that difficult to overcome. Interestingly, the participants did not suggest that the SEC provide a safe harbor to funds that use an abbreviated disclosure document, but instead suggested that the SEC continue to use working groups and pilot projects to build cooperation and trust within the industry. Mr. Lutz predicted that, as with the SEC's earlier "plain English" initiative, a successful pilot project will show the funds that they won't "get in trouble" if they follow the model established by the SEC and the pilot participants.

Conclusion

During the course of the roundtable, Chairman Cox and the commissioners were optimistic about the potential benefits and "limitless" possibilities that interactive (XBRL-tagged) data presents to both mutual fund companies and investors. Following the morning panels, the roundtable continued to discuss the implications of interactive data for analysts and investors outside of the mutual fund industry. Chairman Cox appears determined to continue to move mutual fund disclosure, and securities disclosure in general, toward XBRL and interactive data.

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If you have any questions concerning the foregoing or would like additional information, please contact Anthony A. Vertuno (202-303-1203, avertuno@willkie.com), Matthew E. Newell (202-303-1284, mnewell@willkie.com) or the attorney with whom you regularly work.

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