



SEC Rule 30e-3

OPTIONAL INTERNET AVAILABILITY OF INVESTMENT COMPANY SHAREHOLDER REPORTS

Overview

The Securities and Exchange Commission has adopted new Rule 30e-3 under the Investment Company Act of 1940. Subject to conditions, the rule provides certain registered investment companies an optional method to satisfy their obligations to transmit shareholder reports by making the reports available on a website. The rule becomes effective on January 1, 2019. To rely on the rule, funds will be required to make their reports and other required materials publicly accessible, free of charge, at a website address specified in a notice to shareholders, and meet certain other conditions specified in the rule. In recognition of the fact that some investors may wish to receive their shareholder reports in paper, the rule incorporates a set of protections designed to preserve the ability of these investors to do so. The rule accommodates the preferences of all investors regarding their preferred means of communication—whether they wish to receive reports in paper or electronically, or simply to be notified that the reports are available online. To that end, the Commission also adopted an extended transition period with staged effective dates, and the earliest that a fund could rely on the rule to satisfy shareholder report transmittal requirements is January 1, 2021.

Some key elements of the new transmission framework under Rule 30e-3 include:

- + **Use of Rule is Optional.** The new method of transmission is optional—funds that wish to transmit shareholder reports in paper or pursuant to the Commission’s existing electronic delivery guidance will continue to be able to satisfy their regulatory obligations by those methods.
- + **Use of Rule with Respect to Investors Who Have Opted into Electronic Delivery.** The rule will not require changes to existing methods of delivering shareholder reports electronically. The rule does not supersede or modify the Commission’s existing guidance regarding electronic delivery of fund shareholder reports. Funds and intermediaries may continue to rely on the Commission’s guidance to electronically transmit reports to investors who have elected to receive reports electronically.
- + **Preservation of Preference for Paper Reports.** Recognizing that some investors may wish to receive their shareholder reports in paper, the rule incorporates a set of protections designed to preserve the ability of investors to receive paper reports on a per report or ongoing basis if that is their preferred means of communication.



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- + **Website Availability of Reports and Other Information.** As proposed, the shareholder report and other required materials must be made publicly accessible and free of charge at a website address specified in a notice to investors.
- + **Notice.** Investors must be provided with a paper notice of the website availability of the shareholder report (“Notice”) that contains instructions by which investors will be able to request a paper or email copy. The final rule allows funds greater flexibility than the proposal in the design of the Notice by permitting it to contain additional information including, for example, content from the shareholder report that the fund considers helpful to investors, instructions on how investors can elect electronic delivery of reports and other materials, and pictures, logos, or similar design elements so long as the design is not misleading and the information is clear. If content from the shareholder report is included in the Notice, then the notice must be filed as an exhibit to the N-CSR/N-CSRS.
- + **New Extended Transition Period.** To inform investors in advance of the change of transmission method, and to accommodate systems and operations changes by funds, intermediaries and service providers necessary to implement the new optional transmission regime, the Commission adopted an extended transition period.

Many fund investors are not direct shareholders of record, but instead engage an investment professional and hold their fund investments as beneficial owners through accounts with intermediaries such as broker-dealers. Self-Regulatory Organization rules require broker-dealers to distribute shareholder reports to beneficial owners. At the fund’s request, broker-dealers could also distribute Notices required under Rule 30e-3 if the broker-dealer distributes the materials in a manner consistent with the rule.

Except for newly-formed funds, funds would generally provide these disclosures as follows:

- + **Open-End Funds.** Open-end funds would be required to provide the cover page disclosure on at least six documents sent to investors during this time: one per year on the fund’s summary prospectus or statutory prospectus, at least one per year on the fund’s annual report to shareholders, and one per year on the fund’s semi-annual report to shareholders.
- + **Closed-End Funds.** Closed-end funds would be required to provide the cover page disclosure on at least four documents during this time: one per year on the fund’s annual report to shareholders and one per year on the fund’s semi-annual report to shareholders, as well as on their prospectuses unless the fund relies on rule 8b-16(b) under the Investment Company Act.
- + **Variable Insurance Products.** Variable annuity and variable life insurance contracts registered on Forms N-4 and N-6, respectively, would be required to provide the cover page disclosure on at least two contract prospectuses during this time.
 - + Most issuers of variable annuities and variable life insurance policies amend their registration statements annually and hence send updated prospectuses to their contract owners at least once per year. Issuers of variable annuity and variable life insurance contracts that no longer amend their registration statements and do not distribute updated prospectuses to contract owners rely on staff no-action letters issued by the Division of Investment Management. Consistent with this no-action position, such issuers may rely on Rule 30e-3 prior to January 1, 2022 if comparable notice is provided to contract owners during the extended transition period when providing them with prospectuses and shareholder reports for underlying funds in which the separate account invests.
 - + In addition, the Commission understands that a small number of issuers of variable life insurance policies continue to register their securities on Form S-6. Such issuers may rely on Rule 30e-3 prior to January 1, 2022 if comparable notice is provided on prospectuses (or supplements thereto) delivered to policyholders during the extended transition period.

Due to recent information released by news agencies, there has been confusion related to the notification delivery schedule. As long as fund companies provide two years notification, by adding additional disclosure as detailed above, funds are not required to provide the notifications in January 2019. The notification process can begin with the first compliance documents provided to shareholders beginning January 1, 2019. For example, a fund with a December 31st fiscal year end can begin the notification process with the Annual Reports being distributed in February 2019. Notifications can be provided on the account level, can be “bundled” to incorporate multiple

funds with the same fiscal year and are not required to be sent for each individual fund. Although some fund companies have chosen to do so, there is no requirement to “sticker” documents at any point to provide the notification, if the additional required disclosure is included as previously specified.

Content in the Notice

What content should be in the notice?

- + A prominent legend that the shareholder report is available online and in paper by request
- + Language that the report contains important information about the fund including portfolio holdings and financial statements
- + URL of the Website where the full report is available
- + The website does not have to be specific for each report; however, the shareholders must be able to navigate to the required document with one click
- + The website can be hosted by the fund, broker-dealer, or third party
- + A toll-free telephone number to contact the fund or the broker-dealer
- + Instructions for requesting full paper report or email copy, free of charge
- + Instructions for how to opt for full paper reports in the future
- + Instructions for how to opt for e-delivery for future reports

Additional information that MAY be included in the notice

- + Funds can include information from the full report in the notice, such as a list of the fund's top 10 holdings, performance information, the type of fund, brief statement of the fund's objectives and investment strategies, expense ratios and the name of fund manager. If including content, funds must file the notice with their Form N-CSR filing
- + If a fund chooses to include any particular information such as performance of the fund, the content should include all information appropriate for the shareholder to have, and should not be selective
- + There is no specified page limit, but funds should limit optional content to a relatively brief amount to avoid detracting from the primary purpose of the notice, and to encourage investors to access the full report
- + A control number or account number - a unique way to identify a shareholder for ease of preference management
- + Pictures, logos or similar design elements as long as they are not misleading

Compliance dates and extended transition period

- + The rule is optional and effective January 1, 2019, with funds allowed to distribute notices starting January 1, 2021
- + The extended transition period starts January 1, 2019. Funds need to provide two years of notification to shareholders if using the notice before January 1, 2022
- + Notification is to be done through disclosures on the front page of prospectuses, ARs and SARs
- + Shareholders are allowed to communicate their preferences for full paper reports immediately after receiving notification, starting January 1, 2019

This is not intended as legal advice. We recommend you contact your legal counsel for a complete understanding of the ruling.

About Us

Toppan Merrill, a leader in financial printing and communication solutions, is part of the Toppan Printing Co., Ltd., the world's leading printing group, headquartered in Tokyo with approximately US\$14 billion in annual sales. Toppan Merrill has been a pioneer and trusted partner to the financial, legal and corporate communities for five decades, providing secure, innovative solutions to complex content and communications requirements. Through proactive partnerships, unparalleled expertise, continuous innovation and unmatched service, Toppan Merrill delivers a hassle-free experience for mission-critical content for capital markets transactions, financial reporting and regulatory disclosure filings, and marketing and communications solutions for regulated and non-regulated industries.

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