A Guide to the E-Delivery SEC Rule (30e-3)

What it means for you and your investors

The SEC recently rolled out the e-delivery rule (30e-3) to provide fund investors with a more modernized, personalized and easier-to-understand solution to viewing shareholder reports. The following document will help you better understand the specifics of the rule and ongoing efforts behind it, and how Donnelley Financial Solutions (DFIN) can help you best serve your investors now and into the future.

Background

What is the SEC e-delivery rule?

- The e-delivery rule gives fund management companies the option to satisfy shareholder report requirements by making them available online, free of charge, with the investor option of also receiving paper reports via mail.
- The e-delivery rule is the first step in an ongoing process by the SEC (led by the Division of Investment Management) to improve the experience of fund investors as it pertains to “notice and access” to shareholder reports. It will modernize the process while also seeking feedback from main street investors and industry stakeholders to improve the design, delivery and content of fund disclosures in the future.

What types of organizations have responsibility for adopting the e-delivery rule? While the SEC states that fund companies are primarily responsible, it encourages cooperation between funds and broker-dealers/advisors in circumstances where collaboration is a logical step.

How will SEC regulations change for companies that adopt the e-delivery rule? The rule provides fund companies the option of making annual reports and semi-annual reports available over the internet in place of print, unless the investor has requested to continue receiving printed reports.

Why would fund companies want to adopt the optional e-delivery rule? The rule will lower compliance costs by substituting the printing and distribution of complete shareholder reports with the printing and distribution of brief printed semi-annual notices that direct investors to view the reports online.

How/why was this developed? Over the past three years, similar e-delivery programs have been adopted by the Department of Labor and Social Security Administration. The rule was initially proposed in May 2015 and modeled on “Notice & Access” distribution for proxies. The original proposal was opposed by investor advocates and industry groups, which you may note is reflected in the final rule comments on the SEC website.

The adoption process

This section will outline some key terms and dates that will help you establish a rough timeline of how and when the e-delivery rule will affect your company moving into the future.

What are key terms of the e-delivery rule?

- **Transition disclosures** — these are announcements that funds need to add to the covers of the existing disclosures (such as prospectuses, shareholder reports and account statements) to declare their intent to adopt the e-delivery rule.
- **Semi-annual notices** — these are the printed documents that will be mailed twice each year in place of the annual report or semi-annual report.

What is the process for adopting the e-delivery rule? The process is essentially two phases:

1. **The transition phase** — January 1, 2019 to January 1, 2022 — during this time, funds planning to adopt the rule must prominently announce intent using SEC-prescribed language for the transition disclosure, on covers of certain documents for 24 months. During this time, funds must continue to print/mail full shareholder reports. Once a fund has provided transition disclosures for 24 months, it may switch to distributing semi-annual notices with website presentment.
2. **The semi-annual notice distribution phase** — Earliest implementation of notices will be January 1, 2021. This must follow a 24-month period of inclusion of transition disclosure on documents, and then printed semi-annual notices may replace printed reports. Therefore, if a fund intends to begin implementation in January 2021, it must inform investors by adding transition disclosures on existing disclosures and other documents by January 2019. Funds that are offered as "new" funds after January 2021 could begin relying on the e-delivery rule immediately, and do not need to add transition disclosures to documents.

Can the SEC change the e-delivery rule requirements in the future? Yes. In the rule, the SEC states "… effective rulemaking should not end with rule adoption." The SEC is considering public comment in response to the e-delivery rule and in response to another SEC release, asking for comment on improved disclosure (proposed on June 5, 2018). It is likely these content requirements for the semi-annual notice may evolve beyond what is described here.

The details

This section will describe all the facts and details fund management companies need to know in regard to adoption of the e-delivery rule.

What are key terms of the e-delivery rule?

- Implementation of the rule does not affect existing electronic delivery for those who have consented. These investors will not receive a printed semi-annual notice.
- Paper notice of available online shareholder reports must be sent within 70 days after close of the period represented by the report.
- Paper copies of the most recent annual and semi-annual reports of the fund and portfolio holdings of the fund as of its most recent first and third fiscal quarters must be sent to any person requesting them within three business days of the request, at no cost to the investor. This notice may not be transmitted electronically.
- The fund's quarterly holdings for the past fiscal year must be made publicly accessible on the website; the rule defines how structure of the fund impacts the holdings information that needs to be posted.
- The SEC does not specify a page limit or font size, but wants semi-annual notices to be brief and encourage recipients to access complete shareholder reports at websites. Optional semi-annual notice content should not obscure required content.
- Semi-annual notices may be structured for an individual fund or multiple funds in a consolidated statement.

What are the mandatory semi-annual notice content requirements?

- Content must be in plain English. More specifically, it should:
  1. Use short sentences.
  2. Use everyday straightforward language, words and syntax.
  3. Be written in an active voice.
  4. Include tabs or bullets for complex subject matter.
  5. Avoid industry or legal jargon and technical terms.
  6. Avoid double negatives.
- The notice must have a prominent legend stating that it is a notification about the existence of a full report that contains important information, including portfolio holdings, and its financial statements.
- The notice must show the investor that they have the option to access reports in print, or at a publicly accessible website with URL where the full report is available, at no charge.
- The notice must give the investor instructions on:
  - How to request printed full reports on a one-time or ongoing basis in the future.
  - How they can opt in for e-delivery of reports now or in the future.
- The publicly accessible website link does not have to be specific for each report, but the URL must be specific enough to lead investors directly to documents that are required by the e-delivery rule.
- The investor must be able to navigate from landing page to the required documents in a single click.
- The website can be hosted by the fund, broker-dealer/adviser or a third party.
- Content must include a toll-free telephone number to contact a fund or intermediary.
- Semi-annual notices only need to be filed with the SEC as part of Form N-CSR if the content incorporates disclosures from the shareholder report.

What are the optional semi-annual notice contents?

- The SEC believes funds should decide what, if any, optional content should be included. Funds are best qualified to define additional content that is important to investors and weigh it against the cost, needs and preferences of their specific investors.
- At the discretion of the fund, the semi-annual notice may contain additional information that's included in the full report that the fund considers helpful to investors. This content should be limited to avoid distracting from the required information.
- Examples of optional content could include top-10 holdings, fund performance, objectives and strategies, portfolio manager insights and expense information. This information must be placed after the required information.
- Funds must take appropriate actions to protect investor information such as personal account statements. This content may include an individual's personal information such as a control or account number or other identifier for shareholder identification.
- When including non-required content like performance, funds should include all performance to avoid antifraud provisions by limiting inclusion to selected positive performance only.
- Content may suggest other channels through which the investor can contact the fund or intermediary.
- Content may suggest ways for investors to express preferences for accessing content via telephone. Funds should implement systems that limit time needed to speak to representatives and offer drop-down menus to speed online navigation.
- The semi-annual notice may include information about the fund, its sponsors (including investment advisors and sub-advisors), a variable annuity or variable life contract or insurance company or a financial intermediary through which funds are held.
- Content may include other information including pictures, logos and other design elements provided these elements are not misleading.

How can DFIN help?

Preparing for adoption of the e-delivery rule will require some adjustments, and also present some opportunities. DFIN can make the process as seamless as possible and help you create a premium experience with the personalized attention your investors have come to expect from you.

- **How should you prepare for the next 60 days?**
  If you wait to include transition disclosure language into your documents, that could delay when you can begin to adopt the e-delivery rule. If the intent is to adopt the e-delivery rule as soon as possible, then DFIN Customer Service can help incorporate transition disclosure language into your documents in time for January 2019. DFIN Customer Service has language for transition disclosures that the SEC has provided.

- **How can you use the e-delivery rule to add value to the investor experience?**
  There are a multitude of ways DFIN can help.

  - Learnings and investor preferences gleaned during the SEC's information-gathering process about the investor experience (ending October 31, 2018) will help DFIN create reports that are more user friendly, interactive and personalized in the future.

  - The e-delivery rule creates an opportunity for you to develop impressive, industry-leading intuitive experiences for your investors online.

  - You can increase investor value by upgrading the quality of your print offerings and by providing optional content to your semi-annual notices.

  - DFIN is partnering with industry experts and our customers to best understand and serve the needs of you and your investors. This includes offering the best capabilities and technologies and meeting your views on transition disclosures and semi-annual notice requirements. Additionally, we are creating processes that will best facilitate the composition, creation, filing and distribution of semi-annual notices.

- **How will you stay current on information regarding the e-delivery rule and the SEC's ongoing processes?**
  DFIN Sales, Customer Service and Content Management teams receive constant training and will pass on any information and policy changes of which you need to be aware. We will also be creating solution collateral and conducting webinars to keep you informed.

- **What if you have questions related to the e-delivery rule?**
  For any questions involving this rule or otherwise, please feel free to reach out to your sales rep.